INVESTIGATION 316

ALLEGED DUMPING OF
GRINDING BALLS

EXPORTED FROM THE PEOPLE’S REPUBLIC OF
CHINA

VISIT REPORT - AUSTRALIAN INDUSTRY

Commonwealth Steel Company Pty Ltd (trading as Moly-Cop)

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
# ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>$</td>
<td>Australian dollars</td>
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<tr>
<td>ABF</td>
<td>Australian Border Force</td>
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<tr>
<td>The Act</td>
<td>Customs Act 1901</td>
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<tr>
<td>ADN</td>
<td>Anti-Dumping Notice</td>
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<tr>
<td>Arrium</td>
<td>Arrium Limited</td>
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<tr>
<td>AUD</td>
<td>Australian dollars</td>
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<tr>
<td>$</td>
<td>Australian dollars</td>
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<tr>
<td>China</td>
<td>The People’s Republic of China</td>
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<td>the Commission</td>
<td>Anti-Dumping Commission</td>
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<td>Commissioner</td>
<td>The Commissioner of the Anti-Dumping Commission</td>
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<td>CTMS</td>
<td>Cost to make &amp; sell</td>
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<tr>
<td>DDP</td>
<td>Delivered duty paid</td>
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<td>Donhad</td>
<td>Donhad Pty Ltd</td>
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<tr>
<td>EAF</td>
<td>Electric Arc Furnace</td>
</tr>
<tr>
<td>EBITDA</td>
<td>Earnings before interest, tax, depreciation and amortisation</td>
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<tr>
<td>The goods</td>
<td>The goods the subject of the investigation</td>
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<td>HMS</td>
<td>Heavy smelt scrap</td>
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<tr>
<td>the Minister</td>
<td>the Minister for Industry, Innovation and Science</td>
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<tr>
<td>Moly-Cop</td>
<td>Commonwealth Steel Company Pty Ltd (trading as Moly-Cop)</td>
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<tr>
<td>OneSteel</td>
<td>OneSteel Manufacturing Pty Ltd</td>
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<td>OneSteel Recycling</td>
<td>OneSteel Recycling Pty Ltd</td>
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<tr>
<td>NIP</td>
<td>Non-Injurious Price</td>
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<tr>
<td>PAD</td>
<td>Preliminary Affirmative Determination</td>
</tr>
<tr>
<td>the PAD Direction</td>
<td>Customs (Preliminary Affirmative Determinations) Direction 2015</td>
</tr>
<tr>
<td>Parliamentary Secretary</td>
<td>the Assistant Minister for Science and the Parliamentary Secretary to the Minister for Industry, Innovation and Science</td>
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<td>PPV</td>
<td>Purchase Price Variance</td>
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<td>R&amp;M</td>
<td>Repairs and maintenance</td>
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<tr>
<td>ROI</td>
<td>Return on Investment</td>
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<tr>
<td>SAG</td>
<td>Semi-Autogenous Grinding</td>
</tr>
<tr>
<td>SG&amp;A</td>
<td>Selling, General and Administrative expenses</td>
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<tr>
<td>SEF</td>
<td>Statement of Essential Facts</td>
</tr>
<tr>
<td>USD</td>
<td>United States dollars</td>
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<tr>
<td>USP</td>
<td>Unsuppressed Selling Price</td>
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1 BACKGROUND AND PURPOSE

1.1 Background

On 5 October 2015, the Commonwealth Steel Company Pty Ltd (trading as Moly-Cop) (Moly-Cop) and Donhad Pty Ltd (Donhad) 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).

The applicants allege that the Australian industry has 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.

The Commissioner of the Anti-Dumping Commission (the Commissioner), after examining the application, gave public notice of his decision to initiate the investigation on 17 November 2015 in Anti-Dumping Notice (ADN) No. 2015/132, published as a public notice on the Commission’s electronic public record.

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

1.2 Purpose of visit

The purpose of the visit was to:

- obtain relevant information about the Australian market for grinding balls;

\(^1\) 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.
gain a greater understanding of the company’s manufacturing, marketing and distribution processes;
- verify information provided in the application;
- obtain relevant 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.

1.3 Meeting details

<table>
<thead>
<tr>
<th>Company</th>
<th>Moly-Cop</th>
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<tbody>
<tr>
<td></td>
<td>Maud Street Waratah NSW 2298</td>
</tr>
<tr>
<td>Dates of visit</td>
<td>8 – 10 December 2015</td>
</tr>
</tbody>
</table>

The following representatives were present at various stages of the meetings:

- **Moly-Cop**
  - Manager Finance & Commercial Services
  - Sales & Marketing Manager Australasia
  - Commercial Analyst Waratah Steel Products
  - Market Development Manager - Mining, Mining Consumables (by telephone)

- **Arrium Limited**
  - Manager Trade Development
  - Trade Measures Manager

- **Anti-Dumping Commission**
  - Reuben McGovern, Case Manager, Operations 3
  - George Katsoulis, Operations 1
  - Samet Sieu, Operations 3

1.4 Investigation process and timeframes

The Commission advised Moly-Cop 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, which falls on 18 January 2016. Where a PAD is not made 60 days after initiation of the investigation, the Customs (Preliminary Affirmative Determinations) Direction 2015 (the PAD Direction) 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.

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If a due date falls on a weekend or public holiday in Victoria, the effective due date will be the following business day.
Following receipt and consideration of submissions made in response to the SEF, the Commission will provide its final report and recommendations to the Parliamentary Secretary. This final report is due no later than 20 April 2016.

1.5 Visit report

It was explained to Moly-Cop that the Commission would prepare a report of the visit (this report) and provide it to Moly-Cop to review its factual accuracy, and to identify those parts of the report it considers confidential.

The Commission explained that, in consultation with Moly-Cop, a non-confidential version of the report would be prepared and be placed on the Public Record relating to this investigation.
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);
- 7326.11.00 (statistical code 29).

The goods exported from China prior to 20 December 2015 were subject to a 4 per cent rate of general duty. On 20 December 2015 the China Australia Free Trade Agreement came into force at which time the goods became subject to a reduced rate of duty. From 1 January 2016 the rate of duty applicable to the goods is 1.7 per cent, and from 1 January 2017 the goods will be free of duty.
3 THE AUSTRALIAN INDUSTRY AND LIKE GOODS

3.1 Australian industry

The applicants stated in the application that Moly-Cop and Donhad are the only Australian producers of grinding balls in Australia. The Commission is not aware of any other producer of grinding balls in Australia and therefore considers that the Australian industry for grinding balls is represented by the applicants.

3.2 Corporate, organisational and ownership structure

The Commonwealth Steel Company Pty Limited is a wholly owned operating company of Arrium Limited (Arrium) with a business reporting structure through to the Arrium Mining Consumables division. Commonwealth Steel Company Pty Ltd trades under the brand name Moly-Cop with the grinding media product sold as Moly-Cop branded goods.

