



**INVESTIGATION 301**

**ALLEGED DUMPING OF**

**ROD IN COILS**

**EXPORTED FROM**

**THE PEOPLE'S REPUBLIC OF CHINA**

**IMPORTER VERIFICATION VISIT REPORT**

**VICMESH PTY LTD**

**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**

**November 2015**

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## 1 REFERENCE TABLE

\$	Australian dollars
ABF	Australian Border Force
The Act	<i>Customs Act 1901</i>
ADN	Anti-Dumping Notice
CFR	Cost and freight
COGS	Cost of goods sold
Commission	Anti-Dumping Commission
Commissioner	The Commissioner of the Anti-Dumping Commission
CTM	Cost to make
CTMS	Cost to make & sell
CTS	Cost to sell
EBIT	Earnings before interest and tax
EDITA	Earnings before interest, tax, depreciation and amortisation
FOB	Free On Board
GAAP	Generally accepted accounting principles
the Minister	The Assistant Minister for Science
NIP	Non-injurious Price
PAD	Preliminary Affirmative Determination
SEF	Statement of Essential Facts
the goods	the goods the subject of the application (also referred to as the goods under consideration or GUC)
USP	Unsuppressed Selling Price
WRIC	Wire Rod in Coils – also the goods.

## 2 BACKGROUND AND PURPOSE

### 2.1 Background

On 23 June 2015, OneSteel Manufacturing Pty Ltd (OneSteel) lodged an application with the Anti-Dumping Commission (the Commission) requesting that the then Parliamentary Secretary to the Minister for Industry & Science (Parliamentary Secretary)<sup>1</sup> publish a dumping duty notice in respect of rod in coils exported to Australia from the People's Republic of China (China). OneSteel, the sole manufacturer of rod in coils in Australia, alleges that the Australian industry has suffered material injury caused by rod in coils exported to Australia from China at dumped prices. The applicant claimed the industry has been injured through:

- Price depression;
- Price suppression;
- Lost market share;
- Lost sales volume;
- Loss of profits;
- Loss of profitability;
- Loss of revenue;
- Loss of employment and wages; and
- Loss of assets employed in the production of like goods.

The Commission examined the application and prepared a report for the Commissioner of the Anti-Dumping Commission (the Commissioner) recommending the application not be rejected, as can be found in Consideration Report No 301.

The Commissioner after having regard to the report initiated an investigation into the alleged dumping of rod in coils from China. Public notification of the initiation of the investigation was made on 12 August 2015 in *The Australian* newspaper and Anti-Dumping Notice No. 2015/95.

Following initiation of the investigation, a search of Australian Border Force (ABF) import database (ICS) indicated that Vicmesh Pty Ltd (Vicmesh) had imported rod in coil from China during the investigation period.

The Commission contacted Vicmesh advising the company of the initiation of the investigation, requesting co-operation with the investigation and provided the company with a copy of the importer questionnaire to complete. Vicmesh was also provided with a list of its imports during the investigation period, extracted from the ABF import database, and identified a number of transactions from the list for verification.

Vicmesh completed the importer questionnaire, providing details regarding the company, overseas supplier information, and imports and importation costs.

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<sup>1</sup> The then Minister for Industry and Science has delegated his powers under Part XVB of the *Customs Act 1901* to the Parliamentary Secretary to the Minister for Industry and Science. Accordingly, although the legislation refers to the Minister, the Commissioner will report to the Parliamentary Secretary.

Vicmesh agreed to be available for an importer verification visit.

## 2.2 Purpose of visit

The purpose of the visit was to:

- confirm that Vicmesh is the importer of rod in coil attributed to it within the ABF import database and obtain information to assist in establishing the identity of the exporters of this rod in coil;
- verify information on imports of rod in coil to assist in the determination of export prices;
- establish whether the purchases of rod in coil were arms-length transactions;
- establish post-exportation costs;
- obtain general information about the Australian market for rod in coil;
- examine the prices of goods imported from China and like goods purchased from One Steel to seek Vicmesh views on those price relationships; and
- provide the company with an opportunity to discuss any issues it believed relevant to the investigation.

