Australian Government
Anti-Dumping Commission

PUBLIC RECORD

CUSTOMS ACT 1901 - PART XVB

PRELIMINARY AFFIRMATIVE DETERMINATION

NO. 301

ALLEGED DUMPING OF ROD IN COILS

EXPORTED FROM CHINA

27 November 2015

CONTENTS

ABBREVIATIONS

$	Australian Dollar
$CNY	Chinese Yuan Renminbi
$USD	United States Dollar
ABF	the Australian Border Force
ABS	the Australian Bureau of Statistics
the Act	*Customs Act 1901*
ADN	Anti-Dumping Notice
the applicant	OneSteel Manufacturing Pty Ltd; also OneSteel
Arrium	Arrium Ltd, the ultimate holding company of OneSteel Manufacturing Pty Ltd
the Commission	Anti-Dumping Commission
China	the People's Republic of China
Hunan Valin	Hunan Valin Xiangtan Iron & Steel Co., Ltd
Jiangsu Shagang	Jiangsu Shagang Group Co., Ltd
NIP	non-injurious price
OCOT	ordinary course of trade
PAD	Preliminary Affirmative Determination
RIC	steel rod in coil
SEF	Statement of Essential Facts
the goods	the goods the subject of the application (also referred to as the goods under consideration or GUC). In this case, Steel Rod in Coil less than 14 mm in diameter.
USP	unsuppressed selling price
VAT	value added tax
$	Australian Dollar

1 SUMMARY AND RECOMMENDATIONS

1.1 Introduction

This report sets out the reasons that the Anti-Dumping Commission (the Commission) is satisfied that there appear to be sufficient grounds for the publication of a dumping duty notice in relation to certain steel rod in coils (RIC) exported to Australia from the People's Republic of China (China), and therefore to recommend the making of a Preliminary Affirmative Determination (PAD) under s. 269TD of the *Customs Act 1901* (the Act).[1]

The Commission's role is to make findings and recommendations to the Commissioner of the Anti-Dumping Commission (the Commissioner) upon which he will base his decisions.

In accordance with s. 269TD, the Commissioner may make a PAD if he is satisfied that there appears to be sufficient grounds for the publication of a dumping duty notice, or that it appears that there will be sufficient grounds for the publication of a dumping duty notice subsequent to the importation into Australia of the goods. In deciding whether to make a PAD, the Commissioner must have regard to the application and any submissions received within 40 days of the initiation of the investigation.[2] The Commissioner may also have regard to any other matters that he considers relevant.[3]

1.2 Background

On 23 June 2015, OneSteel Manufacturing Pty Ltd (OneSteel) lodged an application requesting that the Parliamentary Secretary to the Minister for Industry, Innovation and Science (Parliamentary Secretary) publish a dumping duty notice in respect of certain steel RIC exported to Australia from China.

OneSteel alleges that it has suffered material injury, and that the injurious effects of dumping include:

- price suppression;
- price depression;
- lost sales volume;
- loss of market share;
- reduced capacity utilisation;
- declining employment;
- reduced profit; and
- reduced profitability.

After consideration of the application, the Commissioner decided not to reject the application. The investigation was initiated on 12 August 2015, and public notification of the initiation of the investigation was published in *The Australian* newspaper on the same

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[1] All legislative references are to the *Customs Act 1901* unless otherwise specified.

[2] Subsection 269TD(2)(a)

[3] Subsection 269TD(2)(b)

day. Anti-Dumping Notice (ADN) No. 2015/95 refers to the initiation of the investigation and provides a description of the goods. The investigation period is 1 July 2014 to 30 June 2015, and the injury analysis period is from 1 July 2011.

Interested parties were invited to make submissions by 21 September 2015.

The earliest day on which the Commissioner was able to make a PAD was 12 October 2015.

1.3 Summary of preliminary findings

The Commission makes the following preliminary findings, which are explained in greater detail in the remainder of this report.

1.3.1 Like goods and the Australian industry (Chapter 4)

The Commission is satisfied there is an Australian industry producing 'like goods' to the goods the subject of the investigation.

1.3.2 Dumping (Chapter 5 of this report)

The Commission’s assessment shows that RIC has been exported to Australia from China in the investigation period at dumped prices where:

- the margin of dumping was not negligible; and
- the volume of dumped goods was not negligible.

The Commission has assessed the following exporter-specific dumping margins in relation to RIC exported to Australia in the investigation period:

Exporters	Preliminary dumping margin
Hunan Valin Xiangtan Iron & Steel Co., Ltd	9.5%
Jiangsu Shagang Group Co., Ltd	13.1%
All other exporters	18.4%

1.3.3 Economic condition of the Australian industry (Chapter 6 of this report)

The Commission has assessed that the Australian industry producing like goods has suffered injury in the form of price depression, price suppression, reduced profits, and reduced profitability.

1.3.4 Causation (Chapter 7 of this report)

The Commission has assessed that the dumping of RIC exported to Australia from China has caused material injury to the Australian industry producing like goods.

1.3.5 Particular Market Situation

The application for this investigation alleged that there is a particular market situation for steel products in China. The Commission prepared and sent a questionnaire to the Government of China (GOC) enquiring about the allegations in the application. The GOC did not provide a response to that questionnaire by the due date (9 September 2015).

