Australian Government
Anti-Dumping Commission

INVESTIGATION 319

ALLEGED DUMPING OF CHROME BARS EXPORTED FROM ITALY AND ROMANIA

VISIT REPORT - AUSTRALIAN INDUSTRY

MILLTECH 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 ANTI-DUMPING COMMISSION

December 2015

CONTENTS

ABBREVIATIONS

$	Australian dollars
The Act	*Customs Act 1901*
ADN	Anti-Dumping Notice
The applicant	Milltech Pty. Ltd.
CFR	Cost and freight
the Commission	Anti-Dumping Commission
CTM	Cost to make
CTMS	Cost to make & sell
CTS	Cost to sell
FOB	Free On Board
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)
the Parliamentary Secretary	the Assistant Minister for Science and the Parliamentary Secretary to the Minister for Industry, Innovation and Science
USP	Unsuppressed Selling Price

1 BACKGROUND AND PURPOSE

1.1 Background

On 16 October 2015, Milltech Pty Ltd (Milltech) lodged an application requesting that the Assistant Minister for Science and the Parliamentary Secretary to the Minister for Industry, Innovation and Science (the Parliamentary Secretary)[1] publish a dumping duty notice in respect of chrome bars exported to Australia from Italy and Romania.

Milltech alleges that the Australian industry has suffered material injury caused by chrome bars exported to Australia from Italy and Romania at dumped prices. Milltech alleges that the industry has been injured through:

- loss of sales volume;
- loss of market share;
- price depression;
- price suppression;
- reduced profits;
- reduced profitability;
- reduced assets employed in production;
- reduced capacity utilisation; and
- reduced employment.

After consideration of the application, an investigation was initiated on 10 November 2015. Anti-Dumping Notice (ADN) No. 2015/130 publicly notified the initiation of the investigation and is available at www.adcommission.gov.au.

1.2 Previous investigations

The Anti-Dumping Commission (the Commission) has not previously undertaken an investigation into chrome bars.

1.3 Purpose of visit

The purpose of the visit was to:

- obtain general information about the Australian market for chrome bars;
- gain a greater understanding of the company's manufacturing, marketing and distribution processes;

[1] On 23 December 2014, the then Minister for Industry and Science delegated his powers and functions under Part XVB of the *Customs Act 1901* to the Parliamentary Secretary to the Minister for Industry and Science. On 20 September 2015, the Department of Industry and Science became the Department of Industry, Innovation and Science. The titles of the Minister and Parliamentary Secretary also changed to the Minister for Industry, Innovation and Science, and the Parliamentary Secretary to the Minister for Industry, Innovation and Science. On 20 September 2015, the Prime Minister appointed the Parliamentary Secretary to the Minister for Industry, Innovation and Science as the Assistant Minister for Science.

- verify information provided in the application;
- obtain additional financial data about claimed injury to the Australian industry; and
- gather information relevant to assessing whether the allegedly dumped imports had caused material injury to the Australian industry.

1.4 Meeting details

Company	Milltech Pty Ltd
Dates of visit	19 November and 1 – 2 December 2015

The following were present at various stages of the meetings.

Milltech Pty Ltd	Manfred Reis – Managing Director Andrew Wilson – Business Manager Dean Taylor – Commercial Manager
The Commission	Justin Wickes – Director Ryan Hemsley – Case Manager Angela Kidson – Senior Investigator Adam Hourigan – Investigator

1.5 Investigation process and timeframes

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

- The investigation period is 1 October 2014 to 30 September 2015.
- 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 (9 January 2016) 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.

  If a PAD is not made on day 60 of the investigation, a Status Report providing explanation as to why a PAD was not made will be published on this date.

- The Statement of Essential Facts (SEF) for the investigation is due to be placed on the public record by 28 February 2016; or such later date as the Parliamentary Secretary allows under section 269ZHI of the *Customs Act 1901* (the Act)[2].

  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, the Commissioner will provide his final report and recommendations to the Parliamentary Secretary.

  This final report is due no later than 14 April 2016, unless an extension to the SEF or final report is approved by the Parliamentary Secretary.

1.6 Visit report

The verification team explained to the company that it would prepare a report of the team's visit (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.

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

[2] All references in this report to sections of legislation, unless otherwise specified, are to the *Customs Act 1901.*

2 THE GOODS

2.1 Description

The goods the subject of the application (the goods) are:

> *Chromium plated circular solid steel bars (chrome bars) that have all of the following characteristics:*
>
> - *circular cross section;*
> - *made from alloy or non-alloy steel bar;*
> - *chrome plating of any thickness;*
> - *lengths not greater than 8m; and*
> - *diameters in the range from 18mm to 170mm.*

The applicant provided further details as follows:

> *Minimal prior or subsequent processing such as cutting, drilling or painting does not exclude chrome bars in the dimensions described above from coverage of the application.*
>
> *Without limiting the generality of the above description, the goods include:*
> - [chrome bars manufactured using] *steel bars that are quenched and tempered, otherwise heat treated or induction hardened;*
> - *chrome bars manufactured using the following grades of steel bars (and any equivalent or materially similar international grades):*
>   - *SAE/AISI 1045; and*
>   - *SAE/AISI 4140.*

Goods excluded from the description are:

> - *chromium plated steel bars with oval or flattened circle cross sections; and*
> - *hollow or tubular chrome plated bars.*

2.2 Tariff classification

The goods are typically classified to the following tariff subheadings of Schedule 3 to the *Customs Tariff Act 1995*:

Tariff Code	*Statistical code*	*Customs Duty Rate*
7215.90.00	55	5% DCS: Free[3]
7215.50.90	54	5% DCS:4%
7222.30.00	37, 38	5% DCS: 4%
7228.30.10	70	5% DCS:4%
7228.60.10	72	5% DCS: 4%
7228.60.90	55	5% DCS: Free

[3] 'DCS' is a code applied to classes of countries and places in relation to which special rates apply as specified in Part 4 of Schedule 1 of the *Customs Tariff Act 1995.*

3 THE AUSTRALIAN INDUSTRY

3.1 Corporate, organisational and ownership structure

Milltech Pty Ltd (Milltech) is a manufacturer of processed steel bars, which includes bright, alloy and chrome bars. Milltech processes bars in a number of different ways, including drawing, peeling, polishing, precision grinding, quenching and tempering, induction hardening and chrome plating. Milltech sells bars at each of these processing stages. Milltech is the Australian producer of like goods to the goods the subject of this application.

Milltech is an Australian proprietary company that commenced trading in 1992. The trading name Milltech Martin Bright Pty Ltd is also used in relation to the manufacture and sale of the goods.

Milltech operates three manufacturing facilities: two in New South Wales (NSW), in Tomago and Hexham, and one in Laverton, Victoria. Milltech's facility in Tomago, NSW was established in 2001 and is the Head Office. The Hexham facility was established in 2004. In 2008, Milltech acquired Martin Bright Steels, which extended its manufacturing capabilities.

Milltech provided a chart illustrating the corporate structure at **Confidential Attachment 1**.