## 2.3 Meeting details

Company	Vicmesh Pty Ltd
Date of visit	2 September 2015

The following representatives were present during the meeting:

Vicmesh Pty Ltd	[REDACTED] [REDACTED] [REDACTED]
Anti-Dumping Commission	Chris Hill, Operations 1 George Katsoulis, Operations 1 Danielle Rudolph, Operations 2

## 2.4 Investigation process and timeframes

Vicmesh was advised of the investigation process and timeframes, in particular that:

- The investigation period is 1 July 2014 to 30 June 2015, and the Commission will examine whether the exported goods have been dumped during this period.
- The injury analysis period is from 1 July 2011 for the purpose of analysing the condition of the Australian industry;

- A preliminary affirmative determination (PAD) may be made no earlier than day 60 of the investigation (12 October 2015<sup>2</sup>) and provisional measures may be imposed at the time of the PAD or at any time after the PAD has been made;
- The Commissioner will not make a PAD until (and if) he becomes satisfied that there appears to be, or that it appears there will be, sufficient grounds for the publication of a dumping duty notice. This was distinguished from the 'reasonable grounds' threshold for initiation of the investigation;
- The Statement of Essential Facts (SEF) for the investigation is due to be placed on the public record by 30 November 2015 or such later date as the Parliamentary Secretary allows under s.269ZHI of the *Customs Act 1901* (the Act)<sup>3</sup>;

The SEF will set out the material findings of fact on which the Commissioner intends to base his recommendations to the Parliamentary Secretary, and will invite interested parties to respond, within 20 days, to the issues raised therein;

- Following receipt and consideration of submissions made in response to the SEF, a final report and recommendations will be provided to the Parliamentary Secretary; and
- This final report is due no later than 14 January 2016, subject to extensions approved by the Parliamentary Secretary.

## 2.5 Anti-Dumping in general

Vicmesh had been advised via email of the investigation process and details on the day of initiation. An outline of Anti-Dumping was also provided at the visit.

There are three essential links for the imposition of Anti-Dumping measures:

1. the Australian industry must be suffering or there must be a threat of material injury; and
2. the goods must be dumped; and
3. the dumped goods must be a cause of the material injury<sup>4</sup>.

Dumping is assessed on goods by comparison of the export price to the normal value. Where the export price is below the normal value, the Commission will find that dumping has occurred.

- The export price is generally ex-works (EXW), free on board (FOB), or free alongside ship (FAS) and adjustments may be made to get an imported price back to EXW, FOB or FAS.

<sup>2</sup> Due to day 60 falling on a Sunday, the earliest date for a PAD in this case is day 61, Monday 12 October.

<sup>3</sup> All references in this report to sections of legislation, unless otherwise specified, are to the *Customs Act 1901*.

<sup>4</sup> "Material Injury" and causation are considered by the Commission inline with the *Ministerial Direction on Material Injury 2012* dated 27 April 2012.

- The normal value is usually assessed on domestic sales in the ordinary course of trade during the same period as the export sales.
- Where no suitable normal values are identified on domestic sales, the Commission may construct normal values based on costs plus, where appropriate, an amount for profit. The Commission may also consider third country sales as a suitable comparison.

Where dumping, injury and a causal link are found duties may be imposed subject to the following considerations:

- Dumping duty can be as a percentage of the export price, as a fixed amount or a combination of both.
- Duties may be imposed up to the full level of dumping or up to a level required to remove injurious effects (the non-injurious price (NIP)). The NIP is based on the unsuppressed selling price (USP)<sup>5</sup>.

Where the Commissioner is satisfied that grounds for duties exist the Commissioner may publish a PAD imposing securities whilst the investigation continues. These securities may be converted to interim dumping duties (IDD). IDD's may be imposed after an investigation is concluded and the Parliamentary Secretary accepts the Commission's recommendation to impose measures. Importers can apply every six months for a final assessment of the IDD that may see none, some or all the duty refunded.

The Commissioner may terminate an investigation before conclusion where the Commissioner is satisfied of there being: no dumping, no material injury or no causal link between the dumping and any material injury.

Decisions by the Commissioner to terminate and by the Parliamentary Secretary to impose measures can be appealed to the Anti-Dumping Review Panel (ADRP). In any appeal to the ADRP only information before the Commissioner/Parliamentary Secretary may be taken into account.

The Anti-Dumping Commission (ADC) website [www.adcommission.gov.au](http://www.adcommission.gov.au) has detailed information on Anti-Dumping investigation procedures. The Electronic Public Record (EPR) contains all non-confidential information on the rod in coil investigation.

## 2.6 Visit report

The company was advised that the Commission would prepare a report of the meeting and provide it for review of its factual accuracy, and to identify those parts of the report it considers confidential.

It was explained that, in consultation with Vicmesh, a non-confidential version of the report would be prepared and published on the Public Record for Investigation 301.

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<sup>5</sup> Unless a 'market situation' finding is made. Following *Customs Amendment (Anti-dumping Measures) Bill 2013*, the minister is not required to consider the application of the lesser duty rule where a market situation is identified in the exporting country.

## **3 THE GOODS**

### **3.1 Description**

The goods subject to the investigation (the goods) are:

*Hot rolled rods in coils of steel, whether or not containing alloys, that have maximum cross sections that are less than 14 mm.*

The goods subject to the investigation include:

*all steel rods meeting the above description of the goods regardless of the particular grade or alloy content.*

And exclude:

*Hot-rolled deformed steel reinforcing bar in coil form, commonly identified as rebar or debar, and stainless steel in coils.*

The goods are referred to as rod in coils in this report.

