



Australian Government
Australian Customs and
Border Protection Service

R E P O R T

**INVESTIGATION INTO THE ALLEGED DUMPING OF
CERTAIN HOT ROLLED COIL STEEL**

EXPORTED FROM

**JAPAN, MALAYSIA, THE REPUBLIC OF KOREA AND
TAIWAN**

VISIT REPORT – AUSTRALIAN INDUSTRY

**BLUESCOPE STEEL LIMITED AND BLUESCOPE STEEL
(AIS) PTY LTD**

**THIS REPORT AND THE VIEWS OR RECOMMENDATIONS CONTAINED
THEREIN WILL BE REVIEWED BY THE CASE MANAGEMENT TEAM AND MAY
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PROTECTION**

June 2012

1 TABLE OF CONTENTS

1	TABLE OF CONTENTS.....	2
2	BACKGROUND	4
2.1	Purpose of visit.....	4
2.2	Contact details.....	4
2.3	Investigation process and timeframes	5
3	COMPANY BACKGROUND	6
3.1.1	General	6
3.1.2	Changes to the Company during the investigation period	6
4	THE GOODS	8
4.1	The goods and like goods	8
5	AUSTRALIAN INDUSTRY	11
5.1	Introduction.....	11
5.2	The steel making process.....	11
6	AUSTRALIAN MARKET	13
6.1	Demand	13
6.1.1	Market size	13
6.2	Marketing and distribution	14
7	SALES	15
7.1	Domestic sales	15
7.1.1	Pricing lists	15
7.1.2	Rebates and discounts	15
7.1.3	Ordering, manufacture and delivery	16
7.1.4	Sales to the Coating and Painting Division	16
7.1.5	Verification to financial accounts	16
7.1.6	Verification to source documents	18
7.2	Conclusion	20
8	COST TO MAKE AND SELL.....	21
8.1	Approach to verification	21
8.2	Production volumes	21
8.3	Cost to make.....	21
8.3.1	Verification to financial statements	21
8.3.2	Verification to source documents	23
8.3.3	Western Port strip mill raw material costs	24
8.4	SG&A expenses	24
8.5	Conclusion.....	24
9	ECONOMIC CONDITION OF THE INDUSTRY.....	25
9.1	Introduction.....	25

9.2	Volume effects	25
9.2.1	Sales volume	25
9.3	Price effects	26
9.3.1	Price undercutting	26
9.3.2	Price depression	26
9.3.3	Price Suppression	27
9.4	Profits and profitability	28
9.5	Summary of major injury indicators	29
9.6	Other economic factors	29
9.7	Conclusion	30
10	CAUSATION	31
10.1	Summary of claims	31
10.2	Pricing	31
10.3	Other possible causes of injury	33
10.4	Conclusion	34
11	UNSUPPRESSED SELLING PRICE	35
12	LIST OF ATTACHMENTS	36

2 BACKGROUND

On 10 May 2012, BlueScope Steel Limited and BlueScope Steel (AIS) Pty. Ltd (jointly referred to as BlueScope in this report) lodged an application requesting that the Minister for Home Affairs (the Minister) publish a dumping duty notice in respect of hot rolled coil steel (HRC) exported to Australia from Japan, the Republic of Korea (Korea), Malaysia and Taiwan. On 28 May 2012, BlueScope provided additional information and as a result, the maximum period of 20 days allowed to examine the application was recommenced.

Public notification of initiation of the investigation was made on 15 June 2012 (refer to Australian Customs Dumping Notice No. 2012/30).

2.1 Purpose of visit

We explained to BlueScope that the purpose of our visit was to:

- obtain general information about the Australian market for HRC;
- gain a greater understanding of the BlueScope's manufacturing, marketing, sales and distribution processes;
- verify information provided in the application;
- obtain additional financial data to assist in the analysis of the claimed injury to the Australian industry;
- give the company the opportunity to provide any further comments or raise any further issues it believed relevant to the investigation; and
- discuss and gather data relevant to establishing an unsuppressed selling price.

2.2 Contact details

The applicant provided the following contact details.

Company	BlueScope Steel Limited and BlueScope Steel (AIS) Pty Ltd Five Islands Road Port Kembla NSW 2505
ABN	16 000 011 058 and 19 006 019 625
Company representative	Mr Alan Gibbs, Development Manager – International Trade
Telephone	02 4275 3859
Fax	02 4275 7810
Email	Alan.Gibbs@bluescopesteel.com
Nominated representative	Mr John O'Connor, John O'Connor & Associates Pty Ltd
Telephone	07 3342 1921
Fax	07 3342 1931
Email	jmoconnor@optusnet.com.au
Date of visits	26 to 28 June 2012

The following were present at various stages of the interview.

BlueScope	Mr Andrew Garey, General Manager Mr Stephen Gregson, National Manager Manufacturing Markets Mr Alan Gibbs, Development Manager – International Trade Mr Chad Uphill – Senior Finance Analyst Mr Steve Weine, Manager Finance & Administration International Markets Mr Stuart Bell, Manager - Finance Mr Matthew Hennessy, Manager Distribution Mr Todd Bryers, Sales Operations Manager – Distribution Mr Anthony Palmero, Pricing & Service Offer Manager Mr Paul Daly, Finance Manager, Accounting Services
Customs	Mr John Bracic, Director Operations 1 Mr Chris Vincent, Manager Operations 1 Ms Lydia Cooke, Manager Operations 1

2.3 Investigation process and timeframes

We advised BlueScope of the investigation process and timeframes as follows:

- the investigation period is 1 April 2011 to 31 March 2012;
- Customs and Border Protection will examine the Australian market from 1 April 2008 for the purpose of analysing the condition of the Australian industry;
- a preliminary affirmative determination may be made no earlier than 14 August 2012 - provisional measures may be imposed at the time of the preliminary affirmative determination or at any time after the preliminary affirmative determination has been made, but Customs and Border Protection would not make such a determination until it was satisfied that there appears to be, or that it appears there will be, sufficient grounds for the publication of a dumping duty notice;
- a statement of essential facts will be placed on the public record by 3 October 2012 or such later date as the Minister allows - the statement of essential facts will set out the material findings of fact on which Customs and Border Protection intends to base its recommendations to the Minister and will invite interested parties to respond, within 20 days, to the issues raised (submissions received in response to the statement of essential facts will be considered when compiling the report and recommendations to the Minister);
- Customs and Border Protection's report to the Minister is due no later than 17 November 2012 - should the Minister approve an extension to the statement of essential facts this would mean that the due date of the final report would also be extended - all interested parties would be notified and an Australian Customs Dumping Notice would be issued should an extension be requested and approved.

We explained to BlueScope that we would prepare a report of our visit. The report will be provided to the company to review its factual accuracy and to identify those parts of the report it considered confidential. Following consultation about confidentiality, we would prepare a non-confidential version of the report for the public record.

3 COMPANY BACKGROUND

3.1.1 General

BlueScope Steel Limited is a publicly listed company with many subsidiary and associated companies throughout the world. BlueScope Steel (AIS) Pty Ltd is one of its fully owned subsidiaries. During the investigation period, HRC was produced at the Western Port and Port Kembla hot strip mills (the Western Port hot strip mill was closed in October 2011). The Western Port hot strip mill was part of the Coated Products Division (CPD) of BlueScope Steel Limited and the Port Kembla steelworks is part of BlueScope Steel (AIS) Pty Ltd. While these are two separate legal entities, they are treated as one from a management perspective. Accordingly, these two companies are jointly referred to as BlueScope in this report. BlueScope explained that the different legal entities were a result of the company's history, namely the acquisition of the AIS entity in 1935 by BHP and the acquisition of the BSL entity by BHP in 1979. BlueScope Steel demerged from BHP in 2002.

A large proportion of BlueScope's HRC sales were to the CPD where it was further processed, to make products such as Colorbond® steel roofing. HRC is transferred at cost, but this was then adjusted to reflect market prices. Most other sales were to unrelated customers, although some sales were made to BlueScope Distribution Pty Ltd, a wholly owned subsidiary of BlueScope Steel Limited.

BlueScope's statutory financial reports are generated using Hyperion, a reporting consolidation tool that extracts summary data from SAP. However, it explained that its day to day accounting was done in a product costing reporting system, referred to as Cognos, that captures data from various systems – such as invoicing and settlement discounts, debtor management system, rebate model, manufacturing costs and freight model. BlueScope explained that the trial balance from SAP may not agree with the Cognos database as the database does not include accounting adjustments such as accruals. BlueScope provided a summary of its corporate and financial structure (confidential attachment GEN 1)

BlueScope accounts are audited in accordance with Australian accounting practices and the company provided relevant financial documents in its application.

As 90% BlueScope's sales of HRC during the investigation period were from Port Kembla as opposed to Western Port, we mainly focused on this entity for the purpose of our verification. As mentioned above, the Port Kembla Steelworks was part of BlueScope Steel (AIS) Pty. Ltd. Also under BlueScope Steel (AIS) Pty. Ltd was a logistics division which organised the delivery of both the raw materials used in production and the finished product.

3.1.2 Changes to the Company during the investigation period

On 22 August 2011, BlueScope's board announced a restructure of its business and the closure of its export arm. The restructure included the closure of No. 6 Blast Furnace at Port Kembla and the Western Port hot strip mill.

Subsequently, in October 2011 the Western Port Hot Strip Mill was closed and HRC was no longer produced at this location (although HRC continued to be sold from this entity). Similarly, BlueScope significantly reduced its production for export, although goods already produced continued to be sold. BlueScope can now only produce HRC up to a width of 1550 mm, whilst it could previously produce HRC to a width of 1830mm. Further, BlueScope's only pickling line is at Western Port and HRC that is to be pickled and oiled must now be transported from Port Kembla to Western Port for processing.

This restructure required a workforce reduction of approximately 1000 people and at the time of the announcement an estimated cash cost of \$300 - 400 million as the company closed one blast furnace and one hot strip mill along with associated plant. However, the restructure resulted in lower fixed costs at the Port Kembla and Western Port plants. The board's announcement is at attachment GEN2.

4 THE GOODS**4.1 The goods and like goods**

The imported goods the subject of this application are:

HRC (including in sheet form), a flat rolled product of iron or non-alloy steel, not clad, plated or coated (other than oil coated).

Goods excluded from this application are hot rolled products that have patterns in relief (known as checker plate) and hot rolled plate.

In its application, BlueScope noted that HRC is supplied in a range of thickness, all of which are claimed to be covered by the application. This is the case for HRC that is still in coil form. However, Customs and Border Protection has identified that the thickness of the coil when cut, will determine whether the product is classified as hot rolled sheet (which falls within the description of the goods covered by the application) or hot rolled plate¹ (which is clearly excluded from the goods description).

Based on its research into this matter, Customs and Border Protection has a preliminary view that plate is 3/16th of an inch (4.75mm) thick or more whilst sheet is below this thickness. BlueScope confirmed that this was also their view.

The relevant Australian Standard for HRC is AS/NZS 1594. BlueScope explained that in this standard there are five product groups, formable, extra formable, structural, carbon and hardness. BlueScope explained that the key characteristics each grades are its yield strength and tensile strength, but other factors were also present, such as whether the goods were aluminum killed or what its carbon content was. BlueScope provided an information sheet in the application which outlines the characteristics of the different grades and how their titles reflect their properties. BlueScope informed us that some products it manufactures are made to the Australian grades and then labeled for specific market segments, such as its TUBEFORM range which were structural grades marketed for the pipe and tube sector. BlueScope stated that it considered HA1 (a formable grade product) to be the base grade in the market.

There are a number of relevant international standards for HRC that cover the range of HRC products. BlueScope advised that most of the imported product was made to the Japanese standard, know as JIS, nonetheless, this product was still substitutable with the Australian grades. The following table shows what BlueScope considers to be the most commonly imported Japanese grades and their Australian equivalents:

¹ Most hot rolled plate is produced directly from steel slabs, however, some is cut from HRC. All hot rolled plate is excluded from the goods description.

AS1594 Grade	JIS 3131 Grade	JIS 3101 Grade
HA1 (formable)	SPHC	
HA3 (formable)	SPHD	
HA200 (structural)	SPHC	SS330
HA250 (structural)		SS400
HA300 (structural)		SS400
HA350 (structural)		SS490

BlueScope provided us with the Australian Standards for AS1594 (hot-rolled steel flat products) and the corresponding Japanese Standards for JIS 3131 (hot-rolled mild steel plates, sheets and strips) and JIS 3101 (rolled steels for general structure). It also provided us with a summary table which listed the characteristics of the different grades and showed the equivalent grades between the imported JIS models and the locally produced goods. The standards are at **confidential attachment GOODS1**, while the summary table of grades is at **attachment GOODS2**.

We confirmed with BlueScope what width and thickness ranges of HRC it could manufacture. BlueScope explained that during the investigation period it could manufacture coil up to a width of 1830mm. However, after the closure of its Western Port strip mill in October 2011, it could only manufacture coil up to a width of 1550mm.

It continues to manufacture coil with a thickness range of 1.5mm to 12.7mm. BlueScope can manufacture all grades of HRC nominated in Australian Standards and a wide range of International Standard's HRC grades.

Tariff classification

The tariff classifications and statistical class codes in Schedule 3 to the *Customs Tariff Act 1995* and relevant rates of duty for HRC are shown below.

Tariff Classification	Statistical class code	Rate of duty - Japan	Rate of duty - Korea	Rate of duty - Malaysia	Rate of duty - Taiwan
7208.25.00	32	5%	0%	0%	0%
7208.26.00	33	5%	0%	0%	0%
7208.27.00	34	5%	0%	0%	0%
7208.36.00	35	5%	0%	0%	0%
7208.37.00	36	5%	0%	0%	0%
7208.38.00	37	5%	0%	0%	0%
7208.39.00	38	5%	0%	0%	0%
7208.53.00	42	5%	0%	0%	0%
7208.54.00	43	5%	0%	0%	0%
7208.90.00	30	5%	5%	4%	5%
7211.14.00	40	5%	0%	0%	0%
7211.19.00	41	5%	0%	0%	0%

Customs and Border Protection's tariff section identified that HRC may also be classified under 7208.51.00 (statistical class code 40) and 7208.52.00 (statistical class code 41), however, these tariff classifications relate to hot rolled products that are not in coils and have a thickness of 4.75mm or more, and therefore Customs and Border Protection considers these to be plate products at this time. BlueScope has also advised that these tariff descriptions describe hot rolled plate.

