



INVESTIGATION 316

ALLEGED DUMPING AND SUBSIDISATION OF
GRINDING BALLS
EXPORTED FROM
THE PEOPLE'S REPUBLIC OF CHINA

VISIT REPORT - IMPORTER

KARARA MINING LIMITED

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

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CONTENTS

ABBREVIATIONS	3
1 BACKGROUND AND PURPOSE.....	4
1.1 BACKGROUND	4
1.2 PURPOSE OF VISIT	5
1.3 MEETING DETAILS	5
1.4 INVESTIGATION PROCESS AND TIMEFRAMES	5
1.5 VISIT REPORT	6
2 THE GOODS	7
2.1 DESCRIPTION	7
2.2 TARIFF CLASSIFICATION	7
3 COMPANY DETAILS.....	8
3.1 COMPANY BACKGROUND	8
3.2 ACCOUNTING STRUCTURE AND DETAILS OF ACCOUNTING SYSTEMS	8
3.3 RELATIONSHIP WITH SUPPLIERS AND CUSTOMERS	8
3.4 LIKE GOODS	8
4 AUSTRALIAN MARKET	10
4.1 GENERAL.....	10
4.2 SALES	10
5 IMPORTS	11
5.1 VOLUME OF TRADE.....	11
5.2 ORDER PROCESS AND PRICE.....	11
5.3 FORWARD ORDERS	12
5.4 VERIFICATION OF IMPORTS.....	13
5.5 EXPORT PRICES FOR SELECTED SHIPMENTS	14
6 WHO IS THE IMPORTER AND EXPORTER.....	15
6.1 WHO IS THE IMPORTER?	15
6.2 WHO IS THE EXPORTER?	15
7 ARMS LENGTH.....	16
8 RECOMMENDATIONS	17
9 APPENDICES AND ATTACHMENTS.....	18

PUBLIC RECORD

ABBREVIATIONS

ABF	Australian Border Force
the Act	<i>Customs Act 1901</i>
ADN	Anti-Dumping Notice
Ansteel	Anshan Iron and Steel Group Corporation
the applicants	Donhad Pty Ltd and Commonwealth Steel Company Pty Ltd (trading as Moly-Cop)
AUD	Australian dollars
Longte	Changshu Longte Grinding Ball Co., Ltd
China	People's Republic of China
CIF	Cost, insurance and freight
Commission	Anti-Dumping Commission
Commissioner	Anti-Dumping Commissioner
FOB	Free on board
Gindalbie	Gindalbie Metals Limited
the goods	the goods the subject of the application (also referred to as the goods under consideration or GUC)
Karara	Karara Mining Limited
PAD	Preliminary affirmative determination
the Parliamentary Secretary	the Assistant Minister for Science and the Parliamentary Secretary to the Minister for Industry, Innovation and Science
SEF	Statement of essential facts
USD	United States dollars

1 BACKGROUND AND PURPOSE

1.1 Background

On 5 October 2015, Commonwealth Steel Company Pty Ltd (trading as Moly-Cop) and Donhad Pty Ltd (the applicants) lodged an application requesting that the Assistant Minister for Science and the Parliamentary Secretary to the Minister for Industry, Innovation and Science (Parliamentary Secretary)¹ publish a dumping duty notice and a countervailing duty notice in respect of grinding balls exported to Australia from the People's Republic of China (China).

The applicants provided further information and data in support of the application on 23 October 2015. As a result, the Anti-Dumping Commission (the Commission) restarted the 20 day period for considering the application in accordance with subsection 269TC(2A) of the *Customs Act 1901* (the Act).²

The applicants allege that the Australian industry suffered material injury caused by grinding balls exported to Australia from China at dumped and subsidised prices. The applicants allege that the industry has been injured through:

- Lost sales volume;
- Price depression;
- Price suppression;
- Loss of profits;
- Reduced profitability;
- Reduced revenues;
- Reduced return on investment;
- Reduced capacity utilisation; and
- Reduced employment.

On 17 November 2015, the Commissioner of the Anti-Dumping Commission (the Commissioner), decided not to reject the application and initiated an investigation. Notification of this decision was published in Anti-Dumping Notice (ADN) No. 2015/132 on the Commission's electronic public record.

There has been no previous dumping or subsidisation investigations in relation to grinding balls in Australia.