### **3.2 Tariff classification**

The goods are typically classified to subheadings 7213.91.00 (statistical code 44) and 7227.90.90 (statistical codes 42 and 02) in Schedule 3 of the *Customs Tariff Act 1995*. The general rate of duty is currently 5%, however, China is a designated DCS country<sup>6</sup>. Rod in coils exported to Australia from DCS designated countries are free of duty.

Following discussions the Commission noted that the goods under consideration are defined by the description, not the tariff classification.

### **3.3 Like goods**

Vicmesh confirmed that the imported goods under investigation have the same physical characteristics as the domestically produced goods and that it considered them to be like goods.

Vicmesh did not consider any alternative products as a suitable substitute for rod in coil for its business.

Vicmesh view the goods are commodity products, and were able to confirm that the Australian industry make and sell goods which are like those imported from China.

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<sup>6</sup> "DCS" codes applied to classes of countries and places in relation to which special rates apply as specified in Parts 4 and 5 of Schedule 1 of the *Customs Tariff Act 1995*.



## 4 COMPANY DETAILS

### 4.1 Company background

#### 4.1.1 Organisational structure of company

Vicmesh is a privately owned Australian [REDACTED] business. All shares in Vicmesh are held by [REDACTED] [Vicmesh ownership]. Vicmesh was formed in 2002 to oversee the commissioning and ongoing operations of a new welded mesh and bar production facility at Dandenong Victoria.

#### 4.1.2 Functions of company

Vicmesh is a supplier of reinforcement products for the concrete construction industry.

Vicmesh uses the goods to manufacture reinforcement products at its operations base in Dandenong, Victoria. Vicmesh undertakes significant manufacturing processes to convert the goods, including cold drawing to build strength, rolling to generate deformations (converting the rod in coils into reinforcing wire and welding to build reinforcing mesh products).

Vicmesh produces a range of reinforcing mesh products including trench mesh, rectangular mesh and square mesh, in various lengths, widths, and thicknesses.

Vicmesh sells to a diverse range of customers, from those engaged in residential construction through to large commercial developments. Vicmesh has depots in Shepparton, Bendigo and Wodonga servicing customers predominantly throughout Victoria, as well as parts of Southern New South Wales and South Australia. [REDACTED] of mesh sales are within Victoria. [REDACTED] of mesh to South Australia have been recorded for the period.

### 4.2 Accounting

Vicmesh operates a financial year from 1 July to 30 June.

### 4.3 Relationship with suppliers of the goods

Vicmesh identified the following suppliers of goods subject to the investigation and like goods during the investigation period:

- [REDACTED] [supplier/s] exporting from China; and
- OneSteel.

Vicmesh stated that it purchases [REDACTED] [proportion of supply] of its rod in coil from [REDACTED] [supplier/s], with the remainder sourced from OneSteel as an alternative supply source.

Vicmesh advised that there is no connection between itself and the overseas supplier and that transactions occur on normal commercial terms.

Vicmesh stated that the significant priority when a supplier relationship is established is quality and reliability, and that supplies of imported [REDACTED]

[REDACTED]  
[commercial purchasing considerations].

Vicmesh noted that the goods under consideration were charged on an actual weight paid on a per tonne basis, and there was no variance in price between different widths of rod in coil.

Vicmesh stated that it has no relationship with its suppliers beyond an arm's length commercial relationship.

Vicmesh stated that there was no offer to supply rod in coils by OneSteel prior to April 2014.

Vicmesh stated that due to previous [REDACTED]  
[REDACTED]

[Commercial considerations regarding supply].

#### **4.4 Relationships with customers**

As detailed above, Vicmesh was an end user of rod in coil during the investigation period, and as such made no sales of rod in coil.

There are significant changes to the goods under consideration by Vicmesh prior to sale. The transformation of rod into welded mesh undertaken by Vicmesh means the product sold to customers is specifically excluded from the goods under consideration.

## 5 IMPORTS

### 5.1 Import volumes

Vicmesh confirmed the import listing from the ABF import database was an accurate reflection of its imports of rod in coils from all sources for the period from July 2014 to June 2015.

The Commission calculated the following volume exported from China and imported by Vicmesh for the investigation period:

Exporter/s	Country	Volume (tonnes)
[REDACTED]	China	[REDACTED]

*Table 1 – Volumes for the investigation period*

Vicmesh imports of rod in coil and the calculation of volumes are at **Confidential Appendix 1**.

### 5.2 Vicmesh ordering process

Vicmesh purchases rod in coil on a [REDACTED] basis and arranges the logistics involved in bringing the product from the port in Australia to their factory in Dandenong. Vicmesh noted that it [REDACTED] [business decision regarding foreign currency].