5 AUSTRALIAN INDUSTRY**5.1 Introduction**

BlueScope stated that it is the only Australian manufacturer of HRC and that it has been producing HRC since around 1928. During the investigation, BlueScope manufactured HRC at its Port Kembla and Western Port facilities (prior to the closure of the Western Port hot strip mill in October 2011). As Western Port does not have steel making facilities, slab was transported from Port Kembla by sea to be further processed into HRC at Western Port.

5.2 The steel making process

The main materials used in the production of steel are iron ore, coal and fluxes (limestone and dolomite).

BlueScope purchases most of its iron ore requirements from Australian suppliers and blends these to produce a consistent chemical composition. The iron ores are all transported to Port Kembla by sea.

Before being used in the blast furnace, the powdered iron ore is processed in a sinter plant, which agglomerates the ore into lumps. This coarser agglomerated material is necessary to allow air to move through them in the blast furnace. In addition to the sinter, the process also uses some coarser grades of lump ore. A blend of the lump ore and sinter is used to charge the blast furnace.

BlueScope sources coal from the local mines in the Illawarra in NSW. The coal is converted to coke in the coking ovens; this process drives off volatiles and agglomerates the remaining carbon into solid lump form, called coke, which has greater strength. The coke must be strong enough to support the total weight of material above it within the blast furnace.

The raw materials are fed into the top of the blast furnace by conveyor in predetermined proportions and sequences. Air, which is heated to about 1200°C, is blown into the blast furnace through nozzles that are spaced around the lower section of the blast furnace. The air causes the coke to burn, producing carbon monoxide which creates the required chemical reaction. The iron ore is reduced to molten iron by removing the oxygen.

About every two hours a hole at the bottom of the blast furnace is opened and the molten iron and slag is drained. The molten iron runs into torpedo ladles that are on rail tracks. These ladles are then transported to the steelmaking area.

Slag is a by-product of ironmaking. It is made up of molten limestone which has absorbed the impurities from the process. Slag is removed from the blast furnace and allowed to cool. It is then crushed and used by other industries to make cement, as a soil substitute and in the making of roadways. Gases are also produced during the process and are used elsewhere in the steelworks to generate energy.

The basic oxygen steelmaking (BOS) process creates liquid steel from molten iron, scrap steel and alloying materials. The first step is charging the BOS vessel. The BOS vessel is one-fifth filled with steel scrap to which molten iron is added until the vessel is full (around 280 tonnes per batch). A lance that blows 99% pure oxygen onto the steel and iron is lowered into the vessel. The temperature rises to about 1700°C. This melts the scrap, lowers the carbon content of the molten iron and helps remove unwanted elements. Fluxes are then fed into the vessel to form slag which absorbs impurities of the steelmaking process. Near the end of the blowing cycle (which takes about 20 minutes) a temperature reading and samples are taken. The samples are tested and a computer analysis of the steel is done to ensure the desired chemistry is achieved.

Molten steel from the BOS vessel is poured into a giant ladle, where the steel is further refined by adding alloying materials which give the steel special properties required by the customer. Slag, filled with impurities, is poured off and cooled.

The liquid steel is cast into shapes so that it can be rolled. This is done by continuous casting machines that mould the liquid steel into solidified blocks of steel called slabs (about 230 mm thick). The liquid steel is continuously poured from the ladle into a mould at the same rate as continuous steel cast slabs are extracted. This continuous cast slab is cut to desired lengths and the slabs are then cooled. This process is only stopped when the mould needs to be changed so slabs of different dimensions can be produced or when steel with a different chemistry is made.

HRC is manufactured on either of two hot strip mills. The first operation is reheating the slab in a furnace to obtain consistent temperature of around 1200°C throughout the slab. The heated slab has scale removed and passes through a roughing mill where its thickness is reduced to around 40 mm. The slab is then further reduced in thickness by passing through a set of five or six rolling mill stands to achieve the customers ordered thickness. The strip is coiled and coiled up.

The temperature at which hot-rolling is completed results in an oxidized strip surface. This oxide film is termed hot-mill scale. Hot strip product can be supplied without this scale by further processing the strip through heated acid baths - a process called pickling. Pickled strip is generally supplied oiled to preserve this surface finish.

6 AUSTRALIAN MARKET

6.1 Demand

BlueScope explained that there were three main market sectors for HRC; pipe and tube, automotive and the manufacturing sector. In addition, it sold HRC to distributors who also supplied product to the three sectors.

The pipe and tube market sector use HRC to produce structural tubing, precision tubing, square hollow sections, circular hollow sections, water pipelines and oil and gas pipelines.

The automotive market sector use HRC to produce vehicle structural members and components.

The manufacturing market sector is made up of a number of discreet market segments such as agriculture, engineering construction, mining, oil and gas, non-residential construction, residential construction and transport. BlueScope provided us with a powerpoint presentation showing the main end used applications of HRC, which is at **attachment MARKET1**.

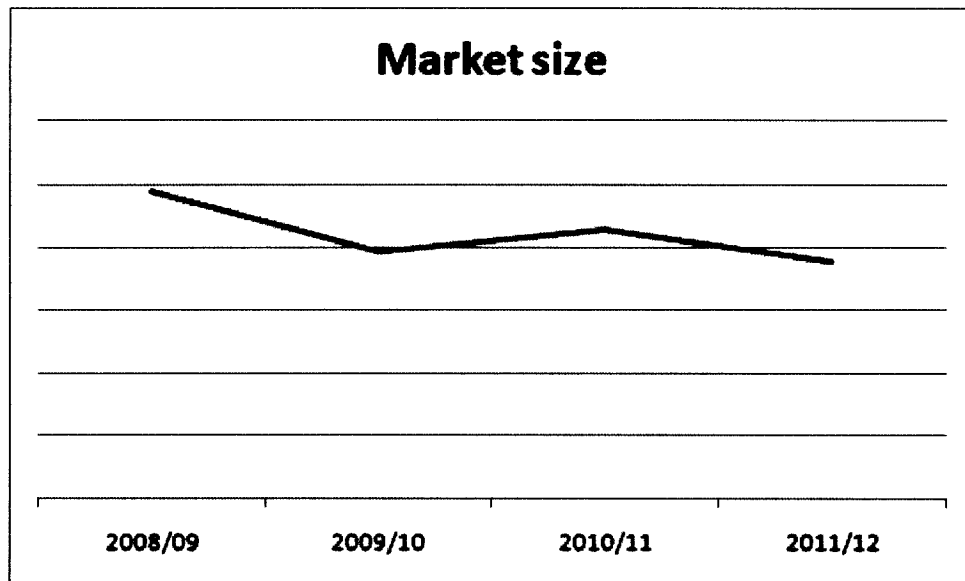
Key sources of demand in the Australian market for HRC come from these market sectors. BlueScope stated there was some seasonal demand for HRC:

- specific seasonal based segments such as hot water storage and heating;
- agriculture purchasing depending on season;
- key holiday periods; and
- construction in tropical climates.

BlueScope stated that the following factors contribute to overall demand:

- ability of Australian manufactures to compete with imported finished goods;
- availability of capital for infrastructure spending – government and private;
- global and domestic economic conditions;
- global and domestic business and consumer confidence;
- global demand for raw materials (the mining sector); and
- government policy (such as solar rebates and renewable energy certificates).

6.1.1 Market size



This depicts the downturn in demand described by the applicant in 2009-10 resulting from the global economic slowdown. The chart also indicates that the market has not recovered to 2008-09 levels. The years shown in the chart above refer to April – March periods.

6.2 Marketing and distribution

As explained above, HRC is sold directly to customers within the three key Australian market sectors that include the pipe and tube market, the automotive market, and the general manufacturing market. It also sells indirectly to these sectors through distributors, including BlueScope Distribution Pty Ltd, a fully owned subsidiary of BlueScope Steel Limited. It explained that distributors were either BlueScope aligned, and purchased the majority of their HRC from BlueScope or were Australian Steel Association (ASA) distributors who purchased imported HRC.

[redacted] [shares of imports] BlueScope explained that all distributors, including the BlueScope aligned distributors, sought to maintain links to multiple supply sources. It provided us with a diagram that demonstrated how its own and imported product compete in the market. The diagram indicated that imports competed in all segments of the market. This diagram is at **confidential attachment MARKET2**.

BlueScope also provided a table showing its sales to the different market sectors, both directly and indirectly during 2011. This table is at **confidential attachment MARKET3**.

7 SALES**7.1 Domestic sales**

BlueScope sells to manufacturers and distributors in Australia. Its products and the prices are defined by grade (or model), thickness, width and finish (being milled edged or trimmed, pickled and oiled and skim passed or as is).

Following our visit, BlueScope provided us with a new Appendix A4 spreadsheet which contained additional information regarding thickness, width and finish.

In compiling this list, BlueScope divided sales into four thickness ranges:

- less than 2mm;
- equal to or greater than 2mm but less than or equal to 3mm;
- greater than 3mm but less than or equal to 6mm; and
- greater than 6mm.

BlueScope divided sales into three width ranges:

- Less than or equal to 600mm;
- Great than 600mm but equal to or less than 1220mm; and
- Greater than 1220mm.

BlueScope then indicated whether the edge condition was mill edge, edge trimmed or slit and whether the surface was pickled, skin passed or as rolled. BlueScope considered that these, along with grade, were the main price determinates.

7.1.1 Pricing lists

BlueScope maintains price lists for the distributor and the pipe and tube markets. Pipe and tube price lists are quarterly while distributor prices lists are monthly. This lists show the base price of coil and the price of all additional attributes, such as specific thickness, smaller order sizes and different finishes. A copy of these price lists for the investigation period is at **confidential attachments DOM1**. In many cases, customers negotiate the actual prices based on these published prices.

In the manufacturing and auto sector, BlueScope does not publish price lists but rather makes direct offers to different customers.

7.1.2 Rebates and discounts

BlueScope explained that it offered a range of rebates to its customers. These were generally classified as either product loyalty or customer loyalty rebates. Rebates are a normal part of BlueScope's pricing mechanisms and may be [REDACTED]

[REDACTED] *[rebate mechanisms]*

BlueScope offered what was referred to as an 'early payment' discount. [REDACTED] *[discount details]* and was applicable if customers paid by the due date.

7.1.3 Ordering, manufacture and delivery

Orders are generally required to be placed 4-6 weeks prior to delivery (although a premium can be paid for shorter lead times). BlueScope has an electronic ordering system called 'Steel Connect' which customers log onto to place orders. Steel Connect feeds order information into the computer system which plans production at the steelworks.

BlueScope sells its products on a free-into-store basis. Freight and delivery are organised (at the Port Kembla steelworks) by the logistics branch, which invoices the steelworks.

BlueScope explained that the vast majority of its product is made to order. A small volume of product, however, is surplus (product that was overproduced for an order) or downgrade (product that is damaged). This product is sold at considerably lower prices.

7.1.4 Sales to the Coated Products Division

BlueScope explained that there were two types of sales to the Coated Products Division (CPD). The main sale to the CPD was feed stock to produce other painted and coated products, such as Colorbond roofing. The majority of HRC produced by BlueScope was transferred to CPD for this purpose. The sales can be identified in the Appendix A4 as sales to CPD.

A small volume of goods were also invoiced to CPD when cross marketing occurred. In some instances, when an external customer was purchasing HRC and other coated products from BlueScope, the steelworks might invoice CDP who in turn invoiced the customer for the HRC along with the other coated products. These sales can be identified in the Appendix A4 as sales to customers starting with CDP and CSA, such as CSA [REDACTED].

7.1.5 Verification to financial accounts

We sought to reconcile the Port Kembla sales data provided in the application to the company's audited financial accounts to ensure completeness. BlueScope explained that its financial records were contained in both a Cognos system and a SAP system. The Appendix A4 was created using the Cognos database, adjusted for the correct costs as shown in SAP as explained below.

BlueScope's day to day accounting was done in the Cognos database, which listed the line-by-line sales in all product groups for both local and export sale and all associated costs. The totals in the database, however, are slightly different than the totals show in the trial balance in SAP, which reconcile with the audited financial statements. BlueScope explained that this was because the Cognos database could not take into account any accounting adjustments that occurred, such as accruals or changes to transfer pricing.

BlueScope demonstrated the differences between the database and the trial balance. The total difference between the revenue shown in Cognos and the trial

balance was 1%. However, we noted that there was a significant difference between the volume of rebates shown in the database and the volume of rebates in the trial balance. BlueScope explained that this was because some rebates were credited sometime after the sales to which they applied. Cognos was unable to account for these in the correct time period but the trial balance reflected the rebates as accrued. These timing differences resulted in the discrepancy. In years where the volume of sales was similar, the discrepancy with rebates would be minor as the volume of rebates carried over from one year to the next would be similar. In this instance, BlueScope explained that the 2010 financial year had more sales and therefore more rebates than the 2011 financial year. Therefore, the volume of rebates carried over to the 2011 financial year was significantly higher than the volume of rebates carried over from 2011 into the 2012 financial year, resulting in [redacted] [value]. We examined this and found that revenue on the Australian market (where rebates were applied) was 10% lower in the 2011 financial year than 2010.

BlueScope explained that where there was a difference between the Cognos database and the trial balance, the company had adjusted the database listing for the difference. For example, in the 2011 financial year, the difference between rebates in the trial balance and the database was [redacted] [value]. These were only applicable to domestic sales. Therefore, BlueScope divided the [redacted] [value] by the total tonnes of product sold domestically and calculated that an adjustment was required of [redacted] [value]. This was subsequently applied to all domestic sales.