Arrium is an international mining and materials company listed on the Australian Securities Exchange. The company is structured around three key businesses segments:

Arrium Mining:

An exporter of hematite iron ore and supplier of iron ore feed to OneSteel Manufacturing Pty Ltd's (OneSteel) integrated steelworks at Whyalla.

Arrium Mining Consumables:

Supplier to resource companies of a range of key mining consumables, including grinding media and rail wheels.

Arrium Steel:

Comprises steel manufacturing, recycling, and processing and steel distribution businesses.

3.3 Accounting structure and details of accounting systems

Moly-Cop’s accounting period is 1 July to 30 June. Its financial statements are prepared in accordance with Australian Accounting Standards and International Financial Reporting Standards and are consolidated into the annual statements of Arrium, which are audited annually.

The most recent audited full year accounts provided to the investigation are for the year ending 30 June 2015.

3.4 Relationship with suppliers and customers

Moly-Cop sells grinding media to Arrium’s Mining operation in South Australia. These sales account for approximately per cent of Moly-Cop’s total domestic sales.

Moly-Cop purchases scrap from OneSteel Recycling Pty Ltd (OneSteel Recycling), part of the Arrium group of companies. Moly-Cop submitted that all transactions are on commercial arm’s length terms.
3.5 Product range and manufacturing facilities

3.5.1 Manufacturing facilities

Moly-Cop uses domestically sourced scrap steel, with addition of required alloys, to cast steel billets at its Waratah facility. These billets are then hot rolled into round section bar suitable for feed to the grinding media manufacturing plant, also located at Waratah.

3.5.2 Product Range

Moly-Cop’s fully integrated steel manufacturing facility is capable of producing a wide range of grinding media for the mining, power and building industries.

Moly-Cop’s manufactures forged steel grinding balls from a range of different grades of steel bars via either a roll-formed or upset forge process. The balls are designed for maximum abrasion resistance through optimising chemistry and the forging process to achieve high hardness levels. Grinding balls are manufactured in the following size ranges, via the associated forming process:

<table>
<thead>
<tr>
<th>Size (mm)</th>
<th>Process</th>
</tr>
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<tbody>
<tr>
<td>25</td>
<td>Roll Form</td>
</tr>
<tr>
<td>30</td>
<td>Roll Form</td>
</tr>
<tr>
<td>40</td>
<td>Roll Form</td>
</tr>
<tr>
<td>50</td>
<td>Roll Form</td>
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<tr>
<td>65</td>
<td>Roll Form</td>
</tr>
<tr>
<td>80</td>
<td>Roll Form</td>
</tr>
<tr>
<td>94</td>
<td>Upset Forge</td>
</tr>
<tr>
<td>105</td>
<td>Upset Forge</td>
</tr>
<tr>
<td>120</td>
<td>Upset Forge</td>
</tr>
<tr>
<td>125</td>
<td>Upset Forge</td>
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<tr>
<td>133</td>
<td>Upset Forge</td>
</tr>
<tr>
<td>140</td>
<td>Upset Forge</td>
</tr>
<tr>
<td>150</td>
<td>Upset Forge</td>
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Moly-Cop defines small balls as those within the range 25mm to 40mm, medium balls 50mm to 80mm and large balls 94mm to 150mm. The large ball range also includes Semi-Autogenous Grinding (SAG) balls.
3.6 Production process

The manufacture of Moly-Cop grinding balls involves the production of liquid steel through electric arc furnace steelmaking at the Waratah facility using steel scrap as the primary raw material. The liquid steel, once tapped from the furnace into a ladle, undergoes a secondary refining operation to remove impurities. The molten metal is then cast into billet form which provides the feed material into the rolling process. The appropriate grade of billet is reheated and rolled through a series of roll-stands in a bar mill to produce lengths of bar with a circular cross-section, referred to as “grinding bar”.

The grinding bar is used as the feed material for the grinding media production process which involves forging of grinding balls through either a roll-forming or upset forge process (depending on the size of ball required).

The roll-formed forging process involves feeding round (bar) feedstock through an induction heating process before being cut and fed between two specially designed opposing rolls that rotate continuously. The round bar is fed into the rolls at the correct position in the roll’s revolution. The rolls turn, acting to pull the work into the gap. As the work piece is fed through the grooved portion of the roll’s revolution, the compressive forces form the material into the desired shape. The material is forged by each of the grooves in the rolls and emerges from the end as a metal ball where it is then fed into a quenching & heat treatment process prior to packaging.

The upset forging process involves reheating feed bar material. The bars are then fed into the upset forger where they are cut into specified lengths called “slugs” and forged between 2 shaped dies into the finished ball shape. The balls follow a cooling process and are then fed into a quench drum where they cool further to a specified temperature. Further tempering & heat treatment are dependent on specific grade & desired properties. Once these relevant processes are complete, the finished product is transferred for packaging.

As part of the verification visit, the Commission was provided with a process flow map which depicted the production process (included in Confidential Attachment P1) from the raw materials stage to the point at which the goods are despatched.

3.7 Annual turnover

Moly-Cop’s total revenue, including domestic and export sales, for all products in financial year 2015 was approximately .

Of this total revenue, domestic sales of grinding balls accounted for approximately and exports sales totalled approximately .
3.8 Capacity

Moly-Cop provided capacity figures in its Appendix A.7. Moly-Cop advised that the maximum capacity achievable is based on actual production from currently utilised shifts plus extra production based on unutilised shifts.

Moly-Cop provided documents to support the capacity calculations including extracts from the accounting systems evidencing actual production over the period.

Capacity utilisation for grinding balls for 2012 -2015 is set out in the table below.

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
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Moly-Cop’s capacity utilisation is further discussed at Section 7.4.3 of this report.

3.9 Like goods

Like goods are defined in the legislation 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.

Moly-Cop stated in the application that it considers that the imported grinding balls possess the same essential characteristics as locally produced grinding balls for the following reasons.

i. **Physical likeness:**
Moly-Cop’s grinding balls and the imported goods are produced in similar diameters, grades and weights, and are alike in physical appearance.

ii. **Commercial likeness:**
The imported goods compete directly with the locally produced goods and are interchangeable.

iii. **Functional likeness**
The imported goods and the locally produced goods are used to perform the same function and have the same end-uses.

iv **Production likeness**
The imported and locally produced grinding balls are manufactured via similar production processes.

From information submitted in the application, gathered during the verification visit to Moly-Cop and responses from exporters and importers the Commission observed that locally produced grinding balls and imported grinding balls:

- Are alike in physical appearance;
- Compete directly with each other in the Australian market;
• Have comparable or identical end-uses; and
• Are manufactured in a similar manner.

The Commission is satisfied that the Australian industry produces like goods to the goods the subject of the application, as defined in section 269T of the Act. The issue of like goods will continue to be assessed throughout the investigation.
4 AUSTRALIAN MARKET

4.1 Introduction
According to Moly-Cop the major source of demand for grinding balls on the Australian market is the mining industry, with additional demand from the power and building industries. Demand is met from a combination of domestic supply and imports.