Vicmesh advised that it endeavours to maintain [REDACTED] [stock levels] of production requirements of rod in coil in stock at its Dandenong facility. Accordingly, it places orders as required with its suppliers to maintain this level of stock on hand. Vicmesh stated that there are certain times when larger orders will be placed, including any [REDACTED] [business considerations for purchasing inputs] i.e. Chinese New Year / Australian Christmas New Year holiday period.

Vicmesh noted that it maintains a significant investment in raw material inventories albeit at an additional cost through higher working capital requirements.

[REDACTED] [supplier/s] are responsible for all loading, handling, and [REDACTED] costs until the point of arrival in Australia in accordance with [REDACTED] terms. Vicmesh advised that the stated terms on the contract and invoices evidence the [REDACTED] payment terms.

Vicmesh noted that [REDACTED] [supplier/s] agreed to separate single orders in some circumstances to provide Vicmesh the opportunity to clear storage space between shipments.

Vicmesh arranges and pays for the loading charges, port and clearance at the Victorian port and delivery to Dandenong. Payment terms are letter of credit at sight.

Vicmesh negotiate price with the applicant based on short term agreements. These are influenced by market considerations including import offers.

### 5.3 Verification

Prior to the visit, five shipments were selected and Vicmesh was requested to provide the Commission with the following source documents:

- Sales contract;
- Commercial invoice;
- Letter of credit remittance;
- Shipping invoices;
- Arrival notice;
- Packing list;
- Certificate of origin;
- Beneficiary's certificate;
- Bill of lading;
- Mill test certificates;
- Domestic freight invoices;
- Foreign exchange documents;
- Insurance costs; and
- Domestic freight documentation.

Vicmesh provided source documents for all selected shipments. These documents are contained in **Confidential Attachment 1**.

For each shipment, the source documents provided the quantity, invoice value, exchange rate, customs entry fee, importation costs and delivery costs necessary to complete the import sales spread sheet. Documents to support proof of payment for each shipment and post importation costs were also provided. The shipment number, quantity, value, price and delivery terms for the selected shipments reconciled with the data in the import list with a minor variance identified due to a data entry error.

During the course of the verification, an additional 3 transactions were identified for further verification.

#### 5.3.1 Volume of imported goods

Copies of contracts and invoices for each shipment were provided to the Commission. These invoices were used to verify the goods description, volume and value. Payment of the invoice and the exchange rate applied were also verified to source documents.

The sizes and volumes of verified shipments are summarised in Table 2 (expressed in tonnes) below:

9MM	10MM	11MM	Total

Table 2 – Importation Volumes by Size

The main sizes imported are [sizes], which account for over 90% of the verified imports from [supplier/s].



All of the import transactions were traced to the relevant ledger account to ensure they had been captured properly and the information provided was complete.

### 5.3.2 Importation costs

All purchases by Vicmesh occur on [REDACTED] [incoterm] terms, whereby the exporter is responsible for costs [REDACTED] [explanation of incoterm]. Post arrival costs are captured below.

The weighted average post [REDACTED] expenses were calculated for the selected shipments containing rod in coil, and are summarised in Table 3 below:

Cost	\$AUD/T
Customs entry, broker fees, wharf storage	[REDACTED]
Delivery from port to site	[REDACTED]
Other	[REDACTED]
Total \$AUD/Tonne	[REDACTED]

Table 3 – Post-Importation Costs

Calculations of import costs and tonnes were reconciled between source documentation and the importers response, and are at **Confidential Appendix 2**.

### 5.3.3 Export prices for shipments

Vicmesh stated that information completed by the Customs broker would be 'reasonably accurate' to provide costs of transport. Due to the shipments occurring on [REDACTED] terms, and exporter information not yet being made available, provisional calculations for the imports over the investigation period at FOB terms are captured below.

There was a reconciliation of payment amounts and foreign exchange rates between the ABF data and the actual documentary evidence provided by the importer to demonstrate payment and these materially reconciled.

The export prices are included in Table 4 below:

Principal Original Country	Supplier Full Name	Weighted Average \$AUD/T
China	[REDACTED]	[REDACTED]

Table 4 – Export Price

Calculations of export prices, including foreign exchange reconciliations are included at **Confidential Appendix 1**.

These amounts will be subject to further review as part of the exporter questionnaire verification processes.

### 5.3.4 Forward Orders

Vicmesh advised that it had continued to source rod in coil from China, up until the initiation of the investigation on 12 August 2015. Subsequent to the initiation of the investigation Vicmesh have not sourced the goods from China.

Forward order questionnaire response by Vicmesh stated [REDACTED] [quantity] of rod in coil were in place with China, being imports which had not arrived by [REDACTED] 2015.