Adjustments were also made to revenue of \$0.14/MT across all sales and commission of \$0.86/MT for export sales only. Given that the selling prices for HRC were approximately \$900-\$1200/MT, these adjustments were minor and we considered them to be reasonable.

Adjustments were also made to the selling price of goods transferred to the Coated Products Division (CPD) for feedstock. BlueScope explained that these goods were initially transferred to CPD at cost, as recorded by Cognos, but that later in SAP this price was changed to reflect a monthly market price.

An adjustment was also made for freight (which included warehousing and storage). BlueScope explained that the freight rates shown in Cognos were set on basic freight rates for ocean freight and inland delivery (this was in relation to both domestic and export sales). However, Cognos did not take into account additional costs that were incurred such as demurrage and it also did not include freight and warehousing within the factory, which was included in the SAP accounts. Costs in SAP were approximately [redacted] [value] higher than costs recorded in Cognos. Accordingly, an adjustment of [redacted] [value] to all sales in the Cognos database was required.

Taking the adjustments into account we were able to reconcile the totals for April to June 2011 for the net invoice value, discounts, rebates and freight in the Appendix A4 sales listing to the Cognos database for the same period of time for domestic sales of HRC. We could in turn reconcile the database for 2011 to the trial balance. BlueScope then provided us with an excerpt from the audited financial statements for

BlueScope Steel (AIS) Pty Ltd for 2011 and we could reconcile the revenue shown in this document with that revenue shown in the trial balance.

The database listing for April to June 2011, the trial balance, a summary of the differences between the database and the trial balance, and the excerpt of the audited financial accounts are at confidential attachment DOM2.

7.1.6 Verification to source documents

Prior to the visit we selected the following sales from the Appendix A4 for verification to source documents:

No.	Location	Customer name (1)	Invoice number	Invoice date
1	Port Kembla			12/07/11
2	Port Kembla			12/08/11
3	Western Port			7/07/11
4	Western Port			23/03/12
5	Port Kembla			4/04/11
6	Port Kembla			2/05/11
7	Port Kembla			24/05/11
8	Port Kembla			30/06/11
9	Port Kembla			7/10/11
10	Port Kembla			3/01/12
11	Western Port			9/06/11
12	Western Port			14/07/11
13	Western Port			12/10/11

[customer names and invoice numbers]

For each sale BlueScope provided the order, done via BlueScope's online ordering system, the commercial invoice, which we could reconcile to the Appendix A4 sales listing, and the dispatch advice for freight. As noted above, following the visit, BlueScope provided us with a revised Appendix A4 which contained additional information about characteristics such as width and thickness. We asked for four additional invoices, in addition to those already provided, and were able to reconcile all invoices to the sales listing. We were therefore satisfied that the revised Appendix A4 was accurate.

Of the original selected invoices, we found that invoice 1, which was very low priced [value] was a charge for slitting and did not include the coil cost. Invoice 4 was also low priced [value] and this product was surplus stock. Invoice 2 was high priced [value] BlueScope explained that this was an example of a cross marketed invoice (as described in section 7.1.4 above). While in theory the invoiced price to CPD is the same as in the invoiced price to the end customer, in this instance a mistake was made in invoicing CPD in that it was charged [value] while the customer [customer] was only charged [value]. BlueScope provided us with the invoice to [customer] and the SAP record for the sale.

Prior to the visit, we requested proof of payment for transactions number 2,3,6,9 and 12. At the visit we were informed that as invoices 2, 3 and 12 were sales to other BlueScope entities, payment was allocated by an inter-company loan and there were no bank statements to show (a printout of the account showing the inter-company loan was provided).

We therefore also requested proof of payment for invoices 10 and 13. We were able to establish the proof of payment for invoices 6, 9, 10 and 13. These bank statements also showed the early payment discounts awarded to customers if they pay their accounts by the due date. The documents relating to these selected sales including proof of payment is at **confidential attachment DOM3**.

We noted that there were transaction lines in the Appendix A4 spreadsheet that did not list a model name but was labelled 'portioned'. BlueScope explained that these were miscellaneous credit/debit notes that have been allocated at the customer and product level (rather than the item number level). The posting is apportioned across the full financial year for the customer and product (i.e. HRC).

We then examined the freight costs shown in the Appendix A4 spreadsheet. BlueScope explained that the freight was allocated in the Cognos database using a rate card. The rate cards contain information relating to the cost of freight, and when the type of transport and the destination is entered it calculates the freight rate automatically. BlueScope explained that the rate cards were put together by the logistics branch, the other branch operating in BlueScope Steel (AIS) Pty Ltd's corporate structure. The logistics branch were invoiced and paid for freight for the steelworks. The amounts on the freight rate cards reflected the actual costs of delivery as well as management fees for the branch. BlueScope explained that the logistics branch seeks to operate at a revenue neutral position and the management fees only cover its actual costs. Due to this structure, BlueScope was unable to provide us with the actual freight invoices to match to the freight values listed for specific sales. However, we selected a sale and requested the rate card, which were able to reconcile to the freight rate amount once the adjustment value [value] was excluded. The cost of freight to customers other than CPD is on average [value] of the net selling price. The only freight costs allocated to sales to CPD is the [value] freight adjustment (we considered this adjustment to CPD sales to be reasonable because while these sales did not incur external freight charges, they were subject to inter-plant freight which was also included in the freight adjustment). The printout of the freight rate is at **confidential attachment DOM4**.

We also sought to verify rebates, which were overall quite small and only reduced revenue by 1%. As explained above, Cognos was able to record some rebates against the sales to which they applied but for other rebates would apply a periodic lump sum payment. For sales [customer and value] rebate applied, which Cognos applied on the date of the applicable sales. However, for sales to another customer [customer], [customer] the rebate was periodically credited.

In order to verify the periodically applied rebates, BlueScope showed us the accrual spreadsheet which it kept for distributors. This spreadsheet listed the monthly sales value for each customer, the percentage of total sales the customer was awarded as

[redacted]. [value] BlueScope also provided us with the ledger for [redacted] [customer] which showed rebates being credited to that customer's account and offsetting its purchases.

The documents relating to rebates are at confidential attachment DOM5.

4.2.3 Conclusion

We have verified the sales information provided by BlueScope and we are satisfied the data is relevant and accurate, and suitable for the purposes of injury analysis. A listing of domestic sales by customer, grade, width and thickness range and finish is at **confidential appendix 1**.

8 COST TO MAKE AND SELL**8.1 Approach to verification**

BlueScope provided data in its application in respect of costs in two separate legal entities, BlueScope Steel (AIS) Pty Ltd and BlueScope Steel Limited, reflective of production at the Port Kembla Steelworks and the Western Port Hot Strip Mill. It provided a separate Appendix A6 for each entity, which we combined into a single Appendix A6 for HRC produced and sold by BlueScope collectively. During the investigation period, Port Kembla steelworks accounted for over 90% of sales of HRC by BlueScope and we sought to verify costs for HRC produced and sold by the Port Kembla steelworks to the audited accounts for BlueScope Steel (AIS) Pty Ltd and to source documents.

BlueScope operates on a July to June financial year and the most recent audited accounts are for the 2010-11 financial year. The investigation period is from April 2011 to March 2012 and we sought to verify costs for the June quarter 2011.

BlueScope provided electronic copies of the trial balance for the Port Kembla steelworks and its Cognos database for 2011-12. During the verification of sales we verified this trial balance to the audited accounts for BlueScope Steel (AIS) Pty Ltd.

8.2 Production volumes

BlueScope stated that its reported production was total sales of HRC, including sales to the coated products division. BlueScope explained that it considered sales to be an appropriate measure of production as goods were made to order. Sale tonnes are captured from an order tracking inventory system. Sales by the Port Kembla steel works included numerous products to both export and domestic customers. We verified that sales of HRC to domestic customers in the Cognos database in the June quarter 2011 matched production reported in Appendix A6 for the Port Kembla steelworks.

We noted that there were higher production costs in 2008-09. BlueScope explained that this was due to a fall in production volumes in this period due to the temporary closure of No. 5 blast furnace to reline it and the effect of the global financial crisis.

8.3 Cost to make**8.3.1 Verification to financial statements**

We sought to verify costs reported in Appendix A6 to the trial balance for the Port Kembla steelworks. BlueScope advised that the manufacturing cost reported in SAP is revenue less freight less selling, general & administration (SG&A) expenses. In Cognos manufacturing costs are extracted from a management accounting system. Costs are identified for each product by grade, dimension, edge condition (mill edge or trimmed) and surface condition (as rolled, pickled and oiled or skin passed). Costs are reported for each invoice line in Cognos.

We first sought to reconcile the manufactured cost in Cognos to the cost in the trial balance. As noted previously Cognos may not agree with SAP because of accounting entries that are only performed in SAP. The full manufactured cost from Cognos was [value] higher than reported in SAP. This equated to [value] per tonne. BlueScope reduced the costs in Cognos by [value] a tonne for each invoice line.

We then sought to reconcile the costs in Cognos to the costs reported in Appendix A6. Cognos recognises a number of manufacturing categories – HRC, coil plate, plate, slabs, slit flats, Sureline (steel power poles) and welded beams. Cognos also recognises domestic and export sales. We verified that costs from Cognos for domestic sales of HRC in the June quarter 2011 matched the cost to make in Appendix A6 for the Port Kembla steelworks.

We are satisfied that the cost to make in Appendix A6 for the Port Kembla steelworks reconcile to the audited accounts for BlueScope Steel (AIS) Pty Ltd. We accept that the cost to make in Appendix A6 for the Western Port steelworks reconcile to the audited accounts for BlueScope Steel Limited.

Restructuring costs adjustment

In August 2011, BlueScope Steel Limited announced a major restructure of its Australian Operations. This included:

- shutting down No. 6 blast furnace at Port Kembla;
- closing the No. 4 cokemaking battery, the No. 3 BOS steelmaking furnace and the No. 1 slab caster;
- closing the Western Port hot strip mill; and
- significantly reducing the Australian export business.

This restructure resulted in significant additional costs in the September and December quarters of 2011. These costs included assets written off and the cost to achieve the reorganisation. These costs included:

- the cost to shut down and make safe No. 5 blast furnace;
- the cost to break contracts, particularly for the supply of raw materials; and
- redundancy costs.

We verified that these costs were posted to the general ledger.

BlueScope calculated a cost per tonne for both the Port Kembla steelworks and the Western Port hot strip mill and reduced the manufacturing costs in the relevant periods using these costs and the reported production volumes.

We consider that it is necessary to remove these restructuring costs so that cost trends over the injury analysis period are not distorted. We reviewed the calculations made by BlueScope and consider that they are reasonable.

8.3.2 Verification to source documents

In Appendix A6 BlueScope identified the total hot metal cost and manufacturing costs. The total hot metal costs are the unit hot metal cost from SAP multiplied by the reported production volumes.

Hot metal cost includes costs associated with the first key step of iron making, including iron making raw materials (iron ore, coal, limestone), conversion of raw materials into blast furnace feed (such as iron ore fines into sinter and coal into coke), labour, repairs & maintenance, refractories and other consumables, mobile, contract and other services, utilities, depreciation and overheads.

Manufacturing costs are the difference between the hot metal and total costs and are mainly internal operating costs for the BOS steelmaking furnaces, the slab caster and the hot strip mill, although there are external costs for chemicals used in the steel making furnaces. We sought to verify hot metal costs for the Port Kembla Steel works for the June quarter 2011.

For 2010-11 and previous years BlueScope used the annual hot metal cost, but for 2011-12 it used quarterly hot metal costs. Printouts of SAP hot metal cost centre reports identifying the unit hot metal costs for 2010-11 and the September quarter 2011-12 are at **confidential attachment COSTS 1**. We verified these costs to Appendix A6.

We sought to verify a purchase [redacted] [supplier] pellets to the hot metal cost for May 2011. We viewed relevant accounts on line and drilled down to see transactions in more detail. BlueScope also provide printouts of screen dumps to support this verification (**confidential attachment COSTS 2**).

- The starting point is the material price analysis report which shows the quantity of hot metal produced in May, the value at standard cost, the variance and the unit cost of production in May.
- We then viewed a hot metal product cost centre report identifying material feed and a credit for flat iron (scrap recovered and reprocessed). The total cost from this report differs very slightly from the value in the material price analysis report. BlueScope explained that this is due to rounding. The material price analysis report shows the exact numbers from the system, while the cost centre report is created for management purposes and generates values using quantities and unit values to two decimal places.
- We viewed cost centre values and material price analysis reports for Nos. 5 and 6 blast furnaces.
- We viewed the cost centre report for No. 5 blast furnace. This report identifies raw materials, blast furnace credits, process costs and feed costs.
 - Process costs include labour, depreciation and other overhead costs.
- Feed costs include material feed. Material feed is raw materials that has been processed by BlueScope and includes iron ore fines from the sinter plant and coal that has been processed by the coke batteries.
- Raw material costs include purchased raw materials for direct input into the blast furnace. In May it included ores and concentrates, [redacted] [supplier] pellets [redacted] [supplier] ore and limestone.

- Drilling down on the [REDACTED] [supplier] pellets shows the material master number for this item.
- We viewed the material price analysis report for [REDACTED] [supplier] pellets. The total quantity and value of pellets consumed from this report matched the total quantity and value in cost centre report for No. 5 blast furnace. This report also identifies shipments received in the month and the corresponding purchase order.
- We selected a purchase order and viewed details on-line. BlueScope provided a copy of the commercial invoice from the supplier (**confidential attachment COSTS 3**). The invoice was expressed in US dollars and we examined the purchase order history to verify the Australian dollar amount.

8.3.3 Western Port strip mill raw material costs

We noted that the manufacturing costs for Western Port strip mill were higher than those for Port Kembla steelworks. BlueScope explained that the raw material for the Western Port strip mill was slab obtained from the Port Kembla steelworks and the cost was a transfer price based on import parity pricing. The Western Port costs also included inwards freight and the mix of products produced by the two mills differed. We accepted the explanations provided and did not investigate further.