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.

² All legislative references in this report are to the *Customs Act 1901* unless otherwise specified.

1.2 Purpose of visit

The purpose of the visit was to:

- confirm that Karara Mining Limited (Karara) is the importer of grinding balls attributed to it within the Australian Border Force (ABF) import database and obtain information to assist in establishing the identity of the exporter(s) of the grinding balls;
- verify information on imports of grinding balls to assist in the determination of export prices and import volumes;
- establish whether the purchases of grinding balls were arms-length transactions;
- establish post-exportation costs;
- obtain general information about the Australian market for grinding balls; and
- provide Karara with an opportunity to discuss any issues it believes is relevant to the investigation.

1.3 Meeting details

Company	Karara Mining Limited Level 8, London House 216 St Georges Terrace Perth, Western Australia, 6000
Dates of visit	Thursday 10 December 2015

The following were present.

Karara	Jerom Bourne – Manager Commercial Michael Grech – Contracts Officer
the Commission	Matthew Williams – Director Jukka Mäntynen – Assistant Director

1.4 Investigation process and timeframes

The visit team advised Karara 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.

PUBLIC RECORD

- A preliminary affirmative determination (PAD) may be made no earlier than day 60 of the investigation (16 January 2016³) and provisional measures may be imposed at the time of the PAD or at any time after the PAD has been made.

Where a PAD is not made 60 days after initiation of the investigation, the *Customs (Preliminary Affirmative Determinations) Direction 2015* directs the Commissioner to publish a status report providing reasons why a PAD was not made.

- The statement of essential facts (SEF) for the investigation is due to be placed on the public record by 7 March 2016 or such later date as the Parliamentary Secretary allows.
- 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 20 April 2016.

1.5 Visit report

The visit team explained to Karara that a report of the visit (this report) would be prepared and provided to Karara to review its factual accuracy, and to identify those parts of the report it considers to be confidential.

The visit team explained that, in consultation with Karara, a non-confidential version of the report would be prepared and placed on the investigation's public record.

³ If a due date in this report falls on a weekend or public holiday in Victoria, the effective due date will be the following business day

2 THE GOODS

2.1 Description

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

Ferrous grinding balls, whether or not containing alloys, cast or forged, with diameters in the range 22mm to 170mm (inclusive).

The applicants provided further details as follows:

The goods covered by this application include all ferrous grinding balls, typically used for the comminution of metalliferous ores, meeting the above description of the goods regardless of the particular grade or alloy content.

Goods excluded from this application include stainless steel balls, precision balls that have been machined and/or polished, and ball bearings.

2.2 Tariff classification

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

- 7325.91.00 (statistical code 26); and
- 7326.11.00 (statistical code 29).

The goods are currently subject to a 4 per cent Customs duty from China.

3 COMPANY DETAILS

3.1 Company background

Karara was established in 2007 as a 50-50 joint venture between Anshan Iron and Steel Group Corporation (Ansteel) and Gindalbie Metals Limited (Gindalbie). Ansteel is one of China's largest steelmakers, located in Liaoning Province, Northern China. Gindalbie is an independent Australian iron ore company based in Perth, Western Australia.

Karara explained that Ansteel now holds a 52.16 per cent interest whilst Gindalbie holds the remaining 47.84 per cent interest in Karara.

Karara's operations are focussed on the mining of magnetite ore, approximately 200km east of Geraldton, Western Australia. Karara have invested in substantial mining and processing operations which includes infrastructure such as railway, port, powerlines and a water pipeline.

Karara targets the premium magnetite market of 68 per cent + Fe content. The process involves taking a previously uneconomic low iron ore source and processing it to create high iron premium value added concentrate product. Its mining operations run 24 hours 7 days a week, 365 days a year.

Karara's ore is mainly supplied to Ansteel, who entered the joint venture to establish an integrated supply chain.

Karara's ore processing facilities include four grinding mills which use 50mm grinding balls and five tower mills which use 20mm grinding balls. The grinding circuit reduces the ore from approximately 60mm to 25 microns.

Karara provided a company presentation at **Confidential Attachment GEN 1**.

3.2 Accounting structure and details of accounting systems

Karara advised that its financial year is the calendar year. It changed from a June ending financial year in 2013 to align with Ansteel's financial year. Its accounting system is based on [REDACTED].

