



Australian Government
Anti-Dumping Commission

INVESTIGATION 301

**ALLEGED DUMPING OF ROD IN COILS
EXPORTED FROM CHINA**

VERIFICATION REPORT - IMPORTER

STEMCOR

**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

PUBLIC RECORD VERSION

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ABBREVIATIONS

\$	Australian dollars
ABF	Australian Border Force
The Act	<i>Customs Act 1901</i>
ADN	Anti-Dumping Notice
CFR	Cost and freight
Commission	Anti-Dumping Commission
Commissioner	The Commissioner of the Anti-Dumping Commission
DCS	Developing Country Status
EBIT	Earnings before interest and tax
EDITA	Earnings before interest, tax, depreciation and amortisation
FOB	Free On Board
GAAP	Generally accepted accounting principles
GUC	Goods under consideration – in this investigation, steel rod in coils.
Minister	The Assistant Minister for Science
NIP	Non-injurious Price
PAD	Preliminary Affirmative Determination
SEF	Statement of Essential Facts
Stemcor	Stemcor (SEA) Pte Ltd & Stemcor Australia Pty Ltd.
the goods	the goods the subject of the application (also referred to as the goods under consideration or GUC)
the Parliamentary Secretary	the then Parliamentary Secretary to the Minister for Industry
USP	Unsuppressed Selling Price

PUBLIC RECORD VERSION**1 BACKGROUND AND PURPOSE****1.1 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 (Parliamentary Secretary) 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 ABF import database indicated that Stemcor had imported rod in coil from China during the investigation period.

The Commission contacted Stemcor 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. Stemcor 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.

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

Stemcor agreed to be available for an importer verification visit, if required.

1.2 Purpose of verification

The purpose of the verification was to:

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- confirm that Stemcor is the importer of rod in coils attributed to it within the commercial database and obtain information to assist in establishing the identity of the exporter(s) of the goods;
- verify information on imports of rod in coils to assist in the determination of export prices;
- establish whether the purchases of rod in coils were arms-length transactions;
- establish post-exportation costs;
- identify sales and customers and verify sales volume, selling prices and selling costs;
- obtain general information about the Australian market for rod in coils; and

1.3 Verification process

The Commission contacted Stemcor's representatives on the initiation date for the investigation.

Based on other recent verifications being completed on site, and the integrity of the data provided historically by Stemcor, it was recognised that pending the initial submission of documentation by Stemcor that the need for on-site verification is subject to appropriate other tests being undertaken.

The Commission has tested the data provided by Stemcor for relevance and reliability by:

- benchmarking key variables to verified data in the previous, similar investigations;
- consideration of previous verification activities undertaken by the Commission, including any documentation subsequently produced;
- comparing the Stemcor export price data to information contained in the ABF import database;
- comparing the Stemcor data provided to the source documentation provided as part of the importer questionnaire response; and
- comparing Stemcor's data to other independent sources of information.

1.4 Investigation process and timeframes

We advised the company of the investigation process and timeframes at the time of initiation as follows.

- The investigation period is 01 July 2014 to 30 June 2015.
- The injury analysis period is from 1 July 2011 for the purpose of analysing the condition of the Australian industry.

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- A preliminary affirmative determination (PAD) may be made no earlier than day 61 of the investigation¹ (12 October 2015) and provisional measures may be imposed at the time of the PAD or at any time after the PAD has been made.

The Commission will not make a PAD until (and if) it becomes satisfied that there appears to be, or that it appears there will be, sufficient grounds for the publication of a dumping duty notice and/or a countervailing 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 Minister allows.

The SEF will set out the material findings of fact on which the Commission intends to base its recommendations to the Minister, 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, the Commission will provide its final report and recommendations to the Minister.

This final report is due no later than 14 January 2015, unless an extension to the SEF is approved by the Minister.

1.5 Verification report

We explained to the company that we would prepare a report of our verification activities (this report) and provide it to the company to review its factual accuracy, and to identify those parts of the report it considers to be confidential.

We explained that, in consultation with the company, we would prepare a non-confidential version of the report, and place this on the investigation's Public Record.