8.4 SG&A expenses

BlueScope downloaded all SG&A expenses from SAP and validated them against Hyperion. It then allocated these to domestic sales of HRC using sales values. We verified these expenses to SAP. BlueScope stated that it needed to correct the selling expenses provided in the application. It explained, that while Port Kembla and Western Port operated under two separate legal entities, they were operated together for management purposes. Part of this was that the selling expenses for both plants were captured in the accounts for Western Port. Therefore, it explained that SG&A expenses for Port Kembla were understated and while they were overstated for Western Port. BlueScope noted that while a few items had been allocated to Port Kembla's selling accounts, these were actually all administrative expenses. Accordingly, BlueScope submitted a revised Appendix A6 for each mill correcting the allocations.

8.5 Conclusion

We have verified the cost information provided by BlueScope and we are satisfied the data is relevant and accurate, and suitable for the purposes of injury analysis. An annual summary of appendix A6 data is at **confidential appendix 2**.

9 ECONOMIC CONDITION OF THE INDUSTRY**9.1 Introduction**

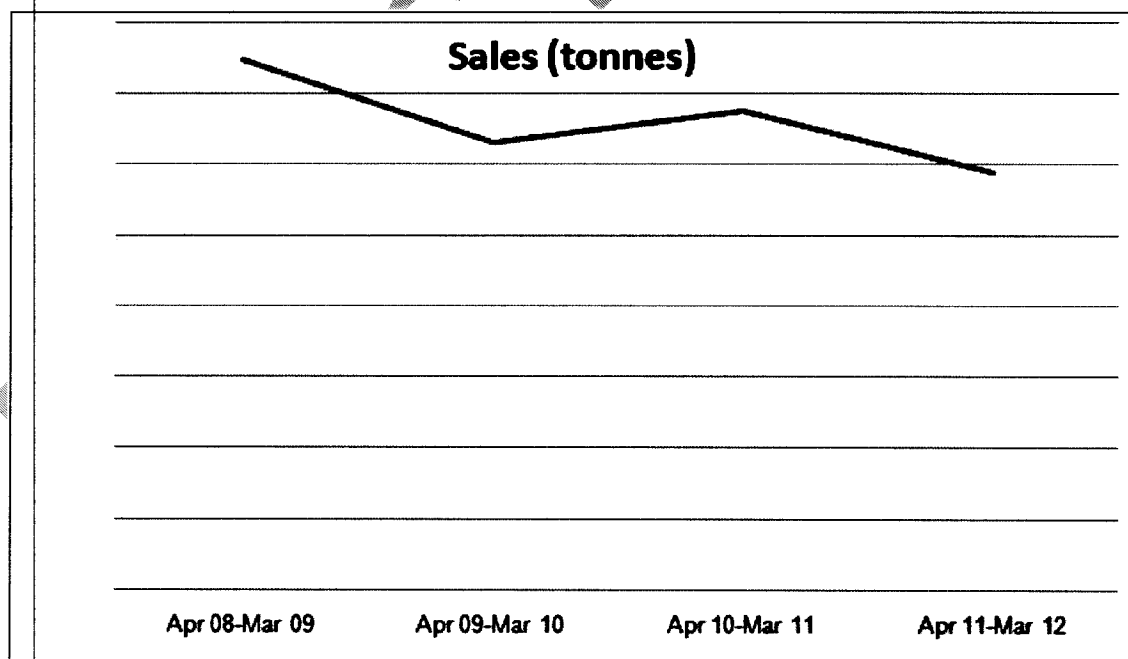
The applicant claims that material injury commenced during 2010-11 and that the industry has suffered injury in the form of:

- price depression;
- price suppression;
- reduced profits;
- reduced profitability;
- reduced revenues;
- reduced employment;
- reduced wages expense; and
- reduced return on investment

References to annual data in this section refer to the period from April to March.

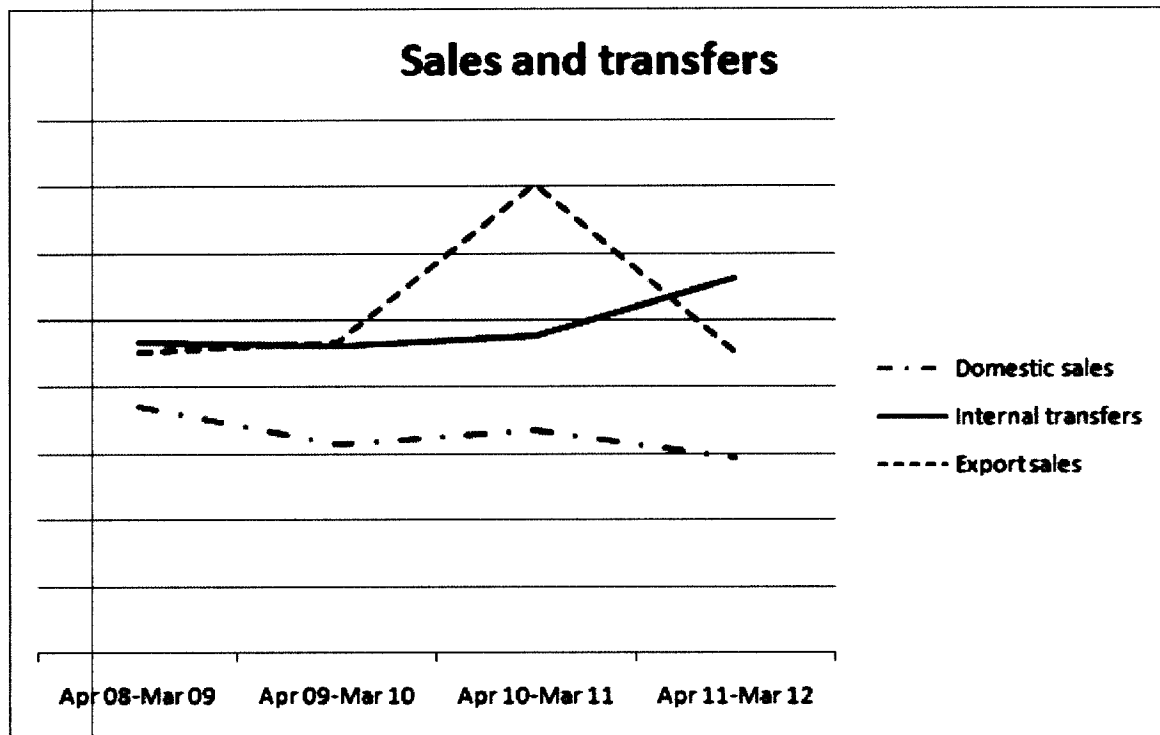
9.2 Volume effects**9.2.1 Sales volume**

BlueScope's sales volume over the injury analysis period is illustrated in the following chart. This chart only refers to external sales and excludes transfers to CPD.



BlueScope's sales volume fell in 2009-10, rose in 2010-11 and fell again in 2011-12. The volume achieved in 2011-12 was lower than in both 2009-10 and 2010-11. We consider that BlueScope has suffered injury in the form of reduced sales volume.

The following chart shows domestic sales, internal transfers to CPD and export sales.



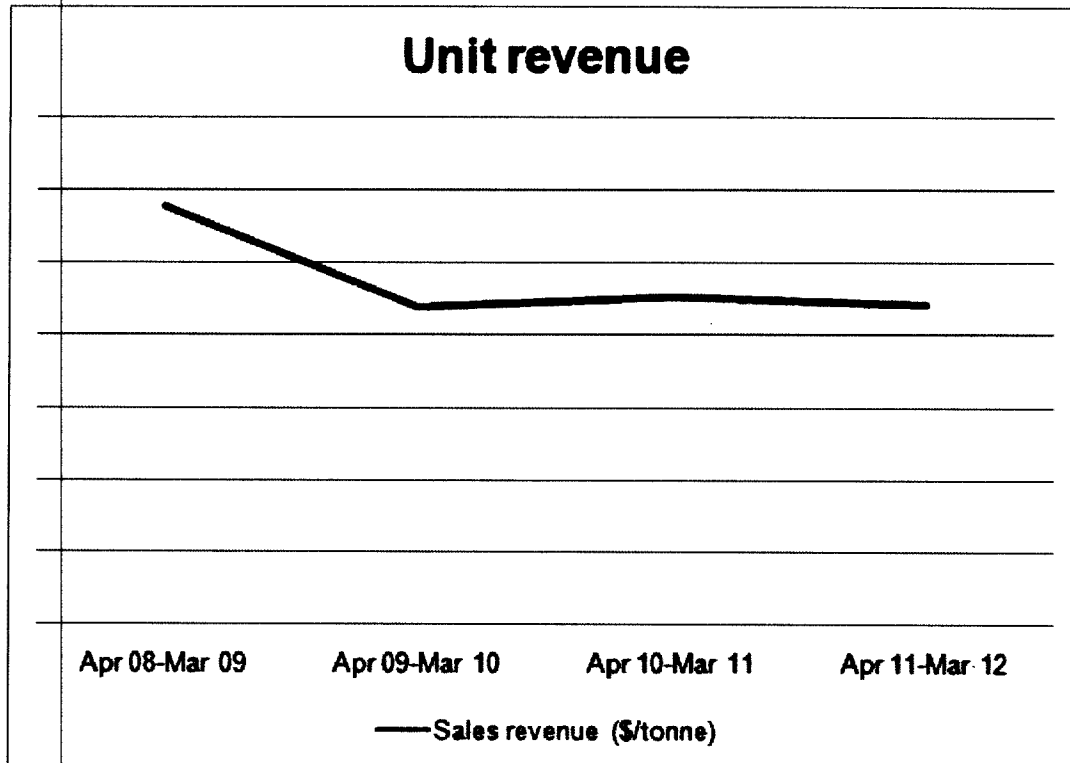
9.3 Price effects

9.3.1 Price undercutting

Price undercutting occurs when imported product is sold at a price below that of the Australian manufactured product. BlueScope's claim of price undercutting will be assessed when visits to importers are completed.

9.3.2 Price depression

Price depression occurs when there is a reduction in prices. Movements in BlueScope's prices are illustrated in the following chart.

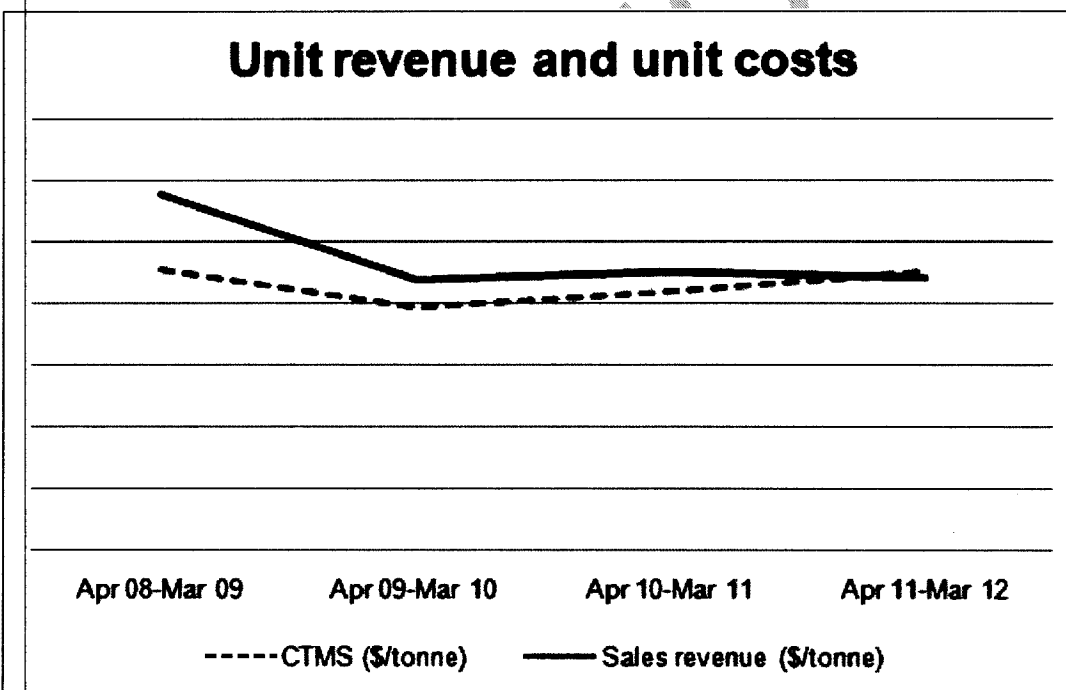
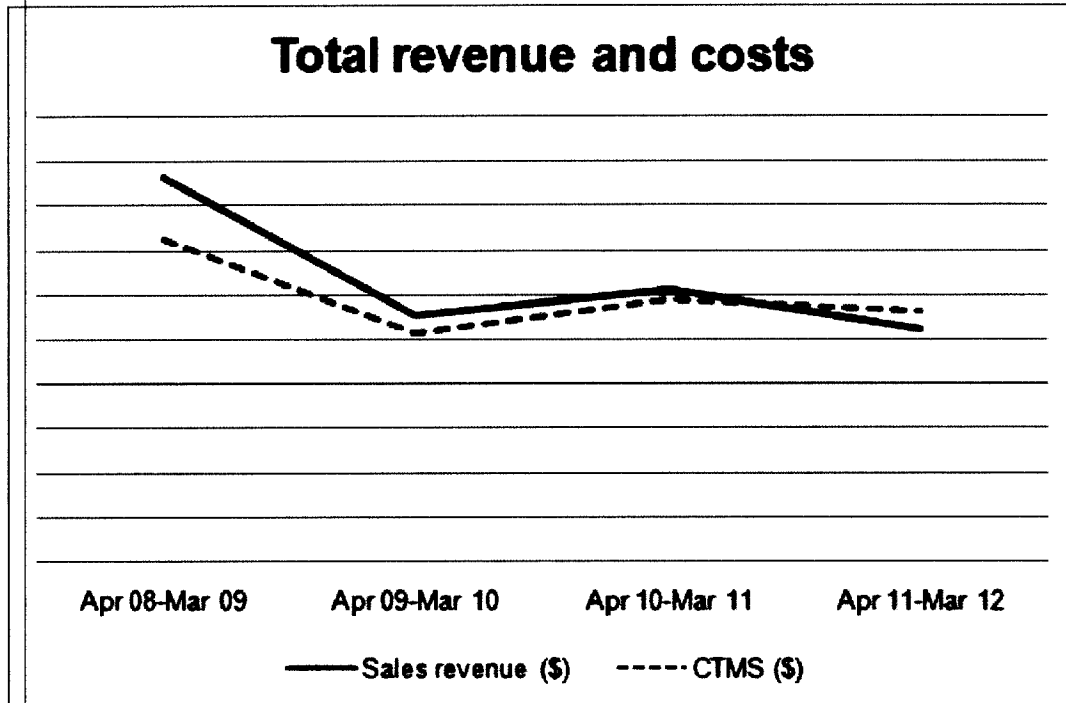


BlueScope's prices fell in 2009-10, rose marginally in 2010-11 and fell marginally in 2011-12. BlueScope's prices in 2011-12 were marginally higher than in 2009-10, but much lower than prices in 2008-09 and marginally lower than in 2010-11. We consider that BlueScope has suffered injury in the form of price depression.