4.2 Market segmentation and end use
Moly-Cop estimates that approximately □ per cent of grinding ball demand on the Australian market is from the mining industry, including for use in magnetite, copper and gold mine processing applications, with the remaining □ per cent taken up from coal pulverizing for electricity production and grinding plaster and cement for the building industry.

Moly-Cop estimates that Australian manufacturers supply approximately □ per cent of the Australian market, with the balance supplied by imports. The major sources of import supply are forged grinding balls from China and high chrome cast balls from Thailand and India.

The typical Australian-based grinding ball consumers value the source of grinding media on the basis of “total-cost-ownership”, that is, they will generally assess the total value of product taking into consideration price, consumption rate and supply chain costs. Supply security and technical support may also be taken into consideration.

Forged steel balls are generally consumed at a higher rate than high chrome balls and importers typically set their resale prices into the market lower to compensate for the higher consumption rate that will most likely arise.

The high chrome cast balls will typically result in a lower consumption rate than forged steel grinding balls, due to the more wear resistant microstructure of the product, however the significant component of chromium in the product inflates the manufacturing cost.

The majority of grinding balls are sold into Western Australia (approximately □ per cent of total sales) with the balance sold into the next largest volume states of New South Wales and Queensland.

4.3 Demand variability
Given that the major source of demand for grinding balls on the Australian market is the mining industry, Moly-Cop claim that demand variability is primarily driven by the mining sector.

Moly-Cop noted that a decline in mining investment in 2015 has not generally impacted the demand for grinding balls as the customers are well-established mines that have continued operation at, or near, maximum production output.

Moly-Cop asserted that demand for grinding balls in Australia has remained stable across the four-year injury analysis period.
4.4 Substitutable Products

Moly-Cop stated that grinding balls are considered the most convenient and cost-competitive fit-for-purpose media for grinding applications. Moly-Cop noted that cylindrically shaped, low chrome cast grinding media, typically referred to as “Cylpebs”, may also be used in grinding applications. This type of media, however, only represents approximately 1% of the current grinding media market and is put to applications that fall outside the applications to which the goods and like goods are put.

4.5 Market size and share

In their application the applicants estimated the size of the Australian market using Australian Bureau of Statistics import data, data from an independent recognised international supplier of trade statistics and their own market intelligence.

The Commission compared the estimated import volumes in the application to data contained in the ABF import database and, observed slight variances in the applicants’ estimates of the volumes of imported goods. However, the Commission considered these variances to be immaterial.

The Commission considers that the information submitted by the applicants is reliable, relevant and suitable for estimating the size of the Australian market for grinding balls.

Moly-Cop’s sales data was verified at the visit. Import data will be verified with importers and exporters during the course of the investigation.

Based on the verified sales data of Australian industry and export data obtained from the ABF import database, the size of the market for grinding balls is shown in Figure 1, below. All years in the figure below, and subsequent figures, align with the investigation period, e.g. years ending 1 October to 30 September.
Figure 1 – Australian market size – grinding balls – 2011/12 to 2014/15

The Commission found that during the injury analysis period the Australian market for grinding balls remained relatively stable at between [redacted] and [redacted] tonnes, although the market did expand by approximately [redacted] per cent during the investigation period. During the investigation period Australian industry’s sales increased by [redacted] per cent, Chinese imports by 67 per cent and imports from other sources fell by two per cent.

4.6 Marketing and distribution

Moly-Cop stated that grinding ball sales from within Australia are generally made direct to the end-user, with [redacted].

Chinese imports are more often sold via Australian based distributors although there have been instances where mining operations in Australia have procured their grinding ball requirements direct from the Chinese manufacturer.

High chrome balls, which make up approximately [redacted] per cent of total Australian market, are generally sold directly to the customer operations from Thailand or India.

The supply chain for grinding balls is shown below.

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4 In figure 1 x-intercept: y ≠ 0
Further discussion of Moly-Cop’s distribution arrangements is contained at section 5.
5 SALES

5.1 General

5.1.1 Domestic Sales

Moly-Cop provided a line-by-line sales listing of its domestic sales of grinding balls for the investigation period (refer Confidential Appendix A.4). This listing included the following details:

- customer name;
- product code;
- invoice details, including date and order number;
- quantity of goods (in tonnes);
- gross invoice value;
- rebates;
- net invoice value; and
- transport and handling costs.

The Commission was able to verify the data within these listings, as discussed below.

From the Confidential Appendix A.4, the Commission calculated that for the investigation period, Moly-Cop’s sales value for grinding balls in the domestic market was [redacted] with a sales volume of approximately [redacted].

Based on the information in Confidential Appendix A.4, grinding balls with a diameter of [redacted] were the largest selling product by value, representing approximately [redacted] per cent of all grinding ball sales.

Detailed analysis of Moly-Cop’s sales data is included in Confidential Attachment S1.

5.1.2 Export Sales

Moly-Cop submitted a separate Confidential Appendix Export Sales spreadsheet detailing export sales of grinding media. Exports represented [redacted] per cent of the total value of sales of grinding balls.

Four export sales were selected amongst the 16 selected transactions (discussed below at section 5.6). The data within the A.4 reconciled with the provided commercial documents.

5.1.3 Imports

Moly-Cop advised that it did not import any grinding balls during the investigation period. All sales of grinding balls were from Moly-Cop’s own production.

5.2 Customer base

Within the Australian market for grinding balls, Moly-Cop sells the vast majority of goods to mining companies, with additional sales to building and power generation companies.

The following customers represent [redacted] per cent of the quantities sold in the domestic market.
5.3 Ordering, invoicing and delivery arrangements

Sales forecasts are generated for each customer (at product line item level). This demand plan is incorporated into the purchase process. Customers will generally place Purchase Orders on a

The orders will be processed from the Moly-Cop sales office, and fulfilled

An invoice is generated upon despatch of the ordered product. The invoice date is recognised as the date of sale.

Customers on consignment contracts

An invoice will be issued

The consignment stock is replenished as required to retain the agreed stock level.

Product is despatched to

Product may be delivered to these depots by rail, sea freight or road (or a combination thereof). Stock levels are typically

Delivery to final destination (the customer) is made by truck.
5.4 Pricing

5.4.1 Current pricing system

Moly-Cop advised that the pricing policy for grinding balls is based on [redacted]. The price is comprised of [redacted].

5.4.2 Discounts and [redacted]

5.5 Related and unrelated customers

Approximately [redacted] per cent of Moly-Cop’s sales are to Arrium mining, a related party. The Commission compared Moly-Cop’s sales to Arrium mining to Moly-Cop’s sales to unrelated parties and was satisfied that the sales were made at market value.

5.6 Verification of sales data to audited financial statements

To assess the submitted line-by-line sales data (included at Confidential Appendix A.4 and the Confidential Appendix Export Sales spreadsheet) for completeness and relevance, verification to Arrium’s audited financial statements was undertaken.

The Commission obtained a copy of Arrium’s 2015 annual report. The annual report identified total revenue/income of [redacted] for the Mining Consumables Division. A bottom up approach was undertaken during the site visit to verify the figures in Confidential Appendix A.4 and Confidential Appendix Export Sales to the annual report.