3.2 Accounting structure and system

Milltech's financial year is 1 July to 30 June. The company's accounts are prepared in accordance with Australia's generally accepted accounting principles. The accounts are held at its Head Office in Tomago, NSW. [redacted]

Milltech is not required to have its financial statements audited. As part of its application, Milltech provided special purpose financial reports for the years ended 30 June 2013 and 30 June 2014. These reports are at **Confidential Attachments 2 and 3**. During the visit, Milltech provided reports for the year ended 30 June 2015, which is at **Confidential Attachment 4**. Milltech also provided its general ledger that is used for recording transactions in its management reports, which is at **Confidential Attachment 5**.

Milltech stated that income is recognised at the time of product dispatch to the customer and associated risks are passed to the carrier or customer. The invoice date is the date of sale and date of dispatch, except for some minor timing variations in the production of documents for some sales.

During the visit, Milltech provided an overview of its accounting system. Milltech uses [redacted] to collect and consolidate sales data, and to distribute invoices to customers.

Milltech stated that separate internal financial statements, income statements and management accounts [redacted]

3.3 Relationship with suppliers and customers

3.3.1 Suppliers

During the visit, Milltech confirmed that the main raw materials used in the production of chrome bar are black steel bar and chromic acid. Milltech purchases most of its black steel bar from an Australian supplier and a small quantity from Korea. Milltech purchases chromic acid from Australian distributors, and as such was not able to provide information on the source of production.

3.3.2 Customers

Milltech sells chrome bar on both the domestic and export markets. All chrome bar sales are made to unrelated parties. The verification team notes that domestic sales of chrome bars comprised around [redacted] per cent of total chrome bars sales (based on net revenue) in the financial year ended 2015.

3.4 Manufacturing facilities and product range

3.4.1 Manufacturing facilities

During the verification meetings, Milltech provided the verification team with a tour of its three manufacturing facilities:

- Laverton, Victoria which undertakes drawing, peeling, polishing, induction hardening and chrome plating.
    - This facility produces bright bar, alloy bar and chrome bar.
    - Before chrome plating, the alloy bars are quenched and tempered at Tomago. After quenching and tempering, some bars may also be induction hardened at Laverton.
    - In 2013, Milltech installed the first of two planned continuous chrome plating lines, which it uses in preference to its immersion tank. Milltech explained that the continuous chromium plating line, compared to an immersion tank, is produces a higher quality product, and is also more cost and energy efficient. The second continuous chrome plating line was commissioned in September 2015.
    - Milltech explained that it sources from Australian industry all steel bars of 1045 grade [redacted] and of 4140 grade [redacted]. Steel bars [redacted]
- Tomago, NSW undertakes quenching and tempering.
    - This facility produces heat treated alloy bar.
    - 4140 grade bars that are to be chrome plated, which represent a small proportion of Milltech's total chrome plated bar, are first quenched and tempered at the Tomago facility, and are precision ground at the Laverton facility for chrome plating.

- Hexham, NSW, which undertakes peeling and precision grinding.
    - This facility primarily produces peeled alloy bar and precision ground bar.
    - Some of the peeled bar from this facility is transferred to the Laverton facility for precision grinding and chrome plating.

3.4.2 Product range

Milltech produces chrome-plated round steel bar products from 1045 and 4140 grade steel bars. For both 1045 and 4140 grades, chrome bars can be supplied:

- in an 'as rolled' condition with no quenching and tempering;
- as quench and tempered; or
- as induction hardened.

Milltech produces bars with chrome thickness ranging between 15 and 75 microns depending on the diameter of the bar. End users specify the minimum thickness to suit their requirements.

Milltech usually supplies chrome bars in lengths between 3.6 to 7.5 metres, although longer lengths can be produced. Throughout processing, most bars are maintained at the length they were purchased, and subsequently, the distributor will cut the bar to the end users' requirements. [redacted]

3.5 Production process

Subsection 269T(2) and 269T(3) of the Act specific that, for goods to be regarded as being produced in Australia, they must be wholly or partly manufactured in Australia. In order for the goods to be considered partly manufactured in Australia, at least one substantial process in the manufacture of the goods must be carried out in Australia.

Across Milltech's three facilities (see 3.4.1), the verification team observed the production process from raw black steel bar to chrome bars as follows:

- *Drawing* – Bars are cold drawn through a die to produce a round, square or hexagonal cross-section. During this process, the ends of the bars are cut and these scraps are sold for recycling.
- *Quenching and tempering (heat treatment)* – Certain bars are heated to a necessary temperature before being rapidly cooled to change the crystalline structure of the steel. To reduce the brittleness resulting from the heat treatment, the bars are tempered through re-heating to a specified temperature before being cooled in a controlled manner.
- *Peeling* – Bars are peeled to enhance dimensional accuracy and to remove surface defects resulting from the hot rolling process. This process is a prerequisite for precision grinding.

- *Induction hardening* –Bars may be induction hardened to enhance surface hardness and impact resistance, which is required for certain applications including hydraulics in mining equipment.

- *Precision grinding* – Some bars may be precision ground to achieve a very fine surface finish and size tolerance. Specialised computer controlled bar grinding machines achieve the fine tolerances required. This process is a prerequisite for chrome plating.

- *Polishing (linishing)* – Bars are polished to achieve a smooth finish prior to the application of chrome plating.

- *Chrome plating* – Bars are advanced and rotated through a continuous chrome plating line. [redacted] *commercially sensitive process information]* The bar exits the line fully plated. Milltech also carries out chrome plating using the conventional immersion tank process; however, this is being phased out with the introduction of continuous chrome plating line technology.

- *Final polishing* – Chrome plated bars receive a final polish by a linishing machine to achieve the exact final size and surface finish required.

- *Oiling and packaging* –Chrome plated bars are individually packed in cardboard tubes. Depending on customer requirements, chrome-plated bars are given a coating of protective oil before packaging. This ensures that the finish of the bars is protected during distribution.

3.6 Like goods

Subsection 269T(1) defines like goods as:

> *goods that are identical in all respects to the goods under consideration or that, although not alike in all respects to the goods under consideration, have characteristics closely resembling those of the goods under consideration.*

Milltech claims that its locally produced chrome bars products are like goods to the imported chrome bars products. Milltech considers that both goods possess the same essential characteristics based on:

- physical likeness – the primary physical characteristics of imported and locally produced goods are similar in terms of the range of lengths, diameters, steel compositions and chrome layer thickness, and in terms of international steel grade;

- commercial likeness – the imported and locally produced goods are commercially alike, directly substitutable and competitive, and are sold to common customers;

- functional likeness – the imported and locally produced goods are functionally alike as they similar end uses; and

- production likeness – the imported and locally produced goods are manufactured using similar tank or continuous line processes.

Based on information available, as well as discussions and verification with Milltech, the verification team considers the goods and locally produced goods to be similar in terms of physical, commercial, functional and production characteristics.

The verification team is satisfied that the Australian industry produces like goods to the goods the subject of the application, as defined in subsection 269(T)(1).

The issue of like goods will continue to be assessed throughout the investigation.