9.3.3 Price Suppression

Price suppression occurs when price increases for the applicant's product, which otherwise would have occurred, have been prevented. An indicator of price suppression may be the margin between revenues and costs. The relationship between unit and total costs are illustrated in the following charts. We consider that BlueScope has suffered injury in the form of price suppression.

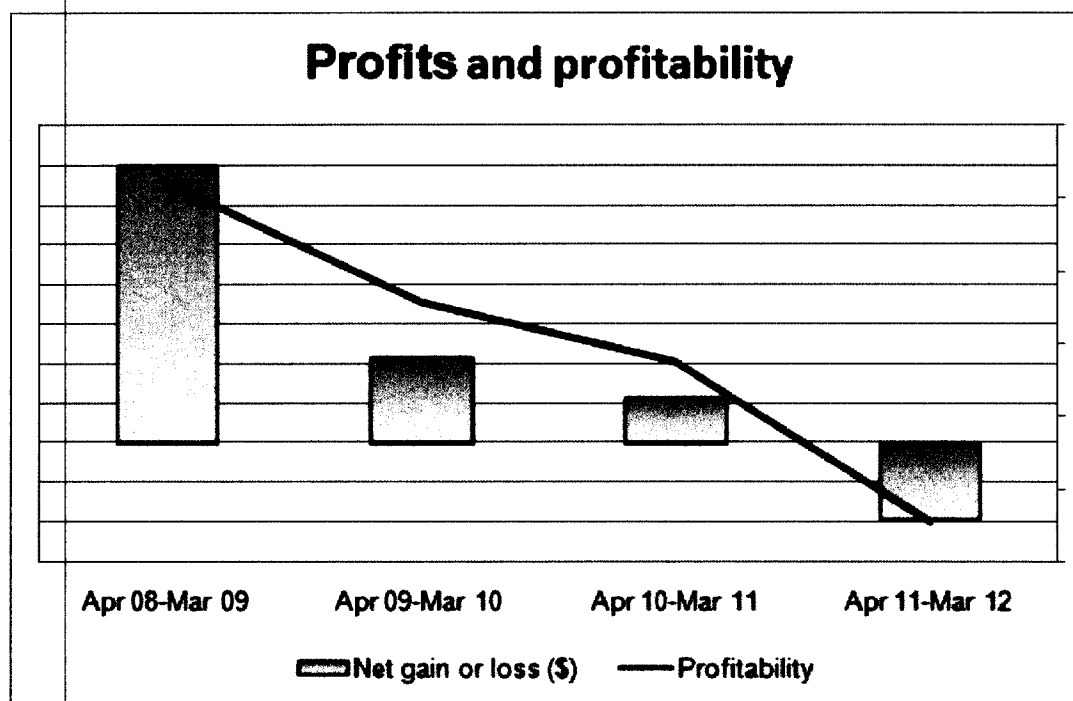
The chart of total revenue indicates that revenue followed a similar trend to sales volume. We consider that BlueScope has suffered injury in the form of reduced revenue.



9.4 Profits and profitability

BlueScope's profits and profitability are illustrated in the following chart. Profitability is profits expressed as a percentage of revenue. BlueScope's profits and profitability fell each year over the injury analysis period.

We consider that BlueScope has suffered injury in the form of reduced profits and profitability.



9.5 Summary of major injury indicators

The data indicates that BlueScope suffered injury through:

- reduced sales volumes;
- reduced revenue;
- price depression
- price suppression;
- reduced profits; and
- reduced profitability.

Injury in the form of price undercutting will be assessed when visits to importers are completed.

9.6 Other economic factors

In the application, BlueScope provided Appendix A7 for both the Port Kembla steelworks and Western Port. This showed changes in assets, capital investment, research and development, return on investment, capacity, capacity utilisation, employment, productivity and wages. However, these figures reflected the domestic and export HRC business and also captured the restructure and changes that occurred in 2011 when the export business was closed down. As a result, we are unable to use Appendix A7 to draw any meaningful conclusions specifically about BlueScope's domestic production of HRC.

9.7 Conclusion

We consider BlueScope has suffered injury in the form of reduced profits and profitability, price depression and price suppression. We also found that there was a decline in sales volumes. However, claims of loss of market share and price undercutting will be assessed when visits to importers are completed.

We consider that it is difficult to draw firm conclusions from an examination of other economic factors as the data provided relates to both the domestic and export business.

PUBLIC RECORD

10 CAUSATION**10.1 Summary of claims**

BlueScope made the following statements in its application:

- In 2009-10, the Australian HRC market contracted due to the global financial crisis. The market started to recover in 2010-11, but BlueScope faced increasing competition from imports. BlueScope lowered its prices in 2011-12 to protect its market share from dumped imports.
- BlueScope's objective has been to maintain sales volumes to hold market share where possible. To do so, it has sought to meet import parity offers of competitive HRC imports from the nominated countries and territory. BlueScope provided evidence of negotiations for HRC supply with customers where BlueScope reduced its prices in response to competitive offers of imported HRC.
- BlueScope suffered price depression in the distributor segment of the Australian market, whereby the selling price was lowered to meet competitive offers through the provision of discounts. These price reductions have resulted in price depression and price suppression, impacting profit and profitability. BlueScope experienced losses on domestic HRC sales in 2011-12, having deteriorated from a significant profit in 2010-11.
- Price depression and suppression has occurred as it has been unable to increase its prices in line with increasing costs. The cost to make and sell has increased from 2010-11 to 2011-12 by 10%, whilst prices have declined by 2%. Price suppression and depression is particularly evident in sales to the pipe and tube sector.
- Reduced profits have also impeded its return on sales and ability to re-invest in domestic HRC production. This has forced reductions in employment of personnel involved in HRC production in 2011-12. The negative return of the capital-intensive investment of BlueScope's HRC operations undermines the future viability of local HRC production.

10.2 Pricing

BlueScope explained that its pricing is based on import parity pricing and therefore, the price of imports determines its selling price and directly causes price injury resulting in lost revenue and profits.

BlueScope explained that the price of imported HRC was generally released into the market three months before the date by which the purchased goods would eventually be imported. In the application BlueScope provided several examples of

[commercially sensitive source]

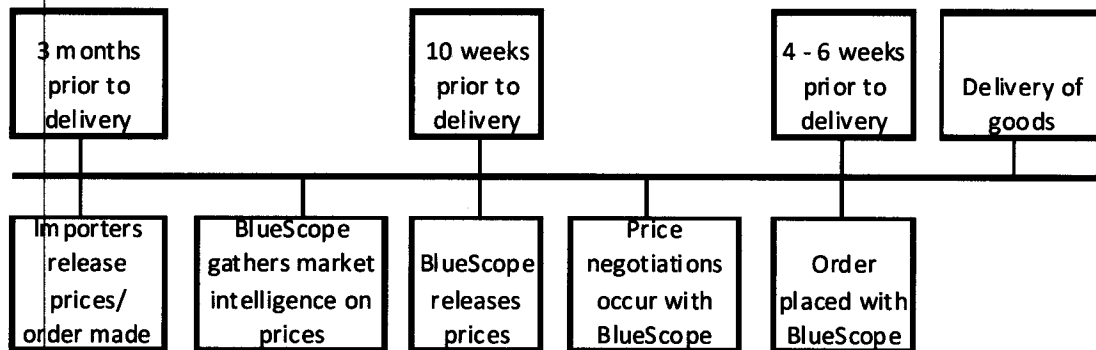
BlueScope explained

[pricing process]

BlueScope explained that it

[pricing process]. Orders

would subsequently be placed four to six weeks prior to delivery. This timeline is shown in the chart below:



BlueScope explained that in the distributor market prices were usually influenced by import price offers from Taiwan and Korea. It provided us with a copy of the spreadsheet where it collected market intelligence for this market and calculated a benchmark price (**confidential attachment INJ1**). As noted above, BlueScope previously provided us

[pricing process]

BlueScope informed us that competition from Japan was mainly in the pipe and tube market segment and the automotive market segment. The customers were large and could often buy directly from overseas mills without having to go through a trader.

[pricing process]/(**confidential attachment INJ2**).

BlueScope informed us that in other market sectors it made offers to customers individually based on import parity pricing. It informed us that imports from Malaysia were particularly targeted to the mining sector, specifically to manufacturers who produced rock bolts. It said that it was unable to obtain evidence of prices from

Malaysia as the customers that purchased import HRC from Malaysia did not purchase HRC from itself. However, occasionally one of its customers would provide it with verbal information about prices. BlueScope stated that rock bolt manufacture was a growing market segment and that imports from Malaysia were limiting its ability to tap into this market. It explained that the product used in this market was HA350 or JIS SS490, 3-3.5mm thick, and HA250 or JIS SS400, 1.6-2.5mm thick. [REDACTED]

[REDACTED]. [customers]

BlueScope informed us that it suffered injury due to alleged dumped imports in three main ways. Firstly, the benchmark price, based on import prices was lower than it has been in the past. Secondly, in the past it was able to assess import prices and determine a benchmark in the middle of the range of prices. In the current market, however, it was required to benchmark prices at the lower end of the import prices. Thirdly, BlueScope informed us that it was unable to achieve the premium on import prices that it had previously sought to achieve. In its pricing policy, it sought to achieve a [REDACTED] [value] premium on imported product. However, in the current market, at times it was only achieving a premium of [REDACTED] [value] BlueScope informed us that when it attempted to raise the premium, customers responded by reducing sales volumes.

We asked BlueScope if imports from other sources also caused injury. BlueScope provided us with a table of what its market intelligence (from ISSB) indicated was the volume of imports from different sources in 2011 (**confidential attachment INJ3**). In addition to Japan, Korea, Malaysia and Taiwan, it also listed imports from New Zealand, the United States (US) and China. It explained that imports from New Zealand were from another BlueScope entity. [REDACTED]

[REDACTED] [market strategy]. BlueScope stated that while its market intelligence indicated that imports from the US accounted for [REDACTED] [value] of imports, it had not heard anything about this product in the market. We checked our import database and we could not identify this volume of imports from the US, it would appear that this information was incorrect. Finally, in relation to imports from China, BlueScope noted that in the past imports from this source had been in significantly higher volumes but since 2008 when certain export taxes in China were introduced, the volume had dropped significantly to the [REDACTED] [value] currently recorded. Therefore, BlueScope considered that the injury it suffered was the result of imports from the four nominated sources.

We also asked BlueScope if there were any quality issues with imported HRC that would make customers less likely to purchase it. BlueScope explained that customers were now familiar with the product from overseas mills and from the countries in question, were satisfied with the quality level of the HRC supplied. It explained that the tier 1 steel supplying companies, as they referred to it, were globally well known and customers acknowledged that they produce HRC to the quality they require.

10.3 Other possible causes of injury

BlueScope accepts that the global downturn experienced in 2009-10 has contributed to the loss of sales volume. While the market subsequently increased, it has not yet

grown back to the size it was in 2008-09. However, BlueScope argues that this reduction in market size has not impacted all suppliers equally but that imports from the nominated sources have actually increased since 2008-09. Furthermore, it argues that given the smaller market size it is more susceptible to the effects of dumping.

BlueScope also notes that it incurred significant costs in the shutdown of its export business and the restructure of its import business; however, these costs have been excluded from the profit and cost analysis.

10.4 Conclusion

We consider that it is difficult to draw conclusions solely from an examination of BlueScope's claims. The issue of causation will be assessed and discussed in the statement of essential facts, or if appropriate, in a preliminary affirmative determination.

11 UNSUPPRESSED SELLING PRICE

Unsuppressed selling price and non-injurious price issues are examined at an early stage of an investigation and, where possible and appropriate, preliminary examinations are made during the application consideration period for the purpose of assessing injury and causal link and therefore the appearance of reasonable grounds for the publication of a dumping duty notice.

Customs and Border Protection generally derives the non-injurious price by first establishing a price at which the applicant might reasonably sell its product in a market unaffected by dumping. This price is referred to as the unsuppressed selling price.

Customs and Border Protection's preferred approach to establishing unsuppressed selling prices observes the following hierarchy:

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

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

BlueScope advised that it will provide a further submission on the unsuppressed selling price and injury in due course.