Of the quantity detailed in the response, only [REDACTED] [quantity] can be classified as forward orders as the [REDACTED] [quantity] disclosed within the response were ordered prior to the initiation date. This is clearly evident by the actual arrival date of the goods.

Vicmesh stated that they had historically had to place significant orders where certain holidays in the suppliers country / end user country were approaching or there was an expected short term increase in demand.

The final [REDACTED] [quantity] was ordered with [REDACTED] [supplier/s] on [REDACTED] 2015 [commercial forward order information].

Supplier	Shipping Terms	Expected arrival Date	Quantity	Product Type	Unit Price	Actual Arrival Date	Order Date
[REDACTED]	[REDACTED]	mid July 2015	[REDACTED]	Wire Rod	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	Aug / Sep 2015	[REDACTED]	Wire Rod	[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	Aug / Sep 2015		Wire Rod		[REDACTED]	[REDACTED]
	[REDACTED]	Aug / Sep 2015		Wire Rod		[REDACTED]	[REDACTED]
	[REDACTED]	Aug / Sep 2015		Wire Rod		[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	Oct-15	[REDACTED]	Wire Rod	[REDACTED]	[REDACTED]	[REDACTED]

#### 5.4 Identifying the importer

In terms of identifying the importer, Vicmesh:

- is named as the customer on supplier invoices;
- is named as the party to the purchase contracts;
- is named as the notification party on the bill of lading; and
- arranges and pays for the unloading of the goods from the boat into Australia.

We consider Vicmesh to be the beneficial owner of the goods at the time of importation, and therefore the importer.

## 5.5 Identifying the exporter

The Commission will generally identify the exporter as:

- a principal in the transaction located in the country of export from where the goods were shipped who gave up responsibility by knowingly placing the goods in the hands of a carrier, courier, forwarding company, or their own vehicle for delivery to Australia; or
- a principal will be a person in the country of export who owns, or who has previously owned, the goods but need not be the owner at the time the goods were shipped.

Where there is no principal in the country of export the Commission will normally consider the exporter to be the person who gave up responsibility for the goods as described above.

In relation to [REDACTED] [supplier/s], verified documents demonstrate that:

- the commercial invoices identify the supplier;
- the bills of lading identify the supplier as the shipper of the goods;
- the supplier arranges and pays for the goods to be transported to the wharf, loaded on a ship, and freighted to the nominated Australian port as per [REDACTED] terms of trade; and
- Vicmesh pays the relevant supplier.

Based on information to date and subject to further inquiries, the Commission considers that [REDACTED] [supplier/s] are the exporter of rod in coil.

## 5.6 Domestic purchases

Vicmesh provided a detailed general ledger which disclosed purchases and use of the goods as an input for production. This was then compared to the data provided within the application to cross check the integrity of both data sets.

The data appeared reliable based on the information provided, and as such was utilised to provide a weighted average purchase price for domestic purchases by Vicmesh from the applicant as a point of comparison.

The weighted average net price for free in store sales from the applicant to Vicmesh was [REDACTED] [price].

Based on invoice date, the quarterly amounts and comparison are included in the following table for the first three quarters of the investigation period.

Quarter	Tonnes	Weighted Average Net Price / Tonne (\$AUD)
Q1	514.879	[REDACTED]
Q2	477.168	[REDACTED]
Q3	318.609	[REDACTED]
Q4	206.159	[REDACTED]
Total	1516.815	[REDACTED]

*Table 5: Domestic Purchases*

The average post import cost as per table 3 is [REDACTED] [post import price per tonne].

Based on the weighted average price for delivered domestic purchases compared to the weighted average delivered imported price, the Commission recognises a difference of [REDACTED] [price differential].

The Vicmesh imported FIS price is based on a CFR average price of [REDACTED] [average CFR price], plus Australian Ex-Wharf costs of [REDACTED] [post importation costs] equals [REDACTED].

Vicmesh stated that in their experience and opinion, that is not a truly fair price comparison for several reasons including the following differences:

- The OneSteel FIS price would include its SGA expenses including finance and interest on any debt carried by the business,
- The final in store price has no account of Vicmesh finance and interest, inventory carrying costs etc.
- If Vicmesh sourced their product through a trading entity, the price would include a factor for the traders SGA, profit, whereas they have sought their own relationships to avoid this impost.
- OneSteel is able to factor in a domestic price premium because of its much speedier delivery times. A 2 day delivery time compared to 3 months results in lower inventory carrying costs on balance sheet, and reduced financing costs for customers.

The Commission notes the above will be subject to further verification.



## 6 AUSTRALIAN MARKET

### 6.1 General market conditions

Vicmesh advised that the global steel market slumped following the global financial crisis and has not fully recovered. Lack of demand in building and construction over the past two years has reduced the overall demand for rod in coil both globally and in Australia.