3.7 Capacity, employment and annual turnover

The total combined capacity of Milltech for producing chrome bars is approximately [redacted] tonnes per annum.

Milltech's **Confidential Appendix A7** to its application indicates that the number of full-time equivalent employees at Milltech was [redacted] in the financial year ended 2015, with approximately [redacted] associated with chrome plating.

Confidential Appendix A7 also indicates that turnover for chrome bars was around [redacted] in the financial year ended 2015, which represents approximately [redacted] per cent of Milltech's revenue during the same period.

3.8 Conclusion

The verification team is satisfied that:

- chrome bars manufactured by Milltech is like to the goods under consideration;
- the chrome bars were wholly, or partly, manufactured in Australia by Milltech; and
- at least one substantial process of manufacture of chrome bars is carried out in Australia.

As such, the team considers Milltech to be an Australian industry manufacturing like goods in Australia.

4 AUSTRALIAN MARKET

4.1 Background

Milltech is the sole large scale, commercial manufacturer and marketer of chrome bars in Australia after Martensite Pty Ltd ceased trading in February 2015. Milltech advised that some small hydraulic cylinder manufactures may produce chrome bars on a job lot basis.

In its application, Milltech submitted that the chrome bars market in Australia is supplied through its domestic production and imports from a number of countries. During the visit, Milltech identified Romania, Italy, China, Taiwan and Sweden as sources of supply for the Australian market.

4.2 Market segmentation

Milltech submitted that the chrome bars market in Australia is driven by three main segments. These are:

- mining, oil and gas;
- agriculture; and
- transport and logistics manufacturing.

Milltech advised that the end use applications of chrome bars in Australia are highly diverse. These include, but are not limited to:

- agricultural and mining equipment;
- hydraulic jacks and cylinders;
- pneumatic cylinders;
- machine tools;
- pumps;
- earth moving equipment; and
- specialised vehicles, such as garbage trucks.

Milltech claimed that locally produced and imported goods are used interchangeably across a variety of applications in the Australian market.

4.3 Marketing and distribution

4.3.1 Marketing

Milltech advised that the market for chrome bars is increasingly driven by price, which continues to experience strong reductions.

4.3.2 Distribution

Milltech sells a majority of its chrome bars via a network of unrelated distribution companies. These distributors generally cut the chrome bars to the end users' requirements. Large end users may also have the capability to cut chrome bars to their requirements.

Milltech described its understanding of the chrome bars distribution process in Australia. [redacted] Distributors purchase a combination of imported and locally produced chrome bars. Traders source chrome bars from local and overseas distributors. End users generally source chrome bars from traders, but also from distributors and the Australian industry.

Milltech submits that it competes with importers of chrome bars across Australia and across each market segment.

4.4 Milltech's imports

Milltech stated that [redacted] per cent of its black steel bar imports is manufactured into chrome bars. Milltech advised that the majority of its black steel bars that are manufactured into chrome bars are sourced locally [redacted]

4.5 Demand

In its application, Milltech outlined that economic fluctuations in certain Australian market segments, such as equipment for mining, oil and gas, affect the demand for chrome bars. However, Milltech explained there is a strong level of base demand for chrome bars, which means that the mining investment downturn has not had a substantial impact on the chrome bars market. Milltech indicated that the other market segments it supplies that contribute to a strong level of base demand include agriculture, and transport and logistics manufacturing. Milltech stated that the market is contracting slightly and tends to follow the overall manufacturing sector.

Given that Milltech primarily sells chrome bars to distributors rather than to end users, Milltech advised that it does not have a comprehensive understanding of the end use changes in demand for chrome bars in the Australian market.

4.6 Market size

Prior to the visit, Milltech estimated the size of the Australian market for chrome bars using data from Comtrade and Zauba, and from Milltech's own sales data and knowledge of the market.

Milltech's estimation of the Australian market size is illustrated in Figure 1 below: The Australian market was analysed in Consideration Report 319. No further information was provided at the industry visit that changes this estimation.

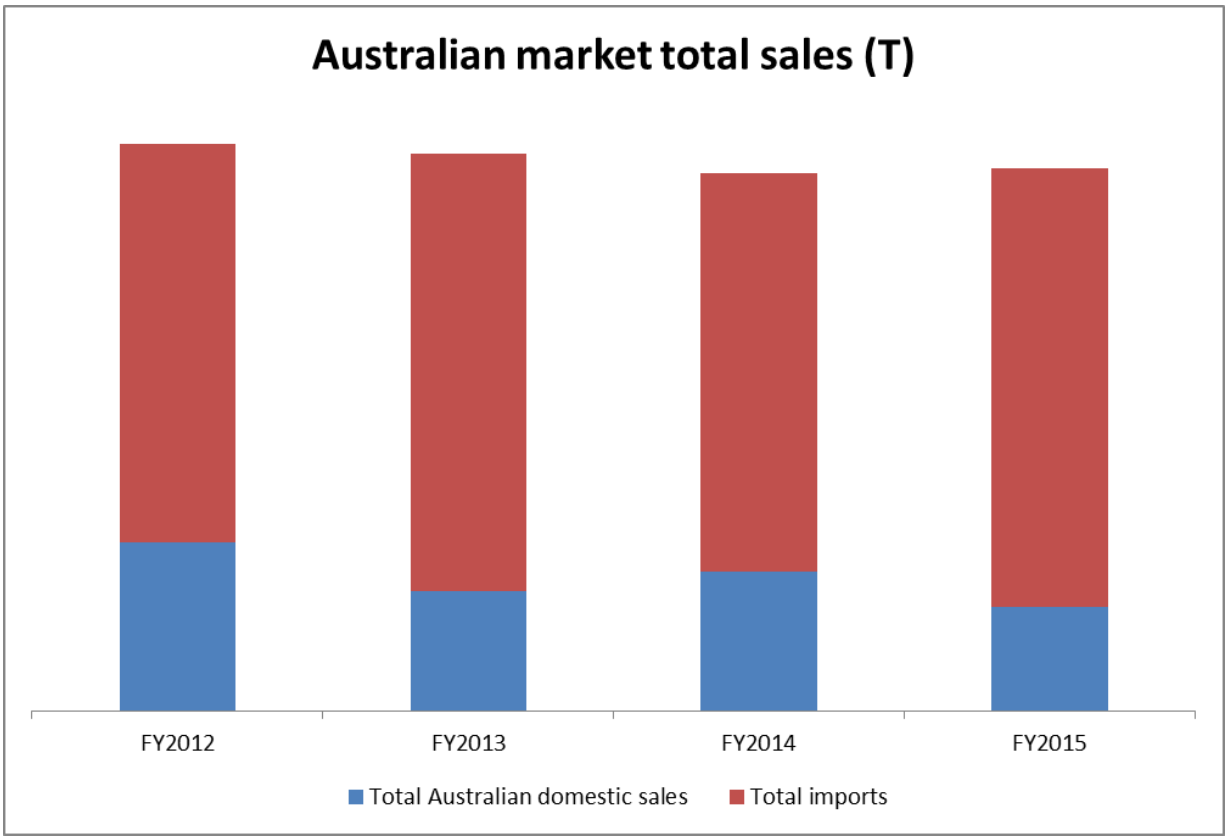

Figure 1: Australian market for chrome bars (tonnes)

5 SALES

5.1 General

Milltech provided a detailed line-by-line sales listing of its domestic sales of chrome bar for the investigation period (refer **Confidential Appendix 2 – Sales**). Milltech's prices of chrome bar are determined by two factors: the grade of the steel, of which two grades are available, 1045 and 4140, and the thickness of the chromium deposit.