12 LIST OF ATTACHMENTS

Confidential Appendix 1	Listing of domestic sales
Confidential Appendix 1	Annual summary of Appendix A6 data
Confidential Attachment GEN1	BlueScope's corporate and financial structure
Attachment GEN2	Announcement of BlueScope's restructure
Confidential Attachment GOODS1	Australian and Japanese standards
Attachment GOODS2	Comparison of Australian and Japanese HRC grades
Attachment MARKET1	End uses of HRC
Confidential Attachment MARKET2	Market sales diagram
Confidential Attachment MARKET3	Sales to different market sectors
Confidential Attachment DOM1	Price lists
Confidential Attachment DOM2	Documents for verification of sales to audited financial statements
Confidential Attachment DOM3	Documents for selected shipments
Confidential Attachment DOM4	Freight card
Confidential Attachment DOM5	Documents for rebates
Confidential Attachment COSTS1	SAP reports identifying hot metal costs
Confidential Attachment COSTS2	SAP printouts supporting verification
Confidential Attachment COSTS3	Supplier Invoice
Confidential Attachment INJ1	Import parity benchmarking spreadsheet
Confidential Attachment INJ2	Email showing price negotiations
Confidential Attachment INJ3	Imports from all sources



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ASX Media Release

Release Time: Immediate
Date: 22 August 2011

BLUESCOPE ANNOUNCES MAJOR RESTRUCTURE TO AUSTRALIAN OPERATIONS AND REINFORCES COMMITMENT TO STEEL PRODUCTION IN AUSTRALIA

BlueScope Steel Chairman, Mr Graham Kraehe, today announced the Board has approved a major restructure of Australian operations to reposition the Company for improved profit and growth.

"We are experiencing significant economic challenges and structural change in the global steel industry. The restructure, which includes shutting down the No.6 Blast Furnace at Port Kembla and closing the Western Port Hot Strip Mill, will better align Australian steelmaking production with Australian domestic demand and see BlueScope exit the Australian export business.

"The restructure announced today will produce a more viable and sustainable Australian steel business and allow us to focus clearly on domestic markets and international growth opportunities. It will also lower fixed costs at our major facilities at Port Kembla (NSW) and Western Port (Victoria).

"We are committed to making steel in Australia and can now prioritise our resources and efforts towards even better service for our domestic customers," Mr Kraehe said.

BlueScope Managing Director and CEO, Mr Paul O'Malley said: "There is a compelling business case underpinning this decision. It will deliver a material improvement in future earnings and cashflow. It materially reduces export losses, reduces earnings volatility through the economic cycle and reduces long-term capital investment requirements at Port Kembla.

"For the Coated and Industrial Products Australia (CIPA) reporting segment, if the restructure had been in place for the full year, the Earnings Before Interest and Tax (EBIT) improvement would have been around \$225 million (management estimate on a pro forma FY2011 basis).

"It's the right decision for the long-term viability of our business. The Company has the support of its lenders to undertake the restructure. We will now enter a consultation process with our employees and affected stakeholders, including customers, unions, contractors, suppliers, governments and local communities," said Mr O'Malley.

Economic Conditions Drive Restructure

Mr O'Malley said the Company is experiencing an unprecedented combination of economic challenges in the form of a record high Australian dollar, low steel prices and high raw material costs and these challenges are compounded by low domestic steel demand in the wake of the GFC.

"This is evidenced by the \$487 million underlying EBIT loss experienced in FY2011 on our export sales. The economic conditions for export steelmaking from Australia appear unlikely to become favourable in the foreseeable future and our continued exposure to this market is clearly unsustainable. Our decision is a direct response to the economic factors affecting our business and is not related to the Federal Government's proposed carbon tax."

When fully implemented, the restructure plan will result in:

- Shut-down of No.6 Blast Furnace at Port Kembla, with production reduced to 2.6 mtpa. The shut down process will be completed in a manner that facilitates re-start of the furnace in the future should that be desirable.
- Closure of No. 4 cokemaking battery, No. 3 BOS steelmaking furnace and No. 1 slab caster. The PKSW hot strip and cold rolling mills, metal coating and paint lines will continue to operate.
- Closure of the Western Port Hot Strip Mill and mothballing of a metal coating line (MCL5).

Commitment to Australia and to Growth

"The restructure will better position us for profit and growth in Australia and allow us to grow our presence in building construction markets, in particular Pre-Engineered Buildings, where we are a world leader. We will also focus on growth opportunities, particularly in Asia.

"The Company has a strong competitive advantage in coated steel with its world class ZINCALUME® and COLORBOND® steel products. In collaboration with Nippon Steel Corporation, we will develop the next generation of coated products for our customers. We expect these products to be launched initially in Australia and then rolled out across the Company's global footprint," said Mr O'Malley.

Consultation Before Implementation

Mr O'Malley said: "In managing the transition out of exports we will take a careful and considered approach. Regrettably, these changes will see a workforce reduction of around 1,000 people, with approximately 800 at Port Kembla and 200 at Western Port. There will be flow-on impacts for contractors and suppliers.

"The actual size of the workforce reduction will be the subject of discussions with employees and unions and we will examine alternatives, including flexible work patterns, retraining, voluntary redundancies and job substitution. There will be programs and local job centres to assist employees to transition into the next phase of their careers either within or external to BlueScope, or to early retirement," Mr O'Malley said.

The FY2011 Result – Performance In Line with Previous Guidance

The Company reported a Net Loss After Tax (NLAT) of A\$1,054 million for FY2011 (underlying NLAT of A\$118 million, in line with previous guidance). The reported NLAT includes the previously announced one-off impairment cost of A\$922 million, mainly relating to write-downs of the carrying value of two businesses; Coated and Industrial Products Australia and BlueScope Distribution.

The Board has decided there will be no final ordinary dividend. This follows the 2 cent per share interim dividend (fully franked) announced in February 2011.

Reflecting on the FY2011 Company performance, Mr O'Malley said, "The underlying result is in line with expectations and results from the tough economic challenges and structural changes our business faces.

Asia

"Following the successful transformation of our Coated and Building Products Asia division in FY2010, the segment delivered another excellent result, contributing \$108 million in underlying EBIT, a record result in constant currency. Highlights included another impressive contribution from our businesses in China and Malaysia.

New Zealand

"New Zealand and Pacific Products again provided a profitable contribution, with \$82 million underlying EBIT in FY2011, and over recent years has been a consistent performer. This business continues to benefit strongly from the sale of iron sands from Taharoa.

HRC PRODUCTS :

OVERSEAS STANDARDS EQUIVALENT: TO AUSTRALIAN STANDARDS – Grade Names

AS1594 Grade	JIS 3131 Grade	JIS 3101 Grade
HA1	SPHC	
HA3	SPHD	
HA200	SPHC	SS330
HA250		SS400
HA300		SS400
HA350		SS490

OVERSEAS STANDARDS EQUIVALENT: Mechanical properties

AS/NZS 1594										JIS G3131 & JIS G3101										
GRADE	Min YS MPa	Min TS MPa	Min%e						180° Bend			GRADE	Min YS MPa	Min TS MPa	Min%e			Lo =200mm	180° Bend	
			Lo =50mm			Lo =200mm			Diameter of Mandrel											
			≤3mm	>3mm	≤3mm	>3mm	≤3mm	>3mm	≤3mm	>3mm	>5mm									
			≤3mm	>3mm	≤3mm	>3mm	≤3mm	>3mm	≤3mm	>3mm	>5mm									
HA1	~200	~300	~24 (28)	~28 (32)	~17	~19	a	a	a	SPHC		270	29	29	31		<3.2mm	≥3.2mm		
HA3	200	300	34 (39)	36 (41)	22	24	0	0	0	SPHD		270	33	35	39					
HA200	200	300	24 (28)	28 (32)	17	19	0	a	a	SPHC		270	29	29	31					
HA250	250	350	22 (25)	26 (30)	16	17	a	a		SS330	205	330 - 430			26	21	a	a		
HA300	300	400	20 (23)	24 (28)	15	16	a	a	2a	SS400	245	400 - 510			21	17	3a	3a		
HA350	350	430	18 (21)	22 (25)	14	15	2a	2a	3a	SS490	285	490 - 610			19	15	4a	4a		

- **YS** = Yield Strength, **TS** = Tensile Strength, %e = % elongation, Lo = length of test area for %el test
- Australian AS/NZS describes structural products by their **YS**, Japanese JIS describe structural products by their **TS** (ie AS/NZS Grade 250 = JIS Grade SS400)
- a – thickness of test piece
- 0 – indicates that the test piece is bent flat on itself.
- The %e number (X) is the equivalent test result for Australian product taking into account the different test sample width used in JIS G3131 and G3101

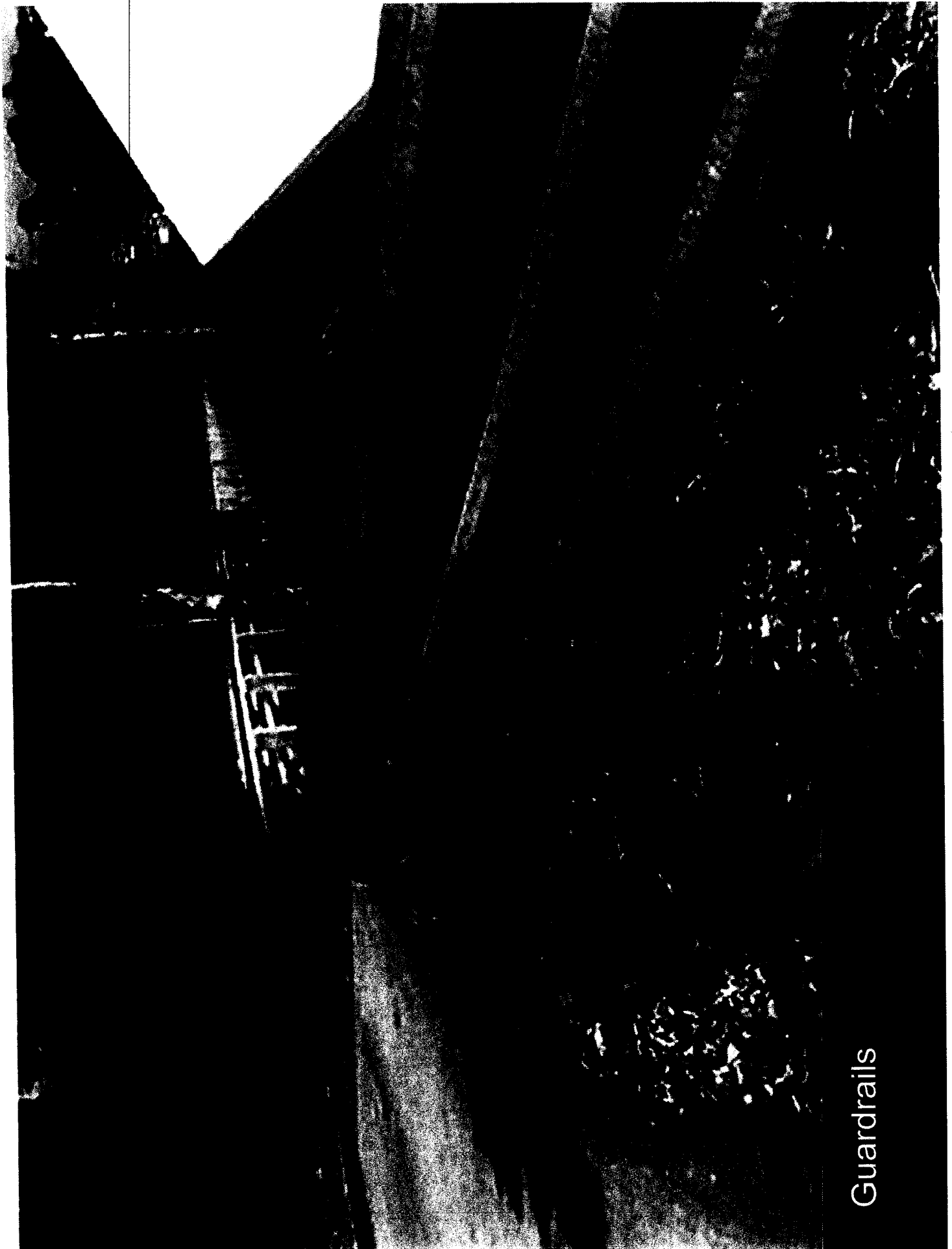
OVERSEAS STANDARDS EQUIVALENT: Chemical Properties

AS/NZS 1594					JIS G3131 & JIS G3101				
	Carbon (max)	Mn (max)	P (max)	S (max)		Carbon (max)	Mn (max)	P (max)	S (max)
HA1	0.13	0.50	0.040	0.030	SPHC	0.15	0.60	0.050	0.050
HA3	0.08	0.40	0.030	0.025	SPHD	0.10	0.50	0.040	0.040
HA200	0.15	0.60	0.030	0.030	SPHC	0.15	0.60	0.050	0.050
					SS330			0.050	0.050
HA250	0.20	1.20	0.040	0.030	SS400			0.050	0.050
HA300	0.20	1.60	0.040	0.030	SS400			0.050	0.050
HA350	0.20	1.60	0.040	0.030	SS490			0.050	0.050