Firstly, the Commission reconciled the total domestic and export sales value and the quantities sold for grinding balls listed in Confidential Appendix A.2, A.3 and A.6 against Moly-Cop’s [redacted] accounting system for grinding media. This was done for the period 1 July 2014 to 30 June 2015 as this is the period that can be verified against audited financial accounts.

Having reconciled domestic and export sales and the quantity sold to the grinding media segment of the business, the Commission then reconciled the Confidential Appendix A.2, A.3 and A.6 to the consolidated [redacted] accounting system that includes other business segments not related to grinding media.

Having reconciled the Confidential Appendix A.2, A.3 and A.6 into the consolidated [redacted] accounting system, the Commission was able to follow this figure into Arrium’s [redacted] accounting system. This figure was then incorporated into the Mining Consumables Division segment of the [redacted] accounting system and is the same figure reported in Arrium’s annual report under the Mining Consumables Division.
Having verified the data listed in the Confidential Appendix A.2, A.3 and A.6 on a financial year basis against audited financial accounts, the Commission then verified the integrity of the data in the Confidential Appendix A.4 and the Confidential Appendix Export Sales spreadsheet against the general ledger for a nine month period – 1 October 2014 to 30 June 2015. This period was chosen as it can be verified against the audited financial accounts. Over this period, a minor variance is noted in volume and sales when comparing the Confidential Appendix A.4 and the Confidential Appendix Export Sales spreadsheet against the accounting system.

Moly-Cop advised that the variance is attributed to adjustments such as accruals and reversals which are recognised and brought to account in the system but not reflected as sales in Confidential Appendix A.4 and the Confidential Appendix Export Sales spreadsheet. To test this, the Commission selected domestic sales that occurred in the month of March 2015 to determine if they could be reconciled from Confidential Appendix A.4 to the system. The Commission was able to reconcile Confidential Appendix A.4 to the accounting system after accounting for accruals/reversals. A minor variance was noted in relation to quantity and sales but this was not material.

For the same month, the Commission also tested selected sales to a specific customer against the accounting system. Both quantity and sales values in the Confidential Appendix A.4 matched the transaction listing in the general ledger.

Copies of the working papers and information provided for the purposes of verifying Moly-Cop’s sales data (recorded at Confidential Appendix A.4) for completeness and relevance is at Confidential Attachment S2.

**5.6.1 Completeness and relevance of sales data - conclusion**

Having regard to the above, the Commission considers that the sales data provided at Confidential Appendix A.4 and the Confidential Appendix Export Sales spreadsheet represents reasonably complete and relevant accounts of the sales of grinding balls during the period from 1 October 2014 to 30 September 2015.

**5.7 Verification of sales data to source documents**

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

Prior to the verification visit, the Commission selected 12 sales transactions from Moly-Cop’s Confidential Appendix A.4. Four additional transactions were also selected from Confidential Appendix Export Sales data.

The selected transactions covered various quarters, models, customers, an inter-company sale, and a rebate within the investigation period. Moly-Cop provided supporting documentation for each selected sale prior to the verification visit.

For the selected transactions, Moly-Cop provided the following documents:

- tax invoice;
- general ledger extract;
- monthly usage report;
- delivery docket;
- bill of lading;
• container packing list; and
• payment advice.

We consider the supporting documentation provided to be reasonable for verification.

These documents are at Confidential Attachment S3.

5.7.1 Invoice/despatch details
We noted that the invoice and despatch advice contained sufficiently detailed information, including the customer name, order number, invoice number, and model details of the units of product that made up the order.

The Commission was able to reconcile the transaction details recorded in Confidential Appendix A.4 and the Confidential Appendix Export Sales data, including dates, volumes and values, to the details recorded in the relevant invoices.

5.7.2 Proof of payment
For the selected sales transactions, Moly-Cop provided payment advices that identified the payments made in relation to the selected transactions.

All selected sales from Confidential Appendix A.4 were paid within the stated payments terms except for [redacted].

5.7.3 [Redacted]

5.7.4 Transport and handling
All sales recorded in Confidential Appendix A.4 are sold on [redacted]. The cost of freight is calculated for each customer according to an [redacted]. This is discussed further in section 6.3.2 of the report.

5.7.5 Accuracy of sales data - conclusion
Having regard to the above, the Commission considers the sales data provided at Confidential Appendix A.4 and Confidential Appendix Export Sales data is a reasonably accurate record of Moly-Cop’s sales of grinding balls during the period from 1 October 2014 to 30 September 2015.
5.8 Sales – conclusion
The Commission considers that Moly-Cop’s sales data is a reasonably complete, relevant and accurate reflection of the sales of grinding balls and is therefore suitable for analysing the economic performance of its grinding ball operations from 1 July 2011 to 30 September 2015.
6 COST TO MAKE AND SELL

6.1 General
Moly-Cop provided a completed Appendix A.6.1 Total Domestic Cost to Make and Sell (CTMS) and Appendix A.6.2 Total Export CTMS for grinding ball production. Moly-Cop further segregated both domestic and export CTMS into roll form and upset forge CTMS, which in turn was segregated into domestic and export CTMS by diameter of the grinding balls produced. The CTMS data was presented on a quarterly basis for the period 1 July 2010 to 30 September 2015.

Moly-Cop’s costs for grinding balls are drawn from the three separate manufacturing processes that are undertaken in the production of the grinding balls from scrap. These are:

- Electric Arc Furnace (EAF): Scrap is converted to liquid steel and then formed into billet via the EAF and continuous caster operations;
- Bar Mill: the billet produced in the EAF is reheated and rolled through the bar mill to produce the grinding bar necessary for the production of the grinding balls; and
- Grinding Media Mill: grinding bar is reheated and forged into grinding balls through either a roll forming or upset forging process.

At the visit Moly-Cop provided workbooks to support the costs from each manufacturing facility that form the cost to make in the A.6.1 and A.6.2. SG&A costs are allocated out across business units on a standard basis.

Moly-Cop detailed its cost allocation methodology for grinding balls for the quarter April to June 2015.

Cost allocation methodology
Moly-Cop relies on its reporting system to provide the raw data for each of the cost centres. This data is converted into Excel conversion costs reports, which in turn are used to populate the Constructed Actual Cost Methodology spreadsheets which are condensed and presented as the A.6 files.

Electric Arc Furnace
The monthly scrap price determined for the EAF is the total actual purchase price of scrap. Scrap consumed is determined with reference to the scrap price and the scrap yield extracted from the production database.

Alloy costs are allocated on the basis of total actual costs divided by the bill of materials mix.

Total actual fixed and variable costs are allocated from the conversion costs reports. Fixed production costs have been averaged over the course of the year to smooth variances resulting from production volume variability. The SG&A per tonne allocated is based on the selling and administration cost group allocated across the various business groups.

The sum of these components represents the cost of billet to be fed into the bar mill.
Bar Mill

The cost of billet is uplifted by the bar mill yield drawn from the work order production database to determine a feed cost. This is adjusted for scrap returns which have been estimated at per cent of the scrap price.