From this data, the verification team calculated that for the investigation period, Milltech's sales value for chrome bar in the two main grades in the domestic market was approximately [redacted], with a sales volume of [redacted] tonnes.

Of the two grades of steel used for chrome bar, analysis of Milltech's domestic sales for the investigation period showed that 1045 grade chrome bar represented approximately [redacted] per cent of chrome bar sales. The other, 4140 grade steel, represented the remaining [redacted] per cent.

Milltech considered that diameter, chrome layer thickness, length, grade and application of induction hardening were the main price determinates for chrome bar.

5.2 Ordering, invoicing and delivery arrangements

Milltech advised that chrome bar is ordered through inquiry. These can take the form of stock order inquiries (i.e. forward orders) or day-to-day inquiry.

The majority of stock orders are [redacted] However, given alleged price suppression in the market, [redacted]

Milltech generally sells its products on a free-into-store basis. In the chrome steel market, Milltech sells to one customer [redacted]

5.3 Pricing

5.3.1 Pricing system

Milltech has issued a publicly available price guide for chrome bar, which was included as part of Milltech's application. As mentioned above, prices are determined by the grade of steel (1045 and 4140) and the thickness of the chromium deposit.

[redacted] (**Confidential Attachment 6**), which was provided to the verification team. [redacted] The price guide is meant to [redacted]. However, due to alleged price suppression in the market, [redacted]

Price can vary depending on the location of the customer. [redacted]

5.3.2 Discounts and rebates

[redacted]

5.4 Verification of sales data to special purpose financial statements

To assess sales data for completeness and relevance, verification to special purpose financial statements was undertaken.

As discussed above, the Commission obtained a copy of Milltech's 2015 special purpose financial statement. The special purpose financial statement does not provide revenue for all products sold by Milltech, instead providing an overall revenue figure, which, in 2014-15, was [redacted] for all sales.

In order to verify the figure provided in the special purpose financial report, Milltech provided the verification team with a snapshot of the general ledger (**Confidential Attachment 7**). Similar to the financial report, the general ledger does not categorise sales based on steel type or specification, such as chrome bar. However, through manipulating the ledger, Milltech provided a line-by-line summary of customer data. From this separation into customer data, the general ledger was able to show the value of chrome bars sold over the financial year. Milltech was able to demonstrate to the verification team how chrome sales were extracted and provided to the Commission in the initial application.

5.4.1 Completeness and relevance of sales data - conclusion

Having regard to the above, the verification team considers that the Appendix A4 Sales data provided represents reasonably complete and relevant accounts of the sales of chrome bar during the period from 1 October 2014 to 30 September 2015.

5.5 Verification of sales data to source documents

To further assess Milltech's sales data for accuracy, the verification team undertook verification to source documents. Milltech provided supporting documentation for eight transactions (two per quarter) that were listed in Confidential Appendix 2. This is considered an adequate cross section to cover various quarters, products, sectors and customers within the investigation period.

No	Customer Name	Invoice Number	Invoice Line Number	Invoice date
1	[redacted]	[redacted]	[redacted]	[redacted]
2	[redacted]	[redacted]	[redacted]	[redacted]
3	[redacted]	[redacted]	[redacted]	[redacted]
4	[redacted]	[redacted]	[redacted]	[redacted]
5	[redacted]	[redacted]	[redacted]	[redacted]
6	[redacted]	[redacted]	[redacted]	[redacted]
7	[redacted]	[redacted]	[redacted]	[redacted]
8	[redacted]	[redacted]	[redacted]	[redacted]

For the selected transactions, Milltech provided the following documents:

- invoice summary;
- purchase order;
- order acknowledgement;
- tax invoice;
- despatch advice;
- EFT payment advice; and
- confirmation of payment (i.e. bank statement).

These documents are listed at **Confidential Attachment 8**. The verification team was able to match invoice details (value, quantity, product details, and invoice date) for all transactions to Milltech's sales listing in Appendix A4

The verification team then selected six of the above transactions for upwards verification. Milltech provided a general ledger transaction history report for all six transactions. This included one of two reports that were upwards verified. One was a monthly income statement for the customer or a snapshot of the total yearly revenue for the customer. This yearly customer revenue was then matched in the general ledger to the total yearly revenue amount.

The verification team considered the supporting documentation provided to be reasonable for verification.

5.5.1 Accuracy of sales data - conclusion

Having regard to all of the above, the verification team considers the Appendix A4 Sales data provided is a reasonably accurate account of the sales of Chrome bars during the period from 1 October 2014 to 30 September 2015.

5.6 Export sales

During the investigation period, Milltech exported a small volume of chrome bar, [redacted]. Export sales accounted for about [redacted] per cent of total sales of chrome bar during the investigation period.

5.7 Sales – conclusion

The verification team considers that Milltech's sales in Appendix A4, is a reasonably complete, relevant and accurate reflection of the sales of chrome bar during the period from 1 October 2014 to 30 September 2015.

Accordingly, the verification team considers the sales data in Appendix A4 are suitable for analysing the economic performance of its chrome bar operations from 1 October 2014 to 30 September 2015.

6 COST TO MAKE AND SELL

6.1 General

In its application, Milltech provided spreadsheets containing cost to make and sell (CTMS) data in relation to Australian sales and export sales of chrome bar in appendices A6.1 and A6.2 **(Confidential Appendix 3)**. Milltech originally provided annual data for the five years to June 2014-15, with CTMS data broken down by grade into 1045 and 4140 product. Costs were unable to be further broken down into individual dimensions, such as diameter.

The verification team requested that the data be broken down to a quarterly level for the investigation period, extending to September 2015, which Milltech provided.

Milltech advised that it prepared the CTM data by drawing costs from the ledgers and making queries of the system to obtain the data relevant to chrome only. This was then apportioned to export and domestic markets.

Milltech used an equivalent tonnes calculation to apportion costs accurately to reflect the higher cost of production for goods with a higher value-added component. Milltech explained that certain goods, such as induction hardened bar and bar with heavier layers of chrome require more machine time and therefore incur higher production costs. The verification team is satisfied that costs were allocated to the goods for export and domestic markets.

6.2 Verification of cost to make and sell data to source documents and to audited financial statements

To assess production cost data for accuracy, verification to source documents was undertaken.

Variable manufacturing costs comprised raw materials (local and imported), direct labour, electricity, gas, water, chromic acid, grinding supplies, repairs and maintenance. Fixed manufacturing costs included rent and rates, security, laundry, water treatment, depreciation and finance. Expenses for customs documents and port charges were split between both categories (fixed and variable costs).