¹ Due to day 60 falling on a Sunday, the earliest date for a PAD in this case is day 61, Monday, 12 October 2015

PUBLIC RECORD VERSION**2 THE GOODS****2.1 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.

2.2 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 country².

Rod in coils exported to Australia from DCS designated countries attract a duty rate of free.

Following discussions with the Commission, the applicant confirmed that the goods under consideration should be entered under the nominated tariff subheadings. However, the Commission notes that the goods under consideration are defined by the description, not the tariff classification.

2.3 Like goods

The domestically produced goods have same physical characteristics as imported goods under investigation and the Commission considers them to be like goods and is a commoditised product.

² '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*.

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3 COMPANY DETAILS**3.1 Commercial Operations****3.1.1 Stemcor Relationships**

Stemcor Australia advised that the Sydney office is the main office in Australia.

In May 2013 Stemcor Australia's [REDACTED] arrangements changed [REDACTED]. While this change has had minimal impact on day to day operational matters, [REDACTED] (Stemcor transaction arrangements)

For the purposes of this investigation, both parties will be considered a single entity, and any reference to "Stemcor" within this report may encapsulate either or both legal entities.

Based on the Commission's verification of documentation provided and other data, the Commission does not believe this treatment for the Stemcor group will have any impact on any finding made by the Commission as part of this investigation.

3.1.2 Company background

Stemcor Holdings describes itself as an '*independent steel trader*' that '*....play(s) a pivotal role in the steel industry, acting as a trading intermediary and value-adding service provider. Our end-to-end services span every step in the steel supply chain and comprise five core competencies: finance, raw materials, steel trading, distribution and stockholding.*'³

In Australia, Stemcor Group entities trade in steel related products and sell product to customers throughout Australia. Purchases of steel products from overseas mills are completed on the back of sales made to customers in Australia. Stemcor Australia advised that it rarely maintains any steel inventory in Australia and that any imported steel is distributed directly to the customer who placed the order for the steel products.

Stemcor Australia advised that it provided an alternative supply option to Australian processors who were for, various reasons, unable to source any or unwilling to commit 100% of their requirement to OneSteel Market Mill (OMM). Stemcor Australia advised that these processors (clients) also compete with OneSteel's own processing units for their contracts and with this background; they want alternate options other than one local supplier whose group companies are their biggest competitors⁴.

³ Stemcor website (www.stemcor.com)

⁴ Anti-Dumping Commission Electronic Public Record, Investigation 240, Attachment 035 – Verification Report, Importer, Stemcor Australia Pty Ltd

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Stemcor submitted that these processors (clients) may be forced to buy finished product from overseas (thereby reducing local manufacturing capacity) if local producer continuously alleges AD against imports in general and uses AD legislation to gain market power as their numerous applications demonstrate the extensive use of AD legislation.

3.1.3 Accounting structure and details of accounting systems

Stemcor Australia operates a financial year based on 1 January to 31 December, in line with the financial year of its parent company based in the United Kingdom.

3.2 Relationship with suppliers and customers

During the investigation period, Stemcor purchased its rod in coils from [REDACTED] [REDACTED] [supplier], which is the export [REDACTED] [REDACTED] [manufacturer details].

Stemcor stated that it holds no relationship with suppliers beyond an ordinary commercial relationship of buyer and seller.

3.3 Like goods

Stemcor agree that the applicant's goods and imported goods under consideration are like goods and are commodity products.

PUBLIC RECORD VERSION**4 Verification****4.1 General**

The Commission has undertaken full verification visits of Stemcor recently several times.

As such, the Commission considers that the information provided by Stemcor may be verified with reference to third party information, and by undertaking a targeted selection of import transaction documentation to support their response.

The Commission has ensured that more than 40% of the volume and value of imports by Stemcor over the investigation period have been traced to source documents, and the Commission is substantially satisfied with the accuracy, relevance, and reliability of the information provided by Stemcor in its response to the importer questionnaire.

The information was cross checked against the ABF database to test the integrity of the data.

In addition, there was a significant review of the transactions where source documents were not requested to ensure that the data the Commission held remained consistent based on volume, timing, and third party industry database information.

Further verification and cross referencing will be undertaken as part of any exporter verification process.

