



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
NOT REFLECT THE FINAL POSITION OF CUSTOMS AND BORDER
PROTECTION**

June 2012

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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.

PUBLIC RECORD

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.