The verification team chose to focus our verification on the cost to make for the quarter ending June 2015. The team selected raw materials, chromic acid and electricity expenses for verification.

To assess cost to make and sell data for completeness and relevance, at the visit, the verification team traced these same costs upwards to financial statements, specifically the Trading, Profit and Loss Statement for the year ended 30 June 2015 (Special Purpose Financial Statements) **(Confidential Attachment 9)**. The discussion of our verification accompanies each cost item.

6.2.1 Production volumes

In its application, Milltech provided production figures by grade for the year ended June 2015. Total production was reported at [redacted] tonnes. At the visit, Milltech advised that this information was captured in production sheets. While the company does not track an individual piece of steel through the production process, [redacted] In this way, steel inputs are 'factored up' as they are drawn, heat treated, peeled, polished and chromed.

Milltech supplied reports from their system to support this, including an adjustments movement journal and inventory adjustments edit list **(Confidential Attachment 10**). These documents identified batch and sequence codes (identifying the goods), and adjustments for quantity (owing to yield loss) and unit cost.

The verification team then requested documentation to verify total production of the goods. Milltech provided an extract from its accounts system [redacted] which identified chrome bar adjustments for the investigation period. This showed total production of [redacted] tonnes of chrome bar. Milltech also supplied a chrome grinding and packing sheet for [redacted], as source documentation of a selected adjustment within the listing. The team was satisfied with this evidence and consider the figure of [redacted] tonnes to be an accurate total of production.

6.2.2 Raw materials – steel purchases

Steel purchases represent a high proportion of Milltech's CTM at approximately [redacted] per cent of the total. Milltech advised that it purchases steel from local and imported sources. Locally sourced steel is purchased from [redacted]. To obtain bar above a certain size, Milltech imports steel from countries [redacted]. Milltech explained that they source most imported steel from [redacted]

Milltech provided eight samples of locally sourced steel transactions spanning the investigation period. For each transaction, Milltech provided the verification team with the relevant purchase order, tax invoice and proof of payment for the transaction (**Confidential Attachment 11**). Milltech showed the team where the transaction was recorded in their accounts (general ledger, account code 51110 – steel purchases). All figures reconciled.

Milltech provided four samples of imported steel purchases made across the investigation period. As for locally sourced steel, Milltech provided the purchase order, tax invoice and proof of payment for each transaction (**Confidential Attachment 12**). Milltech also showed the verification team the relevant entry that is made in their accounts (to the same account of steel purchases). Once again, all figures reconciled.

To link these raw material purchases to financial statements, the verification team requested to see the total value of all purchases under account [redacted] for the financial year (year end June 2015). The team observed this query in the accounts system and were provided an extract showing the total, which reconciled directly to the value of steel purchases in the trading, profit and loss statement (**Confidential Attachment 13**).

6.2.3 Chromic acid

The verification team verified the cost of chromic acid for the June 2015 quarter. Milltech supplied tax invoice, delivery docket, cheque and bank records as proof of a chromic acid purchase incurred in this quarter (**Confidential Attachment 14**). The verification team matched this to an entry in the general ledger and the relevant ledger (materials and supplies). Milltech provided an extract from this ledger, showing total chromic acid purchases for the 2014-15 year, which the team reconciled to the financial statements for 2014-15.

6.2.4 Direct labour

Milltech reported actual labour costs incurred (including payroll tax and super) and allocated those specific to chrome production. At the visit, Milltech provided a worksheet which outlined labour allocation to chrome bar (**Confidential Attachment 15**). The document identifies labour cost by month and employee for the investigation period, and apportions the cost between chrome and bar operations. Milltech explained how it allocated labour cost and we considered the methodology to be reasonable. This was also consistent with our observations during the team's production tour of the Laverton, Tomago and Hexham plants.

6.2.5 Electricity and gas

As noted above, the costs of electricity was selected for further verification. At the visit, Milltech provided monthly electricity invoices for the June 2015 quarter, as well as proof of payment (**Confidential Attachment 16**). The invoices were for electricity consumed at Laverton - specific to the goods because chrome bar is only produced at this plant. Milltech used a data logger at the factory to determine the electricity usage particular to chrome, as distinct from the other bar which is produced there. The verification team was provided with a copy of this worksheet, showing a monthly breakdown of usage between product groups. The verification team is satisfied that this method of allocation is reasonable.

Milltech provided an extract from its electricity ledger showing the expense amounts by plant (Laverton, Hexham and Tomago) and month which we matched against the invoices. The verification team then requested an extract from this ledger, and the ledger for gas, showing the total expense for the year to June 2015. Milltech supplied this, and by summing these figures, the team was able to reconcile electricity and gas expense to the financial statements.

6.2.6 Depreciation

Milltech supplied a depreciation schedule as part of its questionnaire response (**Confidential Attachment 17**). At the visit, the verification team questioned a number of items, finding that some had been over allocated in their calculation. Milltech provided a revised schedule following the visit, however chrome bar depreciation was unaffected by the changes. The team also requested, and received a schedule of fixed assets for the year ended 30 June 2014, to support the calculations.

6.3 Verification of selling, distribution and administration costs to source documents

To assess selling, distribution and administration cost data for accuracy, verification to source documents was undertaken

Milltech explained that costs which applied to all of the business were allocated to chrome bar on the basis of tonnes sold. The verification team considered this methodology to be reasonable.

These costs included transport, shipping, vehicle expenses, finance (on chrome plant), wages and salaries (head office), telephone and internet charges. The team selected transport expenses for further verification – for which Milltech supplied a sample of invoices showing the description of services provided, rate, quantity and value (**Confidential Attachment 18**). The team was satisfied that the cost provided was accurate and the methodology reasonable.

Having regard to the above, the verification team considers the selling, distribution and administration cost data provided is a reasonably accurate account of the actual costs to sell chrome bars during the period from 1 October 2014 to 30 September 2015.

6.4 Costs to make and sell – conclusion

The verification team considers that Milltech's cost to make and sell data in Appendix A6, is a reasonably complete, relevant and accurate reflection of the actual costs to manufacture and sell chrome bars during the period from 1 October 2014 to 30 September 2015.

Accordingly, the team considers the Milltech cost to make and sell data in Appendix A6 are suitable for analysing the economic performance of its chrome bars operations from 1 October 2014 to 30 September 2015.

7 ECONOMIC CONDITION

7.1 Applicant's injury claims

In its application, Milltech submitted that the Australian industry has suffered material injury caused by chrome bar exported to Australia at dumped prices from Romania and Italy.

Milltech claimed that Australian industry had been injured through:

- price depression;
- price suppression;
- price undercutting;
- lost sales volume;
- lost market share;
- loss of profits;
- loss of revenue;
- loss of profitability;
- decrease in assets employed in production
- decrease in capacity utilisation
- lost sales revenue, and
- decrease in employment

7.2 Commencement of injury, and analysis period

Milltech claimed that injury commenced in late 2012. According to Milltech, this is when dumped chrome bars from Romania entered the market.