### 6.2 Market supply

Vicmesh estimated that OneSteel and Pacific Steel of New Zealand supply approximately 80-90% of the Australian rod in coil market requirements, with the remainder supplied by imports. Vicmesh advised that OneSteel is the only domestic supplier, and therefore those companies needing a secondary supply source of rod in coil will look to imports to ensure continuity of supply and manage risk.

Vicmesh noted that recently Pacific Steel was purchased by BlueScope Steel, who based on their experience appear not to compete with OneSteel for Australian based customers on 'long' steel products such as rod in coils or reinforcing bar.

Vicmesh had traditionally imported a significant portion of its requirements from New Zealand but subsequent to changes in ownership of Pacific Steel during first half 2014 (now BlueScope) and facing abrupt cut off in supply, began sourcing from alternative suppliers such as Taiwan, Indonesia and China etc [REDACTED]

[REDACTED] changed circumstances on supply]

Vicmesh imports [REDACTED] % of its requirements of rod in coil and restricts its supply of value added materials derived from rod in coil to the Victorian marketplace. The remaining non-imported rods in coils are sourced from OneSteel.

### 6.3 Market pricing

Vicmesh made the following observations in regard to their view of the market for rod in coil in Australia:

- There are two separate rod in coil markets operating in Australia as such; and
- OneSteel had historically [REDACTED]  
[REDACTED] [supply considerations].
- Vicmesh said that there is one price based on weight in the market for all diameters of the low carbon rod in coils that are used for manufacturing mesh. The main OneSteel grade for mesh is U1014 whilst the grade Vicmesh imports is [REDACTED] [Grade of steel imported where carbon content is nominally <0.12%].

Vicmesh assert that:

- OneSteel together with its downstream operations (including the ARC companies) are without question the market leaders in Australia and

accordingly are responsible for setting prices for rod in coil derived products, such as reinforcing mesh and wire.

- The price of finished reinforcing mesh ranges [redacted] [price] per tonne above that of the price of rod in coil. Rod in coil is usually produced (Australia and abroad) using steel scrap as feedstock for Electric Arc Furnaces, with the price of rod in coil ranging between [redacted] [price] per tonne above that of scrap pricing. Imbalances in supply/demand/currency changes can also affect the pricing of rod in coils.
- There are some countries, China being a primary example, where production is primarily through a Basic Oxygen Furnace which utilising iron ore to produce steel, which in turn is converted into Rod in coil. Vicmesh believe this process may be up to [redacted] to the lower cost of iron ore production relative to scrap in recent times. Other countries, such as India, Indonesia Thailand, Malaysia, USA, Japan, and Singapore primarily utilise Electric Arc Furnaces which use scrap steel as the raw feed material.
- Large jobs that can be ongoing for a 12 month period require a fixed price for the finished mesh which in turn requires a fixed price from the supplier for the rod in coil for that 12 month period. Alternatively mesh supplier needs to hold sufficient stock to manage the exposure risk.

Vicmesh see OneSteel as the price setter in the market. OneSteel Manufacturing sell to their downstream manufacturing businesses and to major independent manufacturers and distributors of mesh who also imported rod in coil.

Vicmesh stated that the pricing of its downstream mesh products into the Victorian marketplace were ultimately set and based upon those prices set by the dominant market leader, OneSteel.

Vicmesh said any imposition of interim dumping duties would be counterproductive in assisting OneSteel's ability to achieve sustainability.

#### **6.4 Sales of imported goods**

As discussed Vicmesh is the end user of the goods, not a distributor, and made no sales of rod in coil to third parties during the investigation period.

## **7 ARMS LENGTH**

In determining export prices under s. 269TAB(1)(a) and normal values under s. 269TAC(1), the Act requires that the relevant sales are arms length transactions.

S.269TAA outlines the circumstances in which the price paid or payable shall not be treated as arms length. These are where:

- there is any consideration payable for in respect of the goods other than price;
- the price is influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; and
- in the opinion of the Minister, the buyer, or an associate of the buyer, will, directly or indirectly, be reimbursed, be compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.

Vicmesh stated that it does not receive any reimbursement, rebates or other support from its suppliers in respect of the goods. Vicmesh advised that the invoice price was the price actually paid.

A review of documentation for the selected shipments did not demonstrate in respect of the purchase of rod in coil, that:

- there is any consideration payable for or in respect of the goods other than price;
- the price was influenced by a commercial or other relationship between Vicmesh or an associate of Vicmesh, and its suppliers or an associate of the supplier; and/or
- Vicmesh or an associate of Vicmesh was directly or indirectly reimbursed, compensated or otherwise received a benefit for or in respect of the whole or any part of the price.

The Commission is preliminarily satisfied that import transactions between Vicmesh and its suppliers are at arms length in terms of s. 269TAA.