Karara are required to produce special purpose financial statements. The financial statement for the most recent accounting period ending December 2014 was provided at **Confidential Attachment GEN 2**.

3.3 Relationship with suppliers and customers

Karara advised that it currently imports 100 per cent of its grinding balls from China and confirmed that it has no relationship, other than a purely commercial one with its sole supplier, Changshu Longte Grinding Ball Co., Ltd (Longte).

3.4 Like goods

Karara's provided quality certification sheets which detailed chemical composition and physical property tolerances of the goods as part of **Confidential Attachment IMP1**.

PUBLIC RECORD

Karara stated that it considers the applicant's grinding balls to be acceptable and consider them equivalent to the grinding balls it imports from China.

4 AUSTRALIAN MARKET

4.1 General

Karara stated that grinding media (including the goods under consideration) is essential to Karara in order to produce magnetite and is a significant cost to its business, representing around \$[REDACTED] AUD per annum of its processing costs.

It consumes approximately [REDACTED] tonnes of 50 mm balls per annum in ball mills and [REDACTED] tonnes of 20 mm balls per annum in its tower mills.

Karara described the Australian market for grinding balls as competitive. Apart from its own consumption of grinding balls, it does not monitor the market other than when it goes out to tender (explained further at section 5.2.2).

4.2 Sales

As Karara is solely an end user of the imported goods, it was not necessary for Karara to complete Part C of the importer questionnaire, which asked for details of grinding ball sales.

5 IMPORTS

5.1 Volume of trade

The ABF import database indicates that Karara imported, and entered for home consumption, a total of [REDACTED] tonnes of grinding balls under the relevant tariff subheadings during the investigation period. Approximately [REDACTED] tonnes of its total imports during the investigation period were 20mm grinding balls and therefore are not the goods under consideration. For this reason, only [REDACTED] tonnes will be taken into consideration in the Commission's analysis of the Australian market for grinding balls. The volumes from the ABF import database are consistent with Karara's earlier claim regarding its typical annual use.

5.2 Order process and price

5.2.1 Order process

Karara advised that it maintains stock in a bunker on site and in a storage yard in [REDACTED]. When stock runs down an order volume is created, which triggers its procurement staff to generate a purchase order which is sent to Longte. The goods are manufactured by Longte and packaged into bags which are shipped in 25 tonne containers. The invoice terms are cost, insurance and freight (CIF) and payable in United States Dollars (USD). Payment terms are [REDACTED].

When the goods arrive in Australia, [REDACTED] arranges clearance through Customs. The goods are transported by [REDACTED] to inventory in [REDACTED]. [REDACTED] also transports the goods as required to the mining site, where they are stored in a bunker until required.

Karara advised that the lead time is typically one month from China and it generally receives a shipment every two weeks. It noted there is typically a spike of imports required to cover the Christmas period.

5.2.2 Price

Karara outlined that it undertakes a tender process for its supply of grinding balls. In 2010 the tender was awarded to [REDACTED]. At that time, Karara was seeking certainty of supply and went with [REDACTED] as a local importer who took on the import and quality risks. [REDACTED] [confidential supply considerations]. Prices offered by [REDACTED] were similar to Donhad and Moly-Cop.

In April 2014, Karara went out for tender again. Karara provided tenderers with the required characteristics of feed material only and requested pricing options for forged and high chromium grinding media. Karara sent the tender to [REDACTED] Australian companies including Moly-Cop and Donhad, and [REDACTED] Chinese tenderers. It has a Chinese procurement employee who assisted with the process. [REDACTED] [confidential tender information].

PUBLIC RECORD

Its tenders are for [REDACTED] duration and are non-exclusive with clauses for termination. [REDACTED] [confidential tender terms].

Tender responses were received in May 2014. [REDACTED]

In 2014, Karara took the following criteria into consideration:

- Cheaper forged media vs more durable high chrome media;
- Karara managing supply risks itself vs allowing a supplier to manage the risk;
- Known quality (previously used or tested) vs unknown quality;
- Best size of grinding media for its specific plant and ore feed; and
- Best quality of grinding media for its specific plant and ore feed.

[REDACTED] [confidential tender process and considerations].

On the basis of the above, Longte were awarded the tender in July 2014.