7.3 Volume trends

In its application, Milltech submitted that it has suffered material injury in relation to lost sales volumes of chrome bar due to increased volumes of imports at dumped prices from Romania and Italy.

Figure 2, below, illustrates Milltech's sales volumes of chrome bar in the domestic market during the injury analysis period and Figure 3 depicts Milltech's sales volumes of chrome bar in the domestic market during the investigation period.

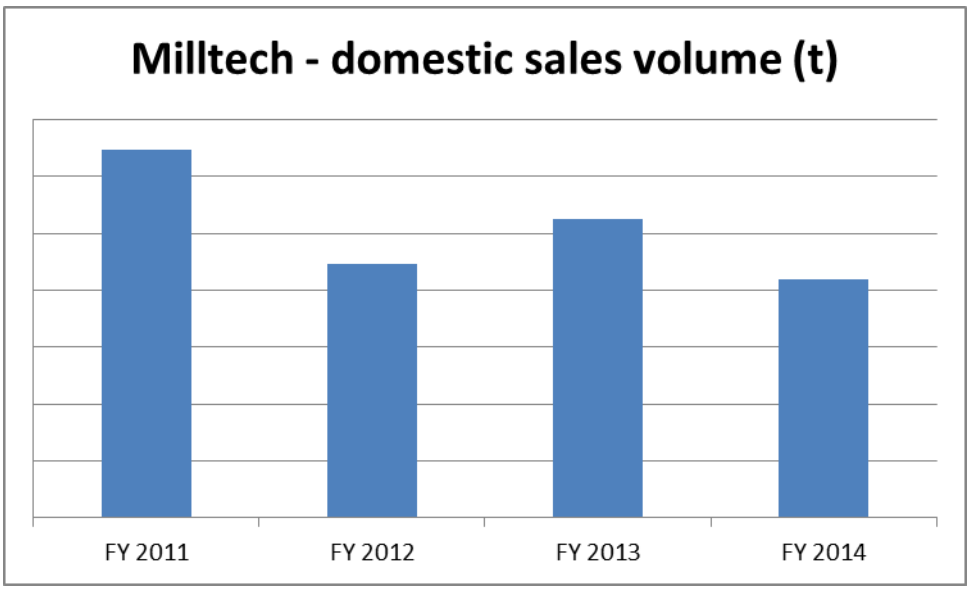

Figure 2 – Milltech's domestic chromebar sales volumes during the injury period

Milltech's sales volumes have fallen since FY2011. Sales volumes rose slightly in FY2013, before falling to the lowest volume in FY2014.

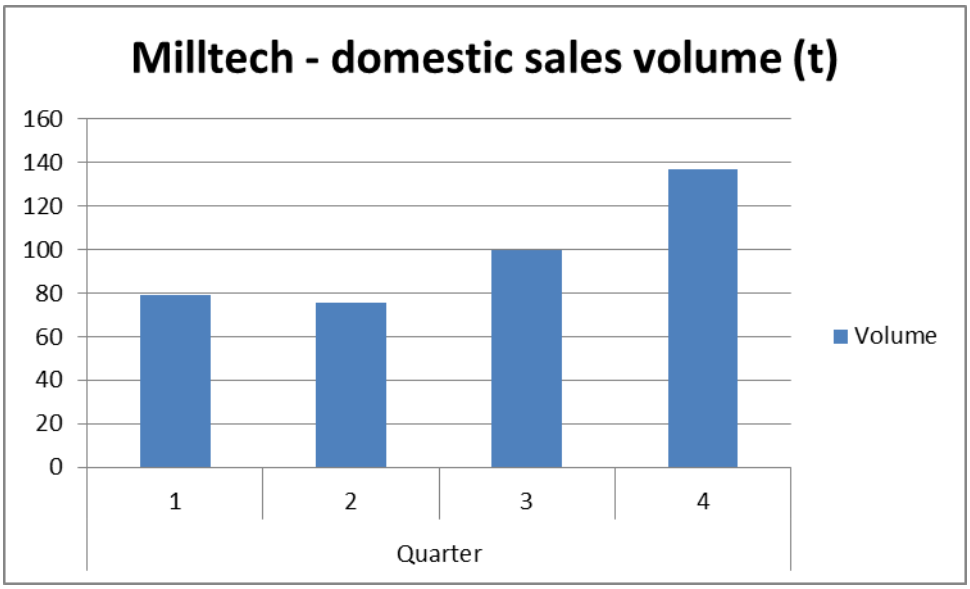

Figure 3 – Milltech's domestic chrome bar sales volumes during the investigation period

Over the investigation period, sales volumes demonstrated an upwards trajectory, with a significant increase in the last quarter. Milltech claimed that there were no sales trends or patterns over a 12 month period, and increases in sales could occur at any given time for a variety of reasons.

7.4 Price suppression and depression

Price depression occurs when a company, for some reason, lowers its prices. Price suppression occurs when price increases, which otherwise would have occurred, have been prevented. An indicator of price suppression may be the margin between prices and costs.

The Commission has displayed below in Figure 4 the movements in weighted average net unit prices (per tonne) and unit cost to make and sell (per tonne) provided by Milltech over the injury analysis period. This information was also analysed in *Consideration Report 319*.

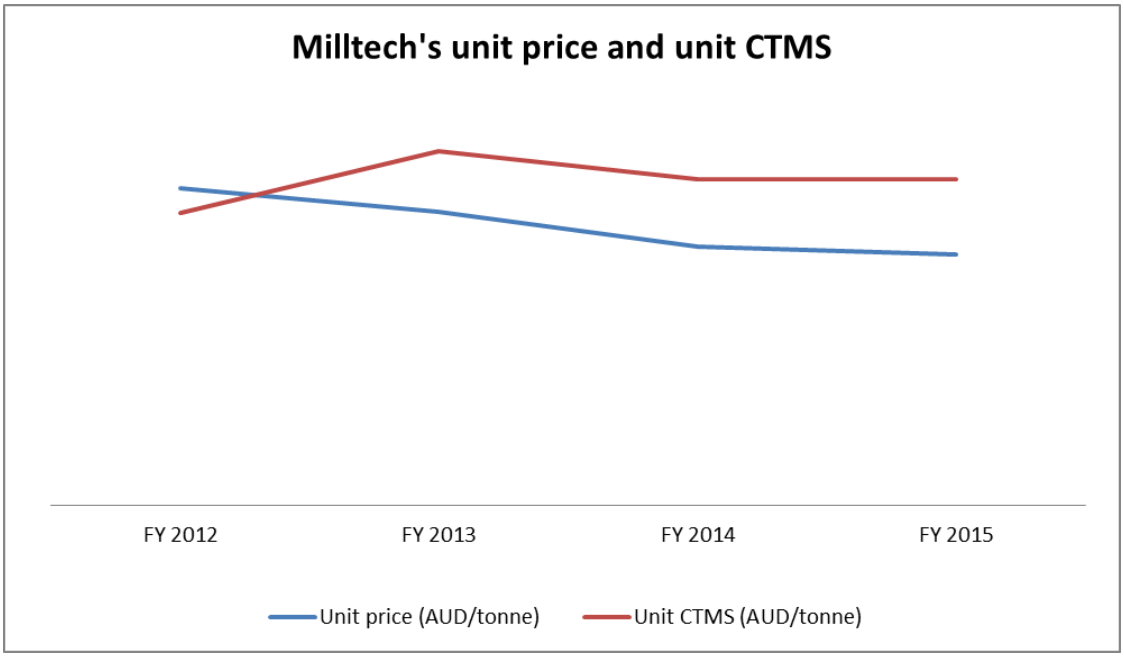

Figure 4: Milltech's unit selling price and unit cost to make and sell for chrome bars

7.5 Profits and profitability

As outlined in *Consideration Report 319*, Milltech experienced its least profitable financial year in 2014, when considering the full injury analysis period.