## 8 GENERAL COMMENTS

### 8.1 Substitute Country Considerations

Vicmesh noted concerns regarding the use of Turkish billet prices in the application information. The Commission outlined that where a market situation assessment is made, there may be a requirement to rely on best available data if there are concerns about the reasonableness of the exporters costs. This is supported by Regulation 43 of the *Customs (International Obligations Regulation 2015)*.

Vicmesh advised that it has significant concerns regarding attempts to find an appropriate substitute country to China which would have similar macro economic trends within the Steel market, especially the buying power, economies of scale, capacity of production and domestic demand.

Vicmesh specifically disagreed with the position within the application and consideration report which relied heavily on the previous investigation findings. There was detailed conversation surrounding the fact that the implied substitute billet country utilised within the application, being sourced from Turkey, was primarily made through Electric Arc Furnaces (EAF), while Chinese billet is generally made through Basic Oxygen Furnaces (BOF) which is a lower cost process. Vicmesh suggest it is [REDACTED] [price] to produce billet using a BOF instead of an EAF.

Vicmesh stated that due to the significant increase in capacity to produce steel within China, it is unlikely that any other country would represent an appropriate substitute for steel costs due to their total current capacity.

Vicmesh provided data demonstrating the differences in billet prices for the countries nominated by the applicant in comparison to their raw input prices for scrap steel or iron ore. Vicmesh suggested that as a commodity product, Chinese billet competes on price internationally. Vicmesh provided evidence suggesting that Chinese billet is cheaper than Turkish billet. Evidence demonstrating this as supplied by Vicmesh is included at **Confidential Attachment 2**.

Vicmesh suggested the use of independent reputable third party data, including SteelFirst, Platts or Steel Orbis would provide a greater level of reliability for the Chinese domestic market information.

### 8.2 Use of information by the Anti-Dumping Commission

Vicmesh raised significant concerns regarding the source of information which is relied on by the Commission coming solely from the applicant during the consideration phase. The Commission reiterated the investigation process and ensured Vicmesh were aware that the Commission is unable to seek external views prior to the initiation of an investigation, which the consideration report evidences.

The visit team explained to Vicmesh that the Commission in the first instance will determine the normal value of goods exported to Australia based on the price paid or payable for like goods sold in the ordinary course of trade for home consumption in the country of export.

The Commission will use verified information from cooperating exporters to determine whether the domestic sales are sold profitably in sufficient volumes to compare to export prices. Where domestic sales are in the ordinary course of trade those sales are then adjusted for comparison to the export price.

Adjustments may include differences between freight and handling to domestic customers and export customers, differing payment terms and differences in the level of trade, however the Commission will consider the information as part of the investigation. The information is included at **Confidential Attachment 3**.

Vicmesh provided information regarding pricing which indicates domestic prices in China. There is no information to indicate whether the prices are profitable, the delivery volumes, why there is a difference between the high and low prices and the payment terms.

Where domestic sales are not in the ordinary course of trade or in sufficient volumes to compare to the export prices the Commission may construct a normal value using the cost to make and sell of the exported goods plus an amount for profit.

Vicmesh asked how normal values and dumping would be determined if the exporter did not cooperate. We explained that in such circumstance the best available information would be used.

This could be information from other cooperating exporters in China, where applicable, or information sourced elsewhere including the information provided by Australian industry. Vicmesh queried why the information provided by the industry, such as that provided in the application, would be preferred over information provided by other parties, such as the Steel Orbis data.

In determining what information to use the Commission will assess all available information and the reliability of the information provided, as long as it is provided in a timely manner.

### 8.3 Injury

Vicmesh made the following points in regard to the alleged injury suffered by OneSteel:

1. Vicmesh [REDACTED] [quantity] of its rod in coil requirements;
2. Vicmesh does not distribute or on-sell the rod in coils;
3. The imports from [REDACTED] [supplier] are used solely by Vicmesh for its manufacturing operation;
4. Vicmesh purchases approximately [REDACTED] [quantity] of its rod in coils from OneSteel since late calendar 2014; and
5. Vicmesh is a price follower and OneSteel is the market setter in the industry of its downstream products (reinforcing mesh).

Vicmesh asserts that its importation of rod in coils from China merely switched partial import volume from one overseas supplier (Pacific Steel New Zealand) to another.

Vicmesh being a price follower and a non-distributor of rod in coil (imported or otherwise) has no connection to any alleged material injury claimed by OneSteel.



Vicmesh does not believe OneSteel is or has suffered injury as a result of [REDACTED]  
[REDACTED] [supplier/s] rod in coil being utilised by Vicmesh in its product [REDACTED]  
[REDACTED]

Vicmesh considers that the Commission can now establish that Vicmesh imports are 100% for Vicmesh manufacturing usage and Vicmesh is not a distributor of rod in coil.