Mn = Manganese
P = Phosphorus
S = Sulphur

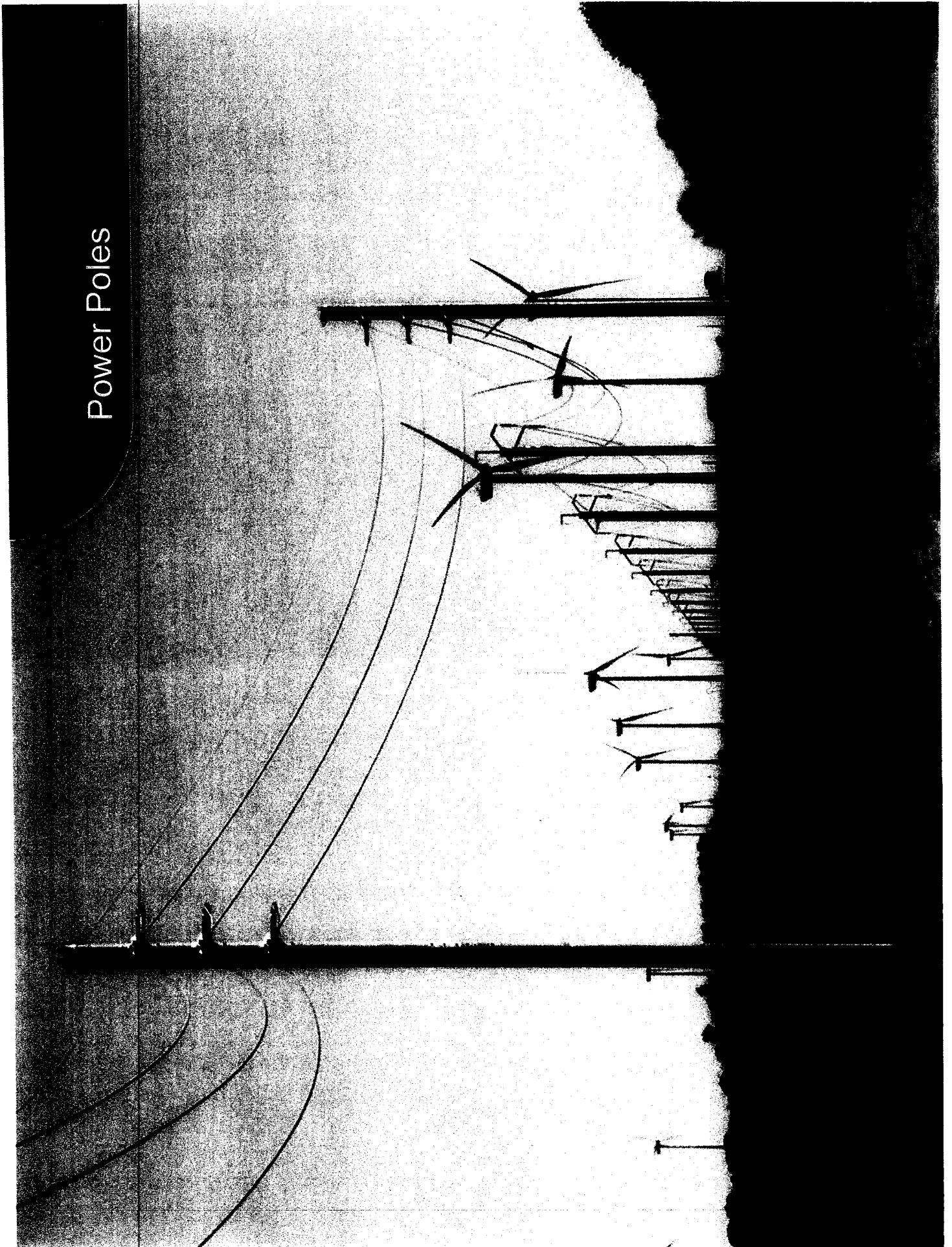


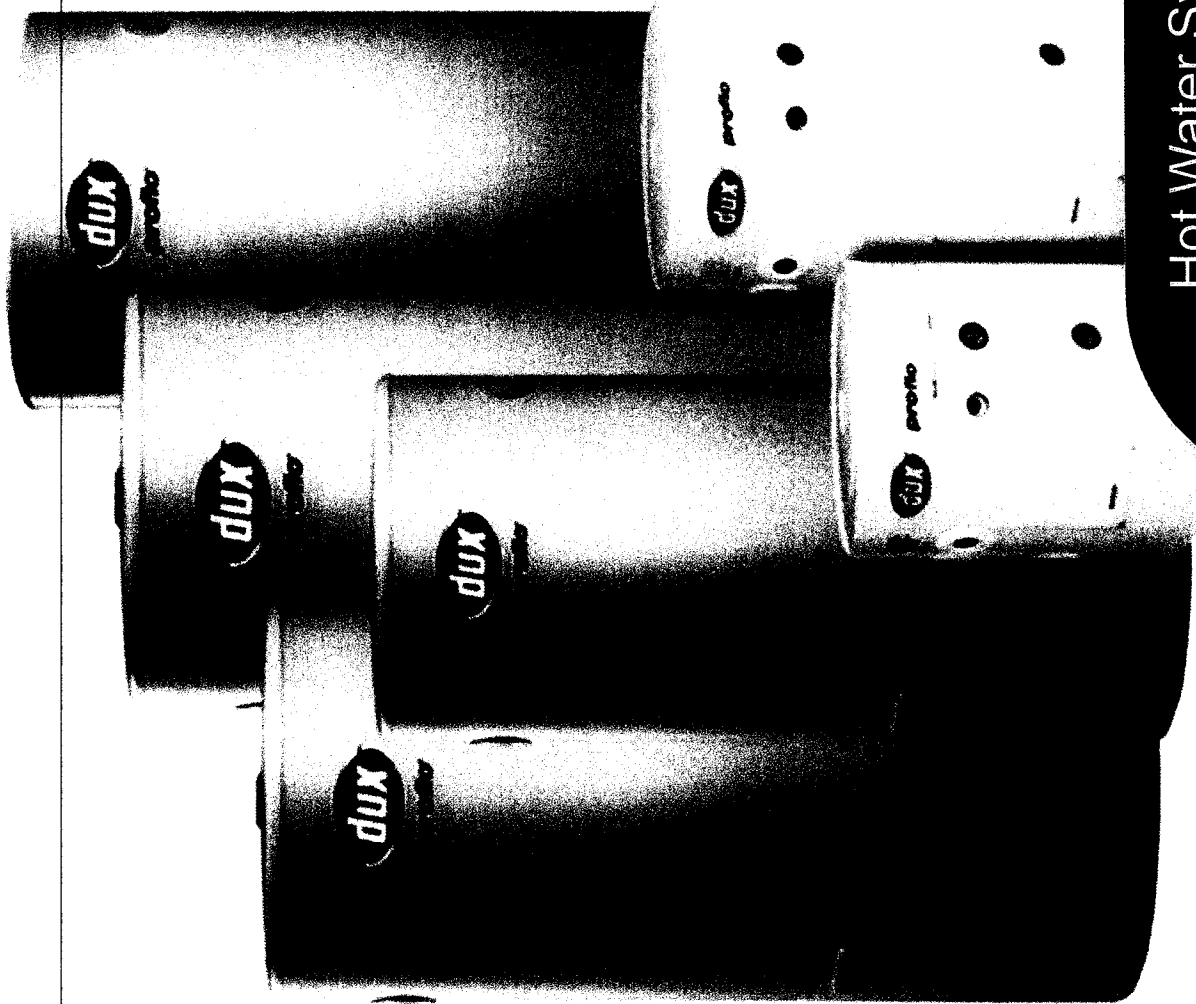
Hot Rolled Coil End Applications



Guardrails

Power Poles

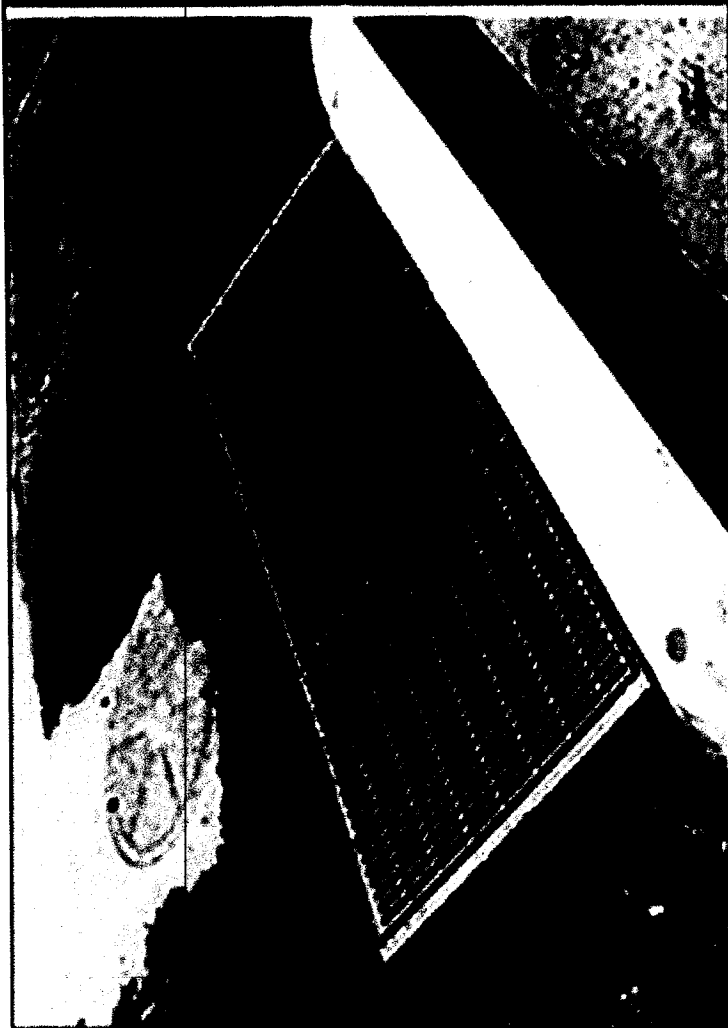
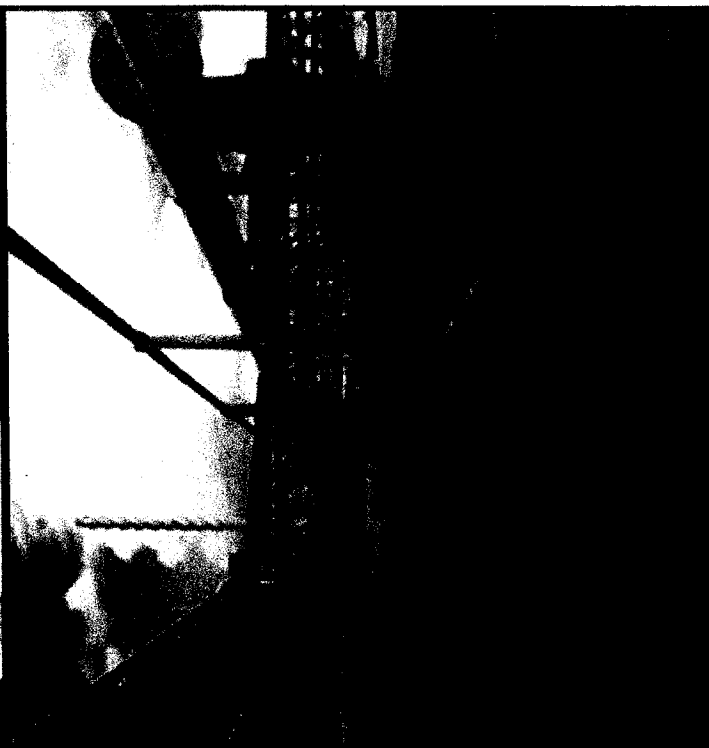
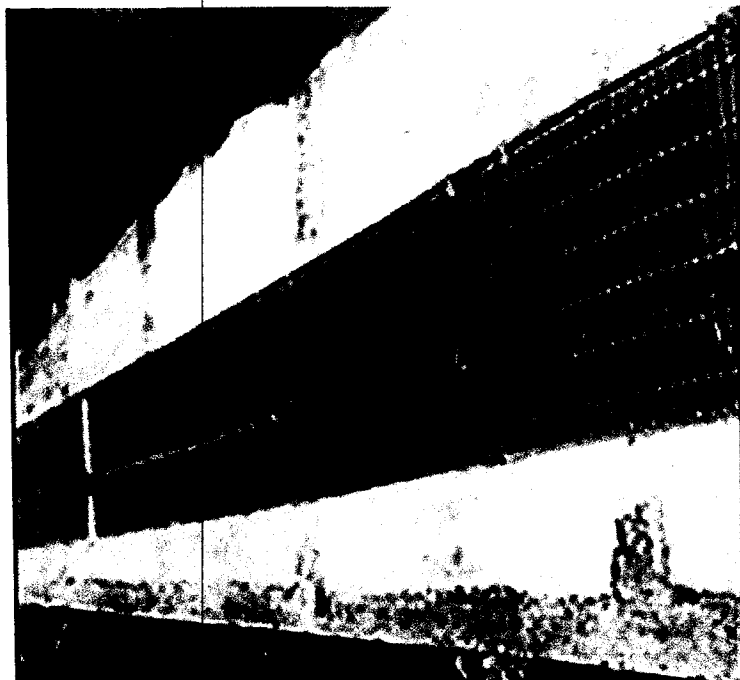