Milltech claims that manufacturing chrome bars in Australia is highly efficient but notwithstanding this efficiency, the reducing prices for chrome bars in Australia do not support ongoing production in Australia. Figure 5 shows that despite any cost savings Milltech has made, the unit profitability continues to decline.

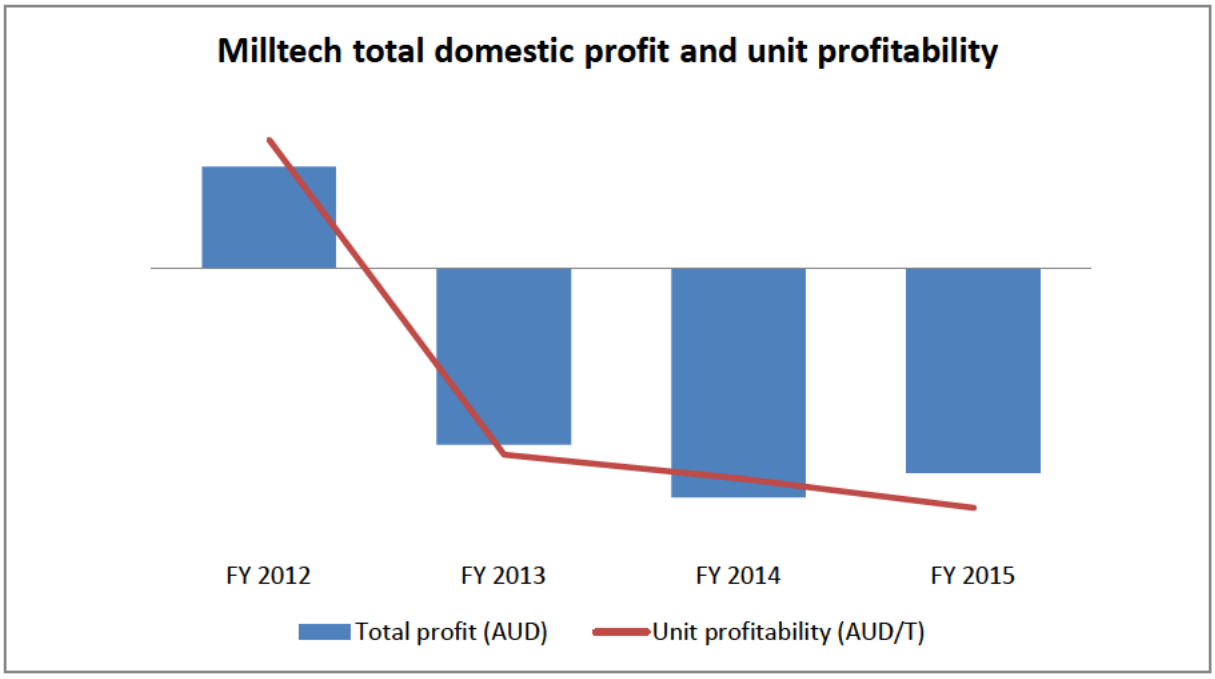

Figure 5: Milltech's total domestic profit and unit profitability during injury period

7.6 Other economic factors

7.6.1 Employment numbers

Milltech's employment numbers related to like goods fell from 2011 to 2014.

The drop in the level of employment is due to Milltech embarking on efficiency processes in its business, which has cut labour costs. Although lower levels of employment may be a sign of injury, it is not directly attributable to dumped goods.

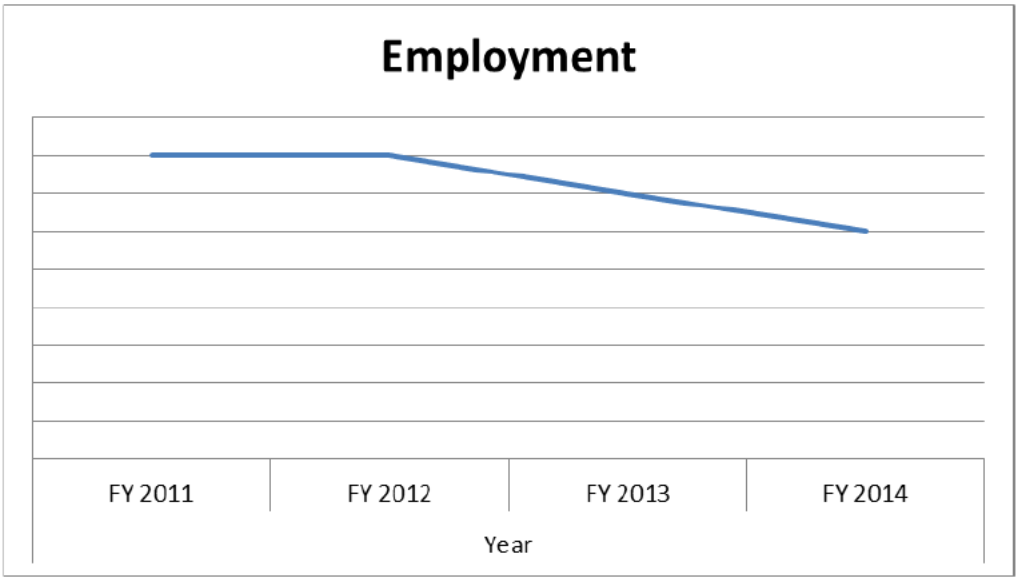

Figure 6: Milltech's employment level over the injury period

7.6.2 Return on investment

Due to efficiencies gained in the continuous chroming process, Milltech has increased its return on investment for the goods over the injury period.