Vicmesh submits that imports of the goods from China did not inflict any material injury as alleged in the OneSteel application and that under the s.269TDA(13) of the Act the investigation should be terminated.

#### **8.4 Unsuppressed selling price and non-injurious price**

Under Australia's legislation, the Parliamentary Secretary must (except in certain instances as provided for in the legislation) have regard to the desirability of fixing a lesser amount of duty such that the sum of the export price and the lesser amount of duty does not exceed the non-injurious price (the 'lesser duty rule'). The non-injurious price is defined as the minimum price necessary to remove the injury (or hindrance) caused by dumping and/or subsidy.

It was noted that in this case, if the market situation claim as made within the application is found to be substantiated, the Parliamentary Secretary will not be obligated to consider the lesser duty rule.

Where required, the Commission generally derives the non-injurious price by first establishing a price at which the applicant might reasonably sell its product in a market unaffected by dumping. This price is referred to as the unsuppressed selling price.

The Commission's preferred approach to establishing unsuppressed selling prices observes the following hierarchy:

- industry selling prices at a time unaffected by dumping;
- constructed industry prices – industry cost to make and sell plus profit; or
- selling prices of un-dumped imports.

Having calculated the unsuppressed selling price, the Commission then calculates a non-injurious price by deducting the costs incurred in getting the goods from the export free on board point (or another point if appropriate) to the relevant level of trade in Australia. The deductions normally include overseas freight, insurance, into-store costs and amounts for importer expenses and profit.

Vicmesh did not have any submissions to make on the non-injurious price at the time of the meeting; however it indicated that a submission may be made on this matter as the investigation progresses.

#### **8.5 Other matters**

Vicmesh specifically noted that they would be making further submissions regarding Investigation 301.

The Commission confirmed that any submission which was received by 21 September, the initial submission due date, would be considered prior to any PAD being put in place.

Vicmesh stated that the verification of Vicmesh imports prove OneSteel's derived Export prices to be unfounded/wrong. If the export price data supplied by OneSteel is wrong, so too could be its constructed Normal Values. Vicmesh suggest that the Commission should not solely rely on OneSteel assertions and information.

Vicmesh provided that OneSteel's parent – Arrium - stated in the most recent Annual Report that it had reduced costs from lower scrap prices, and had increased demand in second half of year (Jan 2015-June 2015).

Vicmesh stated that the following factors should be considered from the Arrium annual report:

“we increased our market share in our manufacturing and rebar reinforcing”

“ volumes increased in construction in NSW”

“ we saw lower raw material costs, particularly scrap in the second half”

“ lower Asian steel margins for Asia were partly offset by the lower Australian dollar”

Finally, Vicmesh state that given the Arrium annual report is upbeat on future demand growing 5% over next three years, the material threat may not exist.

Vicmesh asked about future submissions. The Commission confirmed that submissions would be welcome as long as they provided sufficient evidence to be relied up. Where sufficient evidence or additional submissions are not made, the issues may be disregarded by the Commissioner as not being substantiated.

Vicmesh noted that further submissions may be made, including:

- The relevant market / separate markets as Vicmesh does not compete for sales with OneSteel on WRIC.
- OneSteel is the only domestic producer of WRIC but is Vicmesh competitor on finished product, operating at a near monopoly with import competition for WRIC the only thing preventing an absolute monopoly.
- OneSteel operation is vertically and horizontally integrated- comprising downstream manufacture/distribution.
- It is a commercial imperative for Vicmesh to maintain external supply, as they cannot be reliant on a downstream market competitor for reliable, truly competitive supply raw materials.
- Vicmesh contends that it is different to a trading house operation [redacted] [trading companies] as their imports compete for sales of WRIC with OneSteel. Vicmesh do not on-sell rod in coil but may compete with a downstream party to OneSteel in their reinforcing business.

## **9 RECOMMENDATIONS**

The following preliminary recommendations apply to the goods imported by Vicmesh from China:

- the goods have been exported to Australia otherwise than by the importer;
- the goods have been purchased by the importer from the exporter; and
- the purchases of the goods by the importer were arms-length transactions.

Subject to further inquiries with the relevant exporter, it is recommended that the export price for rod in coil imported by Vicmesh from [REDACTED] [supplier/s] may be established under s.269TAB(1)(a) of the Act, using the invoiced price with appropriate adjustments to reflect any post exportation costs.



## **10 ATTACHMENTS AND APPENDICES**

### **Confidential Appendices**

Confidential Appendix 1      Import volumes and export price.

Confidential Appendix 2      Import costs

### **Confidential Attachments**

Confidential Attachment 1      Import Documentation

Confidential Attachment 2      Steel Orbis pricing and Vicmesh comparison

Confidential Attachment 3      Platts pricing information