Karara stated that Longte concentrate on the export market. Karara also indicated that Longte may be moving to fully integrated steel manufacturing.

Karara mentioned that in the 2014 tender, Donhad and Moly-Cop were not competitive on price.

Whilst the supply agreement continues, prices are adjusted quarterly (according to a rise and fall calculation). The rise and fall calculation updates the base price for changes in steel price indicators and movements in exchange rates.

5.3 Forward orders

Part B of Karara's importer questionnaire listed the following forward orders:

Supplier	Shipping Terms	Expected Arrival	Quantity	Description	Unit Price USD/T
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

As outlined previous, Karara places regular orders (every two weeks) with Longte.

5.4 Verification of imports

Prior to the visit, the visit team selected ten shipments which were identified in Part B of the importer questionnaire (**Confidential Appendix 2 refers**) and asked Karara to provide the following source documents:

- commercial invoices;
- packing lists;
- purchase orders;
- bills of lading; and
- Customs broker and domestic freight invoices.

At the visit, Karara provided the source documents for all ten shipments (**Confidential Attachment IMP1 refers**).

For each shipment, the source documents provided were used to cross-check the listed quantity, invoice value, insurance, exchange rate, customs duty, importation costs, expenses to Part B of the importer questionnaire. The verification team was able to reconcile the shipment number, quantity, value, and price and delivery terms for the ten selected shipments with the data in the source documents. A sample of these documents was verified for proof of payment of the shipment and post-exportation costs.

5.4.1 Shipment costs

As Karara's imports are invoiced at CIF, as such the invoice includes marine insurance and overseas freight. The weighted average marine insurance and overseas freight are outlined below:

Description	Weighted average cost (AUD/T)
Overseas freight	██████
Marine insurance	██████

5.4.2 Post exportation costs

Based on evidence provided by Karara, the visit team calculated the following post exportation costs:

Description	Weighted average cost (AUD/T)
Customs entry fee, brokers free etc.	██████
Port services charge	██████
Duty	██████ (4% of FOB)
Transport to Perth	██████
Storage at Perth	██████
Transport to mine site	██████

PUBLIC RECORD

5.5 Export prices for selected shipments

Based on verified data from the selected shipments, the visit team calculated the following weighted average export price for grinding balls over the investigation period at free on board (FOB) terms:

Supplier	Quantity	Description	FOB Unit Price AUD/T	FOB Unit Price USD/T

6 WHO IS THE IMPORTER AND EXPORTER

6.1 Who is the importer?

The visit team reviewed the documents provided in respect of the selected shipments, noting that Karara:

- is named as the customer on purchase orders and supplier invoices;
- is named as the consignee on the bills of lading; and
- pays for delivery to its premises, where it is consumed.

The visit team considers Karara 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 principle 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 principle 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 principles, is essentially a facilitator in the sale and shipment of the goods on behalf of the manufacturer. Typically the manufacturer as a principle 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, the visit team is satisfied that Longte can be considered the exporter of grinding balls imported by Karara. To our knowledge, Longte is the principle in the country of export, which manufactured the goods and gave up the goods for shipment directly to Karara.

7 ARMS LENGTH

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

Section 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 Parliamentary Secretary, 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.

The visit team reviewed the documentation for the selected shipments and did not find any evidence, in respect of the purchase of grinding balls, 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 Karara or an associate of Karara, and its supplier or an associate of the supplier; and/or
- Karara or an associate of Karara was directly or indirectly reimbursed, compensated or otherwise received a benefit for or in respect of the whole or any part of the price.

Subject to further investigation, at this stage the visit team is satisfied that import transactions between Karara and its supplier are at arms length in terms of section 269TAA.

8 RECOMMENDATIONS

The visit team is of the opinion that, for the goods imported by Karara from Longte:

- 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 exporter, the visit team recommends that the export price for grinding balls imported by Karara from Longte can be established under paragraph 269TAB(1)(a), using the invoiced price, less deductions to the FOB level.

9 APPENDICES AND ATTACHMENTS

Confidential Appendix 1	Visit team's importation calculations (Part B of import questionnaire)
Confidential Attachment GEN 1	Karara company presentation
Confidential Attachment GEN 2	Financial statement
Confidential Attachment IMP 1	Importation source documents