Total actual fixed and variable costs are allocated from the conversion costs reports drawn from . The SG&A per tonne allocated is based on the selling and administration cost group allocated across the various business groups.

The sum of these components represents the cost of bar to be fed into the grinding mill.

Grinding Mill

The cost of bar is uplifted by the grinding mill yield drawn from production database to determine a raw material cost. This is adjusted for scrap returns which have been estimated as actual yield loss multiplied by scrap price.

Total actual fixed, variable, depreciation and packing costs are allocated from the conversion costs reports . The SG&A per tonne allocated is based on the selling and administration cost group allocated across the various business groups.

The sum of these components is the cost to make for grinding balls.

Overheads and freight

The SG&A per tonne allocated is based on the actual SG&A costs of the grinding ball sales team as well as the selling and administration cost group allocated across the various business groups as detailed above.

Total freight was drawn from the ledger and split by customer and product mix and further segregated as domestic or export, before being allocated as freight per tonne by product.

All of the workbooks were provided as confidential electronic attachments. A copy of A.6.1 and A.6.2 detailing links to the cost allocation is at Confidential Attachment CTM1. A copy of the cost allocation detailing links from the EAF, through the bar mill and into the grinding mill as well as the overheads and freight workbook is at Confidential Attachment CTM2.

Costing process

The Commission asked Moly-Cop what processes were in place to ensure that costs relevant to the production of grinding balls were reasonably accurate and did not include costs from other products.

Moly-Cop advised that materials were tracked all the way through the production and sales process and booked to the relevant cost centre for each stage of the process. Electricity is billed for the entire Waratah site, however each cost centre is separately metered and the total electricity cost is allocated based on usage.

6.2 Verification of cost to make

The cost to make data in A.6 comprises fixed manufacturing costs and variable manufacturing costs for the EAF, the bar mill and the grinding mill.

Fixed manufacturing costs comprised labour, repairs and maintenance (R&M), hired equipment, contract services and depreciation. Variable manufacturing costs comprised consumables, utilities, waste removal and overtime.
The Commission chose to concentrate the verification on the cost to make for the quarter ending June 2015.

6.2.1 Production volumes

Moly-Cop provided extracts from its accounts system detailing grinding ball production figures by diameter. These production figures reconciled with the production figures detailed within the A.6.

6.2.2 Cost of Scrap and Alloys

Scrap is the primary raw material in the production process. Alloys are added during the steelmaking process to ensure that the requisite chemical specifications are achieved.

Moly-Cop sources scrap from OneSteel Recycling, located at [address]. Approximately [quantity] of scrap is delivered each day, with each truck carrying up to [quantity] of scrap. Given the high volume of deliveries Moly-Cop weigh approximately [number] trucks per day for weight audit purposes.

Moly-Cop purchases both heavy melting scrap (HMS) and shredded scrap, each of which is subject to different pricing. Pricing is set monthly in advance of the coming month by OneSteel Recycling. Moly-Cop pays OneSteel Recycling the price [price], with reference to South East Asian scrap pricing. Moly-Cop provided a copy of the May 2015 scrap supply agreement detailing the HMS and shred scrap pricing. The scrap price is [price] for the applicable month and adjusted for [factor].

In terms of costing, Moly-Cop strike a standard cost for scrap during its budgeting process. Differences between actual prices paid for scrap and the standard cost are allocated to a purchase price variance (PPV) account.

The Commission selected a scrap purchase for May 2015 and Moly-Cop demonstrated that the purchase price of the scrap reconciled to the scrap supply agreement pricing as well as providing a weighbridge receipt confirming the volume reconciled to the order. Moly-Cop further demonstrated the recording of the purchase through the scrap, trade creditors and PPV scrap accounts, as well as the clearance of the payment to OneSteel Recycling.

The Commission selected a purchase of silico manganese for May 2015 and Moly-Cop demonstrated the recording of the purchase through the ledger accounts. Moly-Cop further demonstrated the methodology to determine a per tonne monthly rate for all alloys used in the production of the grinding balls, and was able to reconcile the alloys ledger to the A.6.

The documents detailing the scrap pricing and extracts from the accounts system in relation to scrap and alloys are at Confidential Attachment CTM3.

The Commission was satisfied that the cost of the scrap and alloys recorded was reasonably accurate.
6.2.3 Conversion costs

Conversion costs are derived from the Conversion Cost workbooks for the EAF, bar mill and grinding mill. The Conversion Costs workbooks include monthly cost centre reports and extracts from the accounting systems. Included in the Conversion Cost workbooks were mapping of the cost to the categories in A.6.

Fixed conversion costs include direct labour, R&M, hired equipment, administration and depreciation. The variable conversion costs are shown as consumables, utilities, waste removal and overtime.

The Commission requested that Moly-Cop reconcile monthly amounts for direct labour, depreciation and consumables to the A.6. The Commission was able to trace the source data from the A.6 to the respective monthly ledger reports included in the work books for the EAF, bar mill and grinding mill.

In relation to electricity, Moly-Cop explained that electricity is billed for the entire Waratah facility, however cost centres are separately metered from which a cost allocation is undertaken. The Commission was able to trace the source data from the A.6 to the electricity monthly ledger reports included in the work books for the EAF, bar mill and grinding mill, including a reconciliation of the cost allocation methodology. The Commission also obtained an invoice for electricity and proof of payment. The Commission was satisfied that the allocation of electricity costs was reasonably accurate.

The Commission was satisfied that the conversion costs are a reasonably accurate account of the costs of manufacturing grinding balls through the EAF, bar mill and grinding mill.

Information obtained during the verification of cost to make data is contained in Confidential Appendix CTM 4.

6.2.4 Verification of manufacturing costs data to audited financial statements

Verification to Arrium’s 2015 audited financial statements was undertaken to assess the completeness and relevance of the CTMS data provided by Moly-Cop.

The Commission was able to trace earnings before interest, taxation, depreciation and amortisation (EBITDA) for Moly-Cop’s grinding media division as detailed in the reports through to Moly-Cop’s total EBITDA for all divisions as detailed in the Waratah report. The Commission then traced the EBITDA from the Waratah report through to the Arrium Mining Consumables report, which in turn reconciled with the Arrium Mining Consumables section of the Arrium Annual Report.

6.2.5 Completeness and relevance of cost to make data - conclusion

Having regard to the above, the Commission considers that the cost to make data in Appendix A.6 provided represents reasonably complete and relevant accounts of the fully absorbed costs to manufacture grinding balls during the period from 1 July 2011 to 30 September 2015.

6.3 Cost to sell

Selling and freight costs comprise the cost items detailed in the cost to sell in the A.6.
Selling costs are derived from the Central Overheads workbooks for the Waratah facility. Central overheads are allocated equally across the EAF, bar mill, grinding mill and railway mill. The Central Overheads workbooks include monthly cost centre reports and extracts from the accounting systems.

Freight costs are separately calculated for each customer.