4.2 Distribution and Selling

Stemcor noted that it rarely holds inventory, and places orders on a sell-buy basis to meet the demand from its customers.

The process is such that, based on the Incoterms for each of the contracts, Stemcor does hold title to the goods during the process.

Stemcor goes to market with a price offer which may or may not receive orders on. When orders are placed with Stemcor, they approach the producer's [REDACTED] [exporters' export arm]. Stemcor arranges for the goods to be delivered to the most suitable Australian port. For all transactions, Stemcor is responsible for the delivery of the goods from the port to the Australian customer's preferred delivery location.

4.3 Sales**4.3.1 Ordering and sales process**

Stemcor noted that there can be a significant lead time in a new supplier being accepted in the market place for steel products.

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The overall total imports by Stemcor were profitable [REDACTED]
[REDACTED] % [profit information].

This analysis is included in confidential attachment 1.

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5 IMPORTS**5.1 Volume of trade**

The information provided by Stemcor indicated total volumes imported of just over [REDACTED] [import volume] for the investigation period. A breakdown of volume by month was provided at 4.3.3.

5.2 Forward orders

Stemcor disclosed [REDACTED] in their response to the Commission.

5.3 Verification of imports

A selection of import transactions were verified to source documents and cross checked against the ABF database. The value and volume verified to these documents exceeded 40% of total imports by Stemcor from China over the investigation period. The Commission is satisfied with the reliability, accuracy, and relevance of the information disclosed within the Stemcor response.

The verification process included consideration of the following documents

- commercial invoices;
- packing lists;
- customs clearance and sorting documents;
- freight disbursement invoices;
- contracts for purchase; and
- mill certificates.

The following statements have specific regard to the verified import transactions only.

5.3.1 Supplier invoice details

Copies of invoices and contracts were provided for the specified shipments. These invoices were used to verify volume, the goods description, and value of shipments. The exchange rates utilised were also reviewed to source documentation.

5.3.2 Shipment costs

Overseas shipment costs were verified where evidence was provided by Stemcor. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[redacted] [o/s freight/t] as per Confidential Appendix 1 is a reasonable, reliable amount based on the evidence provided to date.

This will be further verified [redacted]
[redacted]

5.3.3 Importation costs

Importation costs were provided by Stemcor to the Commission. [redacted]
[redacted]. (

forex rates)

The costs provided include [redacted]
[redacted] (itemised transaction

ledgers)

These fees provide for an average importation/post importation cost [redacted]
[weighted average import costs] as per Confidential Appendix 2 is a reasonable, reliable amount based on the verifiable evidence provided to date.

5.4 Selling, general and administrative (SG&A) costs

Selling and General Administration cost information was provided as an [redacted]
[redacted] [SG&A allocation] by Stemcor.

This has not been directly verified. The Commission notes that there have been a number of recent interactions between Stemcor and the Commission. These include a previous investigation into rod in coil (case 240) and an investigation into steel reinforcing bar (case 264).

The Commission consider this allocation to be a low risk due to the limited impact that an internal cost of an importer will have on the calculation of dumping margins.

The Commission accepts that the SG&A amount of Stemcor is appropriately represented by their submission pending more appropriate information being received through the investigation process.

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5.5 Export prices for selected shipments

[REDACTED]
 [REDACTED] (purchase incoterm)

The Commission verified shipments to source documents including contracts and payment terms. These have been cross checked against the ABF database and appear reliable.

[REDACTED]
 [REDACTED] (forex rates)

The weighted average export price for the shipments is:

Quarter	Export Price \$AUD/T
Q1	[REDACTED]
Q2	[REDACTED]
Q3	[REDACTED]
Q4	[REDACTED]
Grand Total	[REDACTED]

Table 3: Export price

This will be subject to further consideration and review based on additional information
 [REDACTED].

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6 WHO IS THE IMPORTER AND EXPORTER

6.1 Who is the importer?

We reviewed the documents provided in respect of the selected shipments. We note that:

- Stemcor is party to the contracts;
- Stemcor is contracting on [REDACTED] terms; (Purchase inco term)
- Stemcor on sells the goods to several non-related parties, [REDACTED] (sale incoterm); and
- Stemcor is responsible for ensuring the importation of the goods.