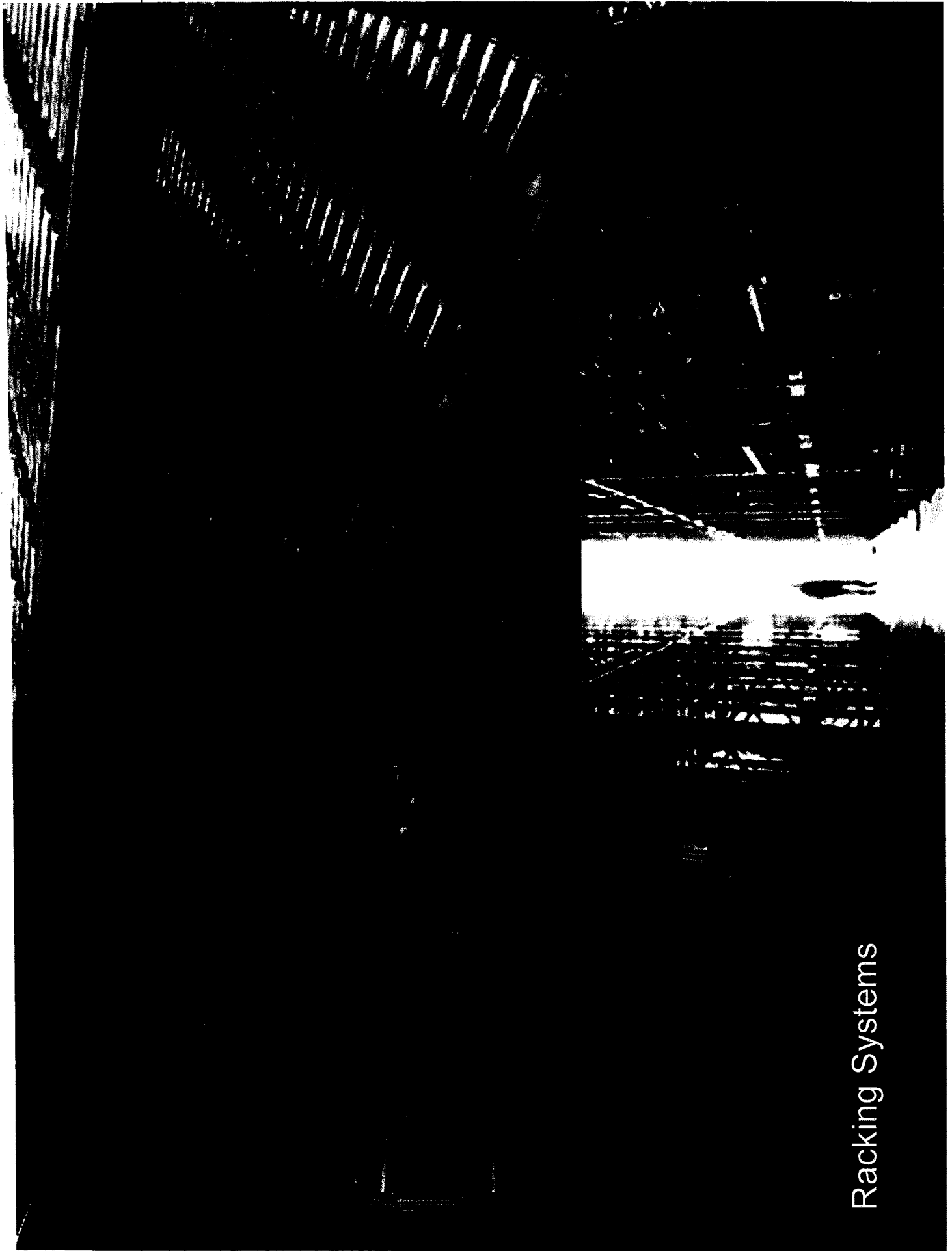
Hot Water System components

Automotive Components

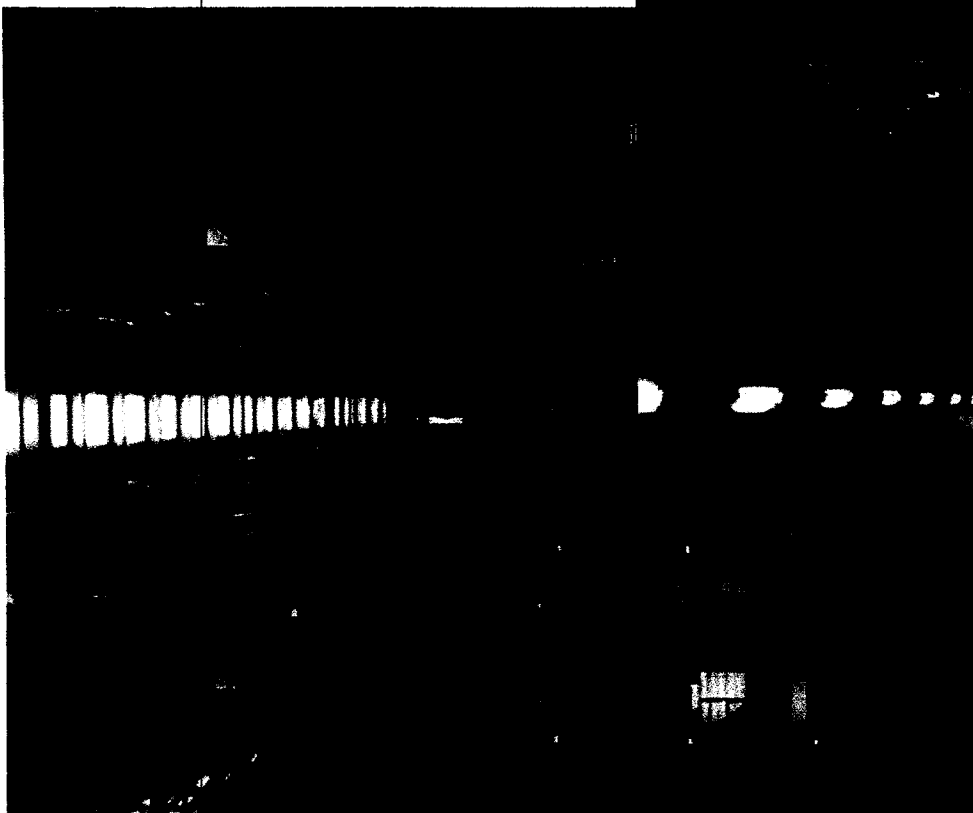
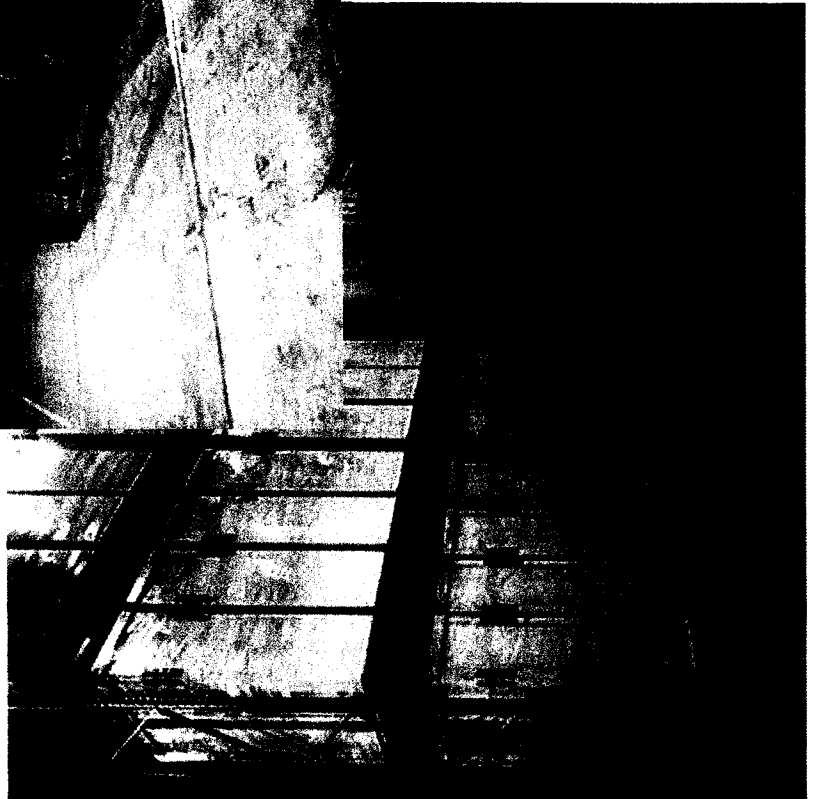
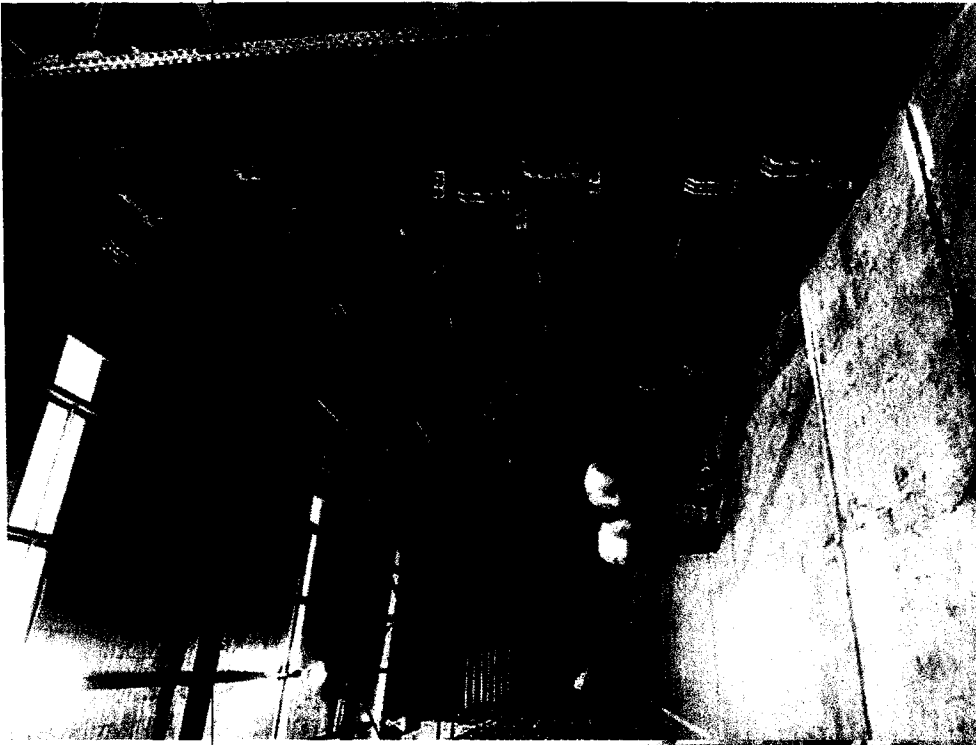




Industrial Flooring

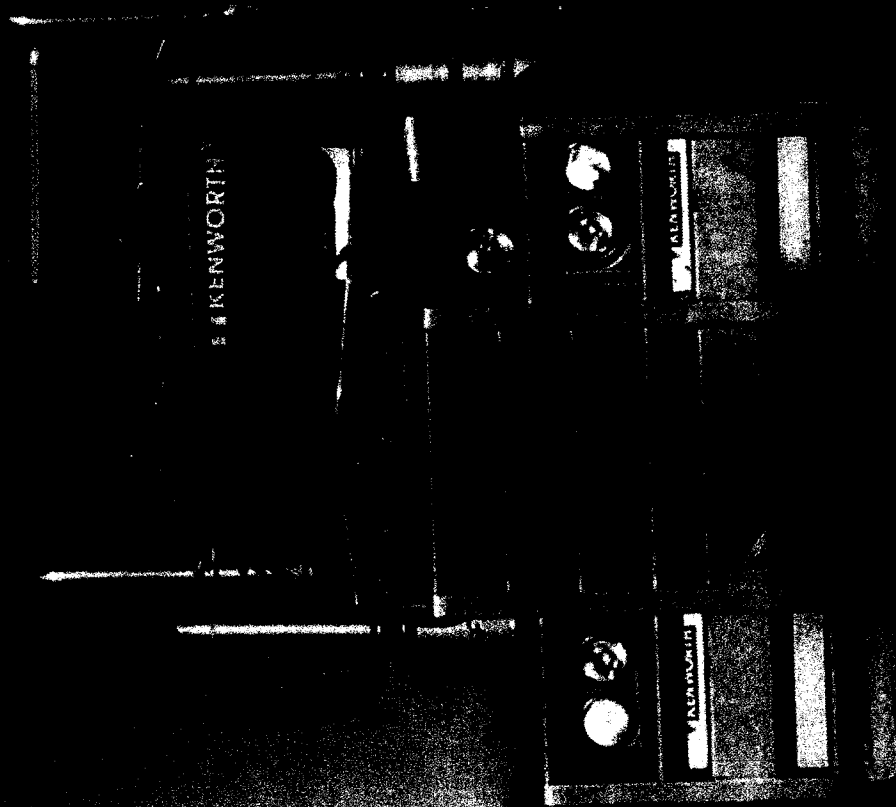


Racking Systems



Racking Systems

Pipelines

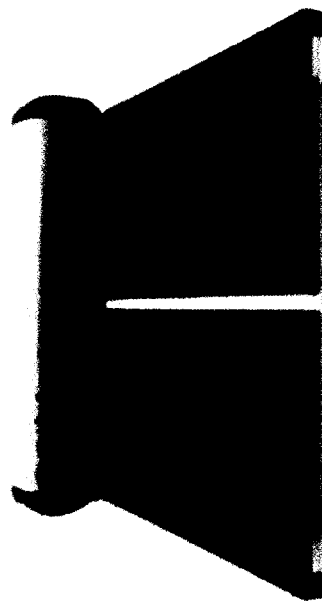
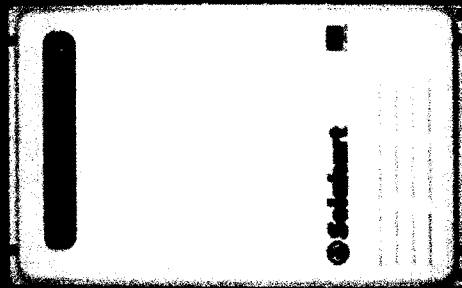
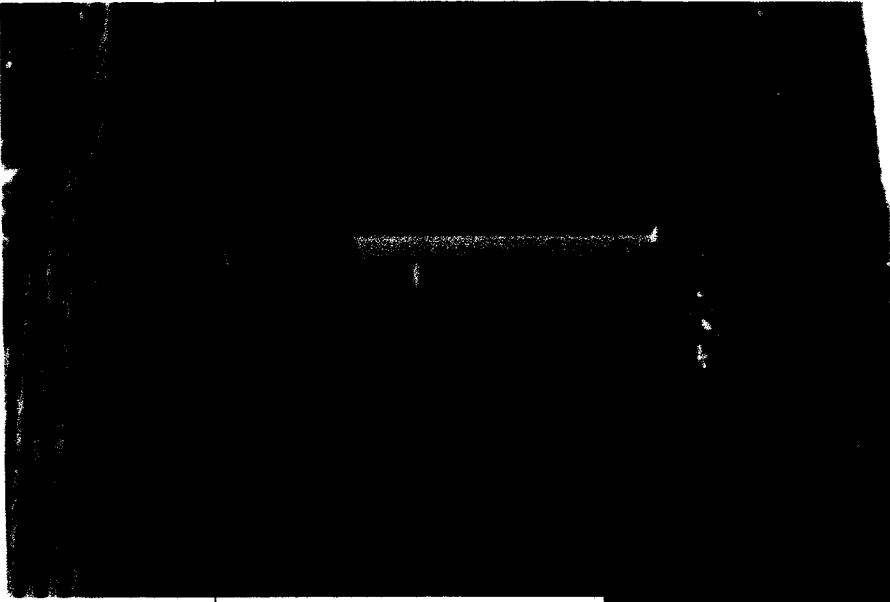




Structural Pipe & Tube



Racking Systems



Solar Systems



Rock bolts

Lintels