6.3.1 Verification of costs to sell to audited accounts

The Commission verified Moly-Cop’s cost to make data as noted in section 6.2.5, above, to Arrium’s audited financial statements. Included in the Reconciliation to Waratah workbook were central overheads, selling expenses and corporate recharges. Central overheads included salaries, wages and on costs, and office expenses. The Overheads workbooks included detailed monthly general ledger report relating to selling and administrative costs. Freight costs were included in selling costs for the purposes of the reconciliation, however have been segregated for the purposes of the A.6.

6.3.2 Allocation

Moly-Cop advised that central overheads were allocated equally across the four cost centres at the Waratah facility. Central overheads include human resources and head office expenses as well as corporate recharges.

The Commission queried the allocation basis, noting that on a sales value basis grinding media accounts for approximately per cent of sales. Moly-Cop explained that the movement to per cent commenced in the 2015 financial year, following the restructure. In prior years the allocation was undertaken on the basis of production, noting that production from the EAF and bar mill predominantly provides the feed stock for the grinding mill rather than production available for independent sale. Under this allocation methodology the EAF attracted per cent, the bar mill per cent, the forge mill per cent, the rail products mill per cent and the grinding media mill per cent. The Commission is satisfied that the allocation methodology employed by Moly-Cop is reasonable.

The Commission noted in the third quarter of the investigation period that total SG&A was considerably lower than the other quarters. Moly-Cop was able to demonstrate that this related to a . Despite the significant differences seen on a quarterly basis, the Commission was satisfied that the total SG&A amount recorded in the A.6 reconciled with the report.

Moly-Cop segregated freight costs from selling costs for the purposes of the A.6. Freight cost calculations are further linked to the Appendix A.4 Domestic Sales spread sheet that lists freight costs for each sale of grinding balls.

The Commission asked Moly-Cop to provide support for the costs for freight for selected domestic sales transactions. Moly-Cop provided a . The Commission was able to
confirm that the freight rates detailed in the table reconciled to the rates used for each customer, and further that the total allocation for freight as per the A.6 reconciled to the total freight drawn from the reports.

The Commission was satisfied after reviewing the documents that the freight costs shown in the Appendix A.4 sales were a reasonable reflection of the actual freight costs incurred.

The documents obtained during the verification of costs to sell are at Confidential Attachment CTS 1.

6.3.3 Conclusion
The Commission considers the cost to sell information provided is a reasonably complete, relevant and accurate account of the actual costs to sell grinding balls during the period 1 July 2011 to 30 September 2015.

6.4 Costs to make and sell – conclusion
The Commission considers that Moly-Cop’s CTMS data in Appendix A.6 is a reasonably complete, relevant and accurate reflection of the CTMS for grinding balls during the period 1 July 2011 to 30 September 2015 and is suitable for analysing the economic performance of its grinding ball operations from 1 July 2011 to 30 September 2015.

Appendix A.6 is at Confidential Attachment CTM 1.
7 ECONOMIC CONDITION OF THE INDUSTRY

7.1 Approach to injury analysis
The Commission has used the Appendix A.6 data as well as information obtained from the ABF database in its analysis of the economic condition of the industry for the period 1 July 2011 to 30 September 2015.

The analysis is based on quarterly data consolidated into yearly periods aligning with the investigation period.

7.2 The applicants’ injury claims
The applicants claimed that the alleged dumping of imports of grinding balls had caused injury through:

- loss of sales volumes;
- price depression;
- price suppression;
- reduced profits;
- reduced profitability;
- reduced revenues;
- reduced return on investment;
- reduced capacity utilisation; and
- reduced employment.

7.3 Volume effects
7.3.1 Sales volumes
In its application Moly-Cop submitted that it had lost sales volume to Chinese manufacturers during the investigation period.

Changes in sales volumes and the value of those sales are shown in the Figure 2, below.
Figure 2 shows that sales volumes were steady across 2011/12 and 2012/13, before experiencing a small increase in 2013/14. In 2014/15 sales volumes reduced to the levels experienced in the earlier periods.

The data further shows that the value and volume of domestic sales were closely correlated throughout the period 2011/12 to 2013/14, however the value of sales has deteriorated at a greater rate than the volume of sales in 2014/15. This is discussed in more detail in the price effects section below.

The Commission considers that Moly-Cop has suffered injury in the form of lost sales volumes.

7.4 Price effects

7.4.1 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 revenues and costs.

Moly-Cop submitted in its application that it had reduced selling prices in response to a substantial increase in competitive price offers in the Australian market from Chinese manufacturers in an effort to maintain sales volumes.

Figure 3, below, shows per unit sales revenue charted against market size over the injury analysis period.
Figure 3 – Market size v per unit sales price - 2011/12 to 2014/15

Figure 3 demonstrates that over the investigation period the per unit sales revenue price attained by Moly-Cop has deteriorated. This is consistent with the claims made by Moly-Cop that it has been forced to reduce selling prices in an attempt to maintain sales volumes. The Commission considers that Moly-Cop has experienced injury in the form of price depression.

The chart further demonstrates that over the investigation period the Australian market for grinding balls has expanded. In a market experiencing increasing demand it is reasonable to expect that producers would be able to attain higher or similar per unit sales revenues. The Commission considers the fact that Moly-Cop has experienced deteriorating per unit sales revenue in an expanding market is indicative of price suppression.

The Commission considers that Moly-Cop has experienced injury in the form of both price depression and suppression.

7.4.2 Profits and profitability

Moly-Cop submitted that the pricing pressures experienced as a result of the allegedly dumped and subsidised grinding balls exported from China has had a flow-on effect in relation to profit and profitability.

Movement in Moly-Cop’s profit and profitability is shown in the Figure 4, below.
Figure 4 demonstrates that Moly-Cop experienced deteriorating profit and profitability from 2011/12 through to 2013/14, before experiencing a recovery in profit and profitability during the investigation period.

Moly-Cop noted that it undertook significant restructuring in 2013/14 to combat the profit and profitability impacts of reducing capacity utilisation in the previous periods. Moly-Cop outlined the cost improvements implemented and submitted that without those initiatives deterioration in profits and profitability would have continued. Notwithstanding Moly-Cop’s organisational restructure and its positive impact on profit and profitability, the company’s capacity utilisation rates have continued to decline over the course of the injury analysis period. Moly-Cop submitted that the profit and profitability benefits anticipated from those initiatives had been curtailed due to the combined effects of reduced sales volumes and values and the continued deterioration in capacity utilisation.

The Commission notes that Moly-Cop’s profit and profitability remain below the levels experienced in 2011/12 and 2012/13 and is satisfied that Moly-Cop has suffered injury in the form of reduced profits and profitability.

7.4.3 Other economic factors

In support of its claim of material injury, Moly-Cop provided information in Appendix A.7 of its application.

Revenue

Revenue fluctuated during the period 2011/12 to 2013/14 before declining during the investigation period. This is consistent with the finding that Moly-Cop had experienced both reduced sales volumes and reduced per unit revenue during the investigation period.