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

6.2 Who is 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 in the transaction, located in the country of export, who owns, or previously owned, the goods but need not be the owner at the time the goods were shipped.

It is common for traders and other intermediaries to play a role in the exportation of the goods. These parties will typically provide services such as arranging transportation, conducting price negotiations, arrange contacts with the producer, etc.

In such cases, the trader typically acts as an intermediary who, although one of the principals, is essentially a facilitator in the sale and shipment of the goods on behalf of the manufacturer. Typically the manufacturer as a principal who knowingly sent the goods for export to any destination will be the exporter.

Therefore, depending on the facts, the Commission considers that only in rare circumstances would an intermediary be found to be the exporter. Typically this will occur where the manufacturer has no knowledge that the goods are destined for export to any country and the essential role of the intermediary is that of a distributor rather than a trader.

Subject to further inquiries, we are satisfied that [REDACTED] [manufacturer] can be considered the exporter of rod in coils imported by Stemcor. To our knowledge, these entities are principals in the country of export, which manufacture the goods [REDACTED] [exporter's export division).

PUBLIC RECORD VERSION**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.

Stemcor stated that it buys direct from [redacted] [exporter's export arm] [redacted] [manufacturer].

Stemcor stated that it has a normal commercial relationship with [redacted] [exporter's export arm] and there are no rebates or other price influences on the arrangements entered into.

We reviewed the documentation for the selected shipments and found that the transactions appear at arms-length, and they documents support the shipping terms disclosed.

We are currently satisfied that import transactions between Stemcor and its suppliers are at arms-length in terms of s. 269TAA pending further information being available.

PUBLIC RECORD VERSION**8 GENERAL COMMENTS**

Stemcor suggested that utilising the entire Australian market as the applicants potential 'zone of influence' would cause self-injury to applicant as clients are over 2000-5000km away from applicant's mill. Cost for trucking / rail carting over such long distance is very expensive compared to exporter's container shipment over long distances as freight rates for shipment to major Australian ports is nearly the same and much cheaper than applicant's cost to truck / rail cart over distances. Same applies to trucking/ rail-carting billets from Whyalla to Laverton, Newcastle & Sydney mills. The Commission will consider this position subject to other market forces

Stemcor noted that there was a significant reduction in previous cases from preliminary dumping securities imposed following a preliminary affirmative decision and the interim duty imposed following the final report and as such suggested that significant consideration be undertaken prior to issuing a preliminary affirmative decision. The Commission notes that there is a different level of comfort required between a preliminary affirmative decision being made regarding potential securities and the final report raising potential interim dumping duties. As such, there potential for changes between the two factors as the standards of proof move, and additional information is uncovered through the investigation processes.

Stemcor suggest that clients who acquire the GUC may be forced to buy finished product (mesh) from overseas (thereby reducing local manufacturing) if the applicant continuously alleges AD against imports in general and uses AD legislation to gain market power as their numerous applications demonstrate the extensive use of AD legislation. The Commission notes the submitted point, however reiterates that the Commission's position continues to be that the tests within the AD legislation focused on ensuring access to a robust trade remedy system, regardless of the number or timing of previous applications submitted by any party.

Recent announcements by applicant's parent company Arrium surrounding the debt burden facing the company and the decision to examine selling off various parts of the business has caused increased concern amongst unrelated customers about the certainty and guarantee of long-term supply by OneSteel. To mitigate the risks posed by these potential future changes to the OneSteel business, customers have commenced implementing dual or multiple sourcing of goods, to ensure continuation of supply to their processing business.

PUBLIC RECORD VERSION**9 RECOMMENDATIONS**

From our investigations, we are of the opinion that, for the goods imported by Stemcor from [REDACTED] [manufacturer]:

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

Subject to further inquiries with these exporters, we recommend that the export price for rod in coils imported by Stemcor from [REDACTED] [manufacturer] can be established under s.269TAB(1)(a) of the Act, using the invoiced price, less deductions to the FOB level as required.

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10 APPENDICES AND ATTACHMENT

Confidential Appendix 1	Overseas Freight
Confidential Appendix 2	Importation Costs
Confidential Attachment 1	Profitability Analysis