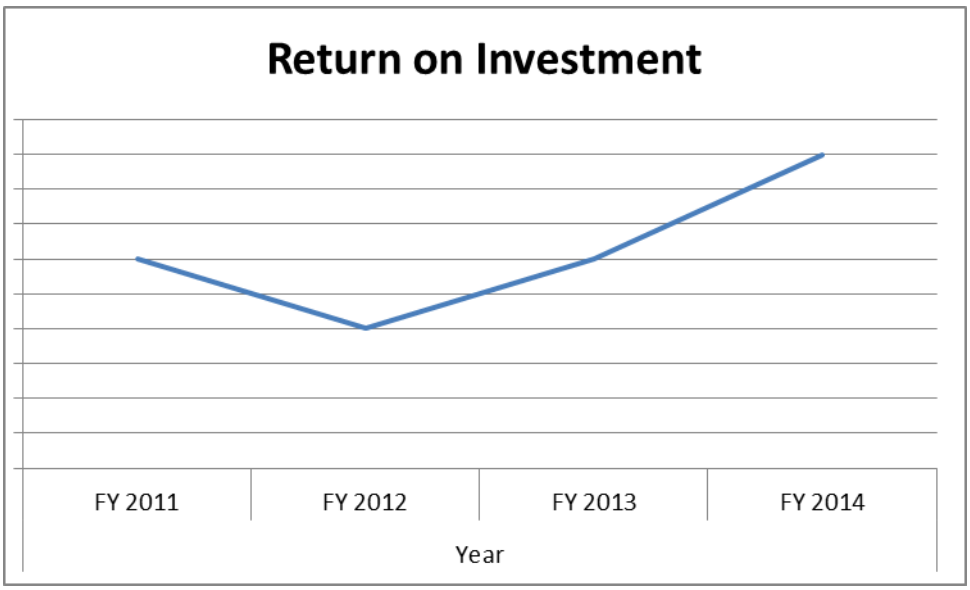

Figure 7: Milltech's return on investment during the injury period

7.6.3 Conclusion

To support its claims regarding other economic injury factors, Milltech completed Confidential Appendix A7 as part of its application. This appendix contained yearly data for the injury analysis period and demonstrated:

- declining capital investment and assets employed;
- reducing capacity utilisation;
- reducing employment; and
- reducing revenue.

These claims were examined in *Consideration Report 319*. No additional evidence in respect of these factors was presented at the visit, and therefore the verification team does not have further information to add to the analysis at this stage.

7.7 Conclusion

Based on an analysis of the information contained in the application and obtained and verified during the verification team's visit, the Commission considers that the company has experienced injury in the form of:

- Volume effects;
- Price effects, and
- Profit effects.

Further analysis of the market and the effects of external economic factors will be made following analysis of data gathered at visits to the importers of the goods.

8 CAUSAL LINK

The verification team discussed with Milltech whether the alleged dumping of imported chrome bar can be demonstrated to be causing material injury to the Australian industry.

Milltech stated that there is no practical difference in the design of the Australian-made chrome bars and the Romanian and Italian imports, and therefore the primary basis for competition is price. There are some quality differences between the Australian chrome bars and some Romanian bars, which Milltech believes are of lesser quality. However, these differences do not always mean end-users prefer better quality products, as it can be cheaper to import greater quantities of lower quality chrome bar than buy the higher quality product.

Milltech claimed that the company cannot keep competing with imported goods, especially dumped goods, as it cannot afford to lower its prices any further. Chrome bar is the end product of each process that Milltech performs to black steel bar. Therefore, it is the most value-added product in Milltech's inventory. If Milltech ceases production due to being unable to compete with imports, then there will be no Australian manufacturer of chrome bar remaining, and furthermore, other products in Milltech's inventory will be subject to negative price effects.

8.1 Price, profit and profitability effects

The Australian market for chrome bar is price sensitive, but the quality of the goods and the range of complementary products offered also affect sales. The verification team observed that the imported product regularly competes directly with Milltech (in terms of the same customers, for like products, on similar terms).

Milltech expressed the view that the Romanian companies are the price setters in the market. Milltech argued that the matching of undercut prices from Romania has caused the deterioration in Milltech's profit and profitability. Milltech explained the lost sales referred in its application, but did not provide any more recent examples of lost sales to imported goods.

At verification, Milltech provided information to the verification team that a representative of a Romanian exporter visited Milltech and explained how the Romanian company was looking to dominate the global chrome market, firstly by undercutting European suppliers, then through undercutting other suppliers globally. The former general manager of the Romanian company published a report on *The Secret Data About the Price War in the Cylinder Business* on his personal website. Milltech provided the Commission with a copy of this presentation (**Public Attachment 1**).

Milltech claimed the other European chrome bar suppliers were unprofitable, but the Romanian supplier in question is financially viable.

Milltech claims it has responded to the presence of dumped goods in the market, which has resulted in price depression and price suppression. In turn, this has resulted in reduced profits and profitability. The data analysed in the previous section supports this assertion.

Milltech argues that it has strived to be as efficient as possible, and has invested in an efficient production cycle, evidenced by the continuous chroming line. These efficiencies

have enabled Milltech to reduce prices, but the company still cannot compete with imported goods at allegedly dumped prices.

8.2 Injury caused by factors other than dumping

In its application, Milltech stated that the demand for chrome bar fluctuates to demands in industrial activity, such as manufacturing, agriculture and mining. Milltech believes that downturns in the mining sector in particular have not caused significant impact as the use of chrome bar in hydraulic equipment is widespread over several sectors that do not necessarily experience the same economic cycles.

These issues will be canvassed in the SEF as to some extent they rely on information that can only be provided by the importers of the goods.

9 UNSUPPRESSED SELLING PRICE

An unsuppressed selling price (USP) and non-injurious price (NIP) was calculated in *Consideration Report 319*. Milltech provided no further data that would affect the calculations of the NIP as part of the consideration process.

In *Consideration Report 319,* the Commission estimated the USP for chrome bar for the 12 months ending 30 June 2015 using the weighted average CTMS of Milltech. At this stage, the Commission has not applied a profit to this CTMS.

The verification team is satisfied it has verified the CTMS information provided by Milltech to calculate the USP.

The Commission is still considering the appropriate methodology for determining the USP and NIP, should this become necessary

10 APPENDICES AND ATTACHMENTS

Confidential Appendix 1	Application – Confidential Appendix A7
Confidential Appendix 2	Application – Confidential Appendix A4
Confidential Appendix 3	Application – Confidential Appendices A6.1 and A6.2
Public Attachment 1	Giol, Luciano *The Secret Data About the Price War in the Cylinder Business*
Confidential Attachment 1	Corporate structure
Confidential Attachment 2	Special purpose financial statement 2013
Confidential Attachment 3	Special purpose financial statement 2014
Confidential Attachment 4	Special purpose financial statement 2015
Confidential Attachment 5	General ledger statement
Confidential Attachment 6	Milltech internal price guidance document
Confidential Attachment 7	Upwards verification documents of general ledger accounts
Confidential Attachment 8	Sales invoice documents
Confidential Attachment 9	Trading, Profit and Loss Statement for the year ended 30 June 2015
Confidential Attachment 10	Adjustments movement journal and inventory adjustments edit list
Confidential Attachment 11	Steel purchases – local
Confidential Attachment 12	Steel purchases – imports
Confidential Attachment 13	Steel purchases ledger
Confidential Attachment 14	Chromic acid purchasing documents
Confidential Attachment 15	Labour allocation
Confidential Attachment 16	Gas and electricity ledgers and invoices
Confidential Attachment 17	Depreciation schedule
Confidential Attachment 18	Transport invoices