Return on investment (ROI)
ROI worsened over the period 2011/12 through to 2013/14, before experiencing a recovery during the investigation period. However, the return on investment achieved during the investigation period was marginal and significantly below the levels achieved in 2011/12 and 2012/13, despite the organisational restructure undertaken in 2013/14.

Capacity utilisation
The company’s capacity utilisation rates have declined over the course of the injury analysis period.

Employment
Employee numbers have declined year on year over the injury analysis period.

7.5 Conclusion
Based on an analysis of the information contained in the application and obtained during our visit, the Commission considers Moly-Cop has experienced injury in the form of:

- loss of sales volumes;
- price depression;
- price suppression;
- reduced profit and profitability;
- reduced revenue;
- reduced ROI;
- reduced employee numbers; and
- reduced capacity utilisation rates.
8 CAUSAL LINK

The Commission discussed with Moly-Cop whether the alleged dumping and subsidisation of grinding balls could be demonstrated to be causing material injury to the Australian industry.

Moly-Cop provided a presentation to the Commission detailing five case studies where Moly-Cop believes it suffered material injury due to the presence of dumped and subsidised Chinese grinding balls in the Australian market. Moly-Cop also provided workbooks for each case study detailing the evidence upon which its assessment had been made. These workbooks contained in regard the pricing negotiation process.

8.1 Price effects

The Commission is satisfied that the market for grinding balls has been relatively stable across the injury analysis period. The Commission accepts that as customers can purchase either from the Australian industry or from an import supply source, import offers and movement in price of import offers can be used to negotiate prices with Australian industry.

Price undercutting

Price undercutting occurs when imported product is sold at a price below that of the Australian industry.

The evidence in the application supporting price undercutting predominantly relies on market intelligence gathered by Moly-Cop and summarized in the workbooks provided at the verification.

The Commission compared the evidence of price. The Commission further compared the import pricing obtained through the ABF import database to the verified prices achieved by Moly-Cop.

Figure 5, below, shows the weighted average delivered duty paid (DDP) price over the injury analysis period compared with Moly-Cop’s per unit sales revenue. The DDP price was estimated by adding relevant post exportation expenses to FOB export prices as reported in the ABF import database. For the purposes of the analysis, the Commission used the most efficient verified post exportation costs from Investigation 240 for fair comparison.5

5 The importation costs were verified during importer visits conducted by the Commission as part of Investigation 240.

Grinding balls – Inv 316 – Australian Industry Visit Report – Moly-Cop
Figure 5 shows that throughout the investigation period Chinese import prices were lower than Moly-Cop’s. Based on this analysis, and the specific evidence of undercutting provided by Moly-Cop, the Commission considers that the Australian industry has experienced price undercutting by exports of Chinese grinding balls.

The Commission queried with Moly-Cop the extent to which it could respond to price undercutting. As noted at Section 5.4, Moly-Cop employs a [TYPED_FRAMEWORK], Within this pricing framework its ability to respond to price undercutting is limited by the commercial imperative of achieving some level of margin. Moly-Cop advised that at times it could not lower its prices to meet prices of the Chinese product and would subsequently lose sales volumes.

Moly-Cop provided two case studies showing the impact on margin of the price reductions negotiated through tender processes, including one example where [CASE_STUDY_1].

The Commission was able to verify the supply of this [PRODUCT_SUPPLY] at pricing applicable to the standard product.

Moly-Cop quantified the injury suffered in terms of lost sales revenue, lost margin resulting from the price reduction, [INJURY_QUANTIFICATION], the lost margin on [MARGIN_QUANTIFICATION].
The Commission considers at this stage of the investigation that the evidence and information provided by Moly-Cop supports its claim of price undercutting from the allegedly dumped and subsidised imports.

The Commission will during the course of the investigation gather information on prices from importers to further assess prices in the market.

8.2 Volume effects

We have noted in the previous sections that Moly-Cop has lost sales volumes over the injury period whilst imports from China have increased in sales volume.

We queried with Moly-Cop how it knew it had lost sales volumes to imports. Moly-Cop advised that the nature of the grinding ball market is such that it is a tendering process, and as such an unsuccessful tender outcome is indicative of a loss of sales volume, or a loss of potential sales volume.

Moly-Cop provided evidence of lost sales volumes to individual customers. One case study related to an unsuccessful tender and the second to a customer foregoing an order with Moly-Cop to trial the product of a Chinese competitor.

Moly-Cop quantified the injury suffered in terms of lost volume, lost sales revenue, lost margin and lost contribution to fixed manufacturing costs. Lost contribution to fixed manufacturing costs was calculated based on the contribution of each tonne of sales to fixed manufacturing overhead. The Commission was able to trace the calculation of lost contribution to fixed manufacturing costs back to the A.6 data.

The Commission is satisfied that the evidence provided by Moly-Cop supports the claims of lost sales volumes to the allegedly dumped and subsidised imports from China.

8.3 Profit effects

The Commission considers at this stage that Moly-Cop has experienced injury in the form of lost sales volumes, price depression and price suppression. As profit is a function of volume and profit margin, the Commission is satisfied that Moly-Cop has experienced reduced profit and reduced profitability due to allegedly dumped and subsidised imports from China.

8.4 Other possible causes of injury

8.4.1 Other imports in the market

Moly-Cop asserted that Chinese grinding balls were able to displace imports from other sources during the investigation period. The Commission’s analysis of the ABF import database confirms that over the investigation period imports from other sources fell by approximately two per cent, while imports from China grew by approximately 67 per cent.

The Commission considers at this stage the available evidence does not indicate other imports in the market as a cause of injury. The Commission will continue to examine imports from other countries during the course of the investigation.
8.4.2 Market trends

The available information shows that the market for grinding balls has been relatively stable over the injury analysis period, however experienced an approximate \[\square\] per cent expansion during the investigation period.

The Commission notes that despite this expansion Moly-Cop has achieved reduced sales volumes.
9 UNSUPPRESSED SELLING PRICE

During the verification visit, the Commission informed Moly-Cop of its approach to establishing an Unsuppressed Selling Price (USP), through the following hierarchy:

- Market approach: industry selling price at a time when the Australian market was unaffected by dumping;
- Construction approach: the Australian industry’s CTMS, plus a reasonable rate of profit; or
- Selling prices of un-dumped imports in the Australian market.

Having calculated the USP, the Commission then calculates the Non-Injurious Price (NIP) by deducting the most efficient importer costs incurred in getting the goods from the free on board point at export (or another point if appropriate) to the relevant level of trade in Australia. The deductions normally include overseas freight, duty, insurance, into store costs and amounts for importer expenses and profit.

Moly-Cop provided a presentation of its views on USP and NIP at the visit.

Moly-Cop stated that it does not support the dilution of dumping and countervailing duties by reference to an artificially derived method of what a “non-injurious market” is theoretically meant to resemble.

Moly-Cop further asserted that a reduction in the dumping and countervailing duty rates by any amount less than the full rate of dumping and or subsidies continues to impact both the Australian industry and legitimate exporters of un-dumped goods, and that by permitting exporters of dumped and subsidised goods to continue to supply into the Australian market at less than un-dumped and un-subsidised values, there continues to be a challenge to the sustainability of legitimate imports and the domestic Australian industry.

Moly-Cop submitted that Australia exceeds its World Trade Organisation obligations by requiring mandatory consideration of the “lesser duty rule” and Australian industry is disadvantaged in nearly all cases by the application of the lesser duty rule.

Moly-Cop submitted that the methodology applied by the Commission is practically flawed because:

- Australian markets operate within a broader global market and as such are inherently impacted by dumping;
- Raw material prices are volatile and as such constructed costs are subject to constant change, rendering a static NIP ineffective; and
- Un-dumped imports are still impacted by dumped imports due to the complexity of market dynamics.

In regard market situation and the lesser duty rule, Moly-Cop submitted that

If a particular market situation is found in respect of the Chinese domestic rod in coil market, then reference to subsection 8(5BAAA) of the Dumping Duty Act, should be made and the recommendation made to the Parliamentary Secretary
that it is not desirable to fix a lesser rate of interim dumping duty under subsection 8(5BA) of the Dumping Duty Act.

Accordingly, subsection 8(5BAAA)(a) of the Dumping Duty Act should be applied because the normal value of the goods is not ascertained under subsection 269TAC(1) of the Act because of the operation of subparagraph 269TAC(2)(a)(ii) of the Act – constructed normal value methodology.

If a market situation were not to be found, Moly-Cop submitted that the Commission’s only feasible option is to determine a NIP based on constructed industry prices, being industry’s verified CTMS plus an amount for profit of 17 per cent, the figure recommended by the McKinsey & Co report in the Canadian rebar investigation.

Moly-Cop asserted that industry selling prices at a time unaffected by dumping or selling prices of undamped imports should not be relied upon due to the pervasive influence of Chinese production in global markets.

Documents relating to the Moly-Cop submission on the USP are at Non-Confidential Attachment USP.

The Commission will consider the USP during the course of the investigation.
10 GENERAL COMMENTS AND OTHER MATTERS

10.1 Ongoing injury
Moly-Cop provided details of recent market offers and submitted that these evidenced continuing injury. This information was included in the information provided on prices in the market at Section 8.

10.2 Market situation and subsidy
Moly-Cop reiterated that, as per the application, domestic prices of grinding balls in China are not suitable for the determination of normal values as selling prices in the local domestic industry are distorted due to the influence of the government of China on key raw material inputs used in the manufacture of grinding balls.

Moly-Cop also reiterate that Chinese grinding ball producers benefit from a range of subsidies that assist in minimising production costs and selling prices in China.

Moly-Cop advised that it had identified the suppliers of grinding bars to the key manufacturers of grinding balls, and that these suppliers are State Owned Enterprises.

Documents relating to the Moly-Cop’s submission on market situation are at Non-Confidential Attachment Market Situation and on subsidisation at Non-Confidential Attachment Subsidies.
### 11 APPENDICES AND ATTACHMENTS

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Grinding Balls exported from China
Dumping Investigation No. 316

Verification Visit (8 – 10 December 2015)

Moly-Cop’s view on Unsuppressed Selling Price (USP) and Non-Injurious Price
Moly-Cop does not support the dilution of dumping and countervailing duties by reference to an artificially derived method of what a “non-injurious market” is, theoretically meant to resemble.

A reduction in the dumping and countervailing duty rates by any amount less than the full rate of dumping and or subsidies continues to impact both the Australian industry and legitimate exporters of un-dumped goods.

By permitting exporters of dumped and subsidised goods to continue to supply into the Australian market at less than un-dumped and un-subsidised values, there continues to be a challenge to the sustainability of legitimate imports and the domestic Australian industry.
WTO - Lesser Duty Rule

- Australia exceeds its WTO obligations by requiring mandatory consideration of the “Lesser Duty Rule”
- A number of comparative jurisdictions don’t mandatorily apply the Lesser Duty Rule. These include:
  - Canada
  - United States
  - EU – currently proposing to not mandatorily apply (Trade Moderation Package)

- In nearly all cases the application of the “Lesser Duty Rule” disadvantages Australian industry and benefits foreign exporters.
- **Results from the prospective nature of duties,**
  - Australian industry has no inbuilt retrospective mechanism to avoid material injury from dumping.
  - Exporters already have an inbuilt retrospective mechanism to avoid overpaying duty via a “duty assessment”.
How Industry is disadvantaged by application of the Lesser Duty Rule

- To apply a “Lesser Duty Rule” the Commission first establishes a Non Injurious Price (NIP)
- The NIP is derived from the Unsuppressed Selling Price (USP)
- The USP is determined by the Commission as the price that “Australian Industry could reasonably expect” in the absence of dumped product.

- Methodology applied by ADC

1. Use industry prices at a time unaffected by dumping:
   - Australian markets operate in global markets - these are impacted by dumping.

2. Use industry constructed costs, plus a profit.
   - Due to volatility of raw material prices, constructed costs are always changing. If raw material prices increase a static NIP allows any duty collected to be claimed back by the importer.

3. Selling prices of undumped products.
   - Competitive market prices are complex. Even if a large exporter is found not the dumping, the imposition of measures on others, is likely to effect the market dynamics.
How Industry is disadvantaged by application of the Lesser Duty Rule

- Position of Australian Industry is that there should be very few if any circumstances where the lesser duty rule is imposed.

The reference to the future in the language “recurrence of injury” places an impossible requirement on the Commission to accurately predict international and domestic market behaviour.

Factors that can affect the Non Injurious Price include
  - Raw material prices
  - Global exchange rates
  - Competitive dynamics
  - Global and regional capacity utilisation
  - Trade Measure findings in other jurisdictions

A NIP cannot be established without subjecting Australian industry to significant risk of future injury.
Market Situation and the non-mandatory application of the Lesser Duty Rule

If a particular market situation is found in respect of the Chinese domestic rod in coil market, then reference to subsection 8(5BAAA) of the *Dumping Duty Act*, should be made and the recommendation made to the Parliamentary Secretary that it is not desirable to fix a lesser rate of interim dumping duty under subsection 8(5BA) of the Dumping Duty Act.

Accordingly, *subsection 8(5BAAA)(a)* of the Dumping Duty Act should be applied because the normal value of the goods is not ascertained under subsection 269TAC(1) of the Act because of the operation of subparagraph 269TAC(2)(a)(ii) of the Act – constructed normal value methodology.
The Commission’s preferred approach to establishing the USP observes the following hierarchy:

- industry selling prices at a time unaffected by dumping
  
  *the market has been so affected by dumped goods by various sources*

- constructed industry prices – industry CTMS plus profit
  
  *If applied, we would encourage our verified CTMS data, plus an amount for profit which has been found to be at an EBITDA rate of 17% (refer confidential report attached)*

- selling prices of un-dumped imports
  
  *China has affected global markets, due to its reach and overhang capacity – difficult to identify a source of imports not affected by dumping*