The Commission is investigating the particular market situation allegations but has not yet developed a preliminary view. As a result, in the absence of a finding that a particular market situation exists, the Commission has calculated normal values under s.269TAC(1) of the Act.

1.4 Conclusion

Based on the available information and evidence before it, the Commission recommends that the Commissioner makes preliminary findings that:

- RIC has been exported from China at dumped prices;
- there is an Australian industry producing like goods that has experienced injury; and
- the dumped goods have caused injury to the Australian industry, and that injury is material.

Given the above, the Commission is satisfied that there appears to be sufficient grounds for the publication of a dumping duty notice in respect of RIC exported to Australia from China.

The Commission recommends that the Commissioner therefore make a PAD pursuant to s.269TD(1) by signing the instrument at **Attachment A**. Having regard to s.269TD(4)(b), the Commission is satisfied that it is necessary for the Commonwealth to require and take securities under s.42 in respect of interim duty that may become payable to prevent material injury to the Australian industry occurring while the investigation continues.

2 EVIDENCE RELIED UPON BY THE COMMISSION

2.1 Evidence provided by the applicant

The Commission has verified the data provided by the applicant, with the visit report to be published on the public record in due course. The Commission is satisfied as to the accuracy and relevance of the sales data, cost to make and sell data, and other information provided by OneSteel in connection with this investigation. The applicant is the only producer of like goods in Australia.

2.2 Evidence provided by importers

The Commission has received responses to the importer questionnaires issued in relation to the investigation from the following importers:

- Vicmesh Pty Ltd (Vicmesh); and
- Stemcor SEA Pte Ltd represented by Stemcor Australia Pty Ltd (Stemcor).

The Commission has verified the data submitted by these importers, by undertaking a site visit to verify the data from Vicmesh and by conducting a desktop verification for the data from Stemcor. The reports are available on the public record.

Several additional submissions from importers have also been received by the Commission which primarily focused on issues surrounding the applicant's claims for volume based injury. The Commission acknowledges these concerns and will consider the claimed volume injury further in the course of the investigation. These submissions do not prevent a PAD being made.

2.3 Evidence provided by exporters

The Commission has received responses to the exporter questionnaires issued in relation to the investigation from the following exporters:

- Jiangsu Shagang Group Co., Ltd (Jiangsu Shagang); and
- Hunan Valin Xiangtan Iron & Steel Co., Ltd (Hunan Valin).

Both parties requested, and were granted, short extensions of time to complete the exporter questionnaire. Both parties were able to meet the extended deadlines and the Commission is preliminarily satisfied that there are no material deficiencies in the information provided.

Information was provided which includes exports of the goods to Australia, the cost to make and sell information, details of key raw materials and a large volume of business related documents as referenced via the public records of the parties' exporter questionnaire responses.

The Commission has not yet verified the data submitted by these exporters.

3 THE GOODS AND LIKE GOODS

3.1 The goods under investigation

The goods covered by this investigation are:

> *Hot rolled rods in coils of steel, whether or not containing alloys, that have maximum cross sections that are less than 14mm.*
>
> *The goods covered by this application include all steel rods meeting the above description regardless of the particular grade or alloy content.*

Goods excluded from this application include hot-rolled deformed steel reinforcing bar in coil form, commonly identified as rebar or debar, and stainless steel in coils.

Further detail regarding this description (including products which are not the goods) can be found in *Consideration Report 301*.

3.2 Tariff classification

The goods are classified to the tariff subheadings 7213.91.00 (statistical code 44) and 7227.90.90 (statistical codes 42 & 02) of Schedule 3 to the *Customs Tariff Act 1995*. The goods exported to Australia from China are subject to a zero rate of duty.

The Commission notes that consideration of the goods under investigation is only limited by the description of the goods, rather than any specific tariff classification. Therefore, like goods which are imported under a different tariff classification or statistical code are still considered to be the goods.

3.3 Preliminary assessment

Based on information available at the time of making the PAD, the Commission is satisfied there is an Australian industry producing like goods to the goods the subject of the application and that the like goods are produced in Australia.

3.4 Like goods

Subsection 269T(1) of the Act defines like goods as:

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

Subsections 269T(2) specifies that for goods to be regarded as being produced in Australia, they must be wholly or partly manufactured in Australia.

3.5 Australian industry producing like goods

As noted in section 2.1, OneSteel is the only manufacturer of the like goods in Australia. The Commission observed OneSteel's manufacturing facilities operating to produce RIC at its Laverton plant in Victoria. The Commission has discussed the process for producing the goods in great detail with the applicant and is satisfied that the production processes required to produce the goods under consideration are likely to be very similar, with intermediate steel in the form of billet transformed into circular steel rod through a hot rolling process.

The importers and OneSteel agree that RIC is a commoditised product, with a high degree of substitutability. The goods are sold to the same types of end users (generally, further manufacturers of reinforcing mesh or fencing wire) and for the same purposes and end uses. The Commission further considers that pricing behaviour in the market indicates that the imported goods and the like goods produced by the Australian industry are completely interchangeable.

The Commission has assessed, based on the information currently before it, that:

- the primary physical characteristics of the goods and locally produced goods bear a close resemblance, conforming to a general standard regarding carbon content and meeting certain standards of production in a comparable range of sizes up to 14 mm in diameter;
- the goods and locally produced goods are commercially alike as they are sold to common users, and directly compete in the same market;
- the goods and locally produced goods are functionally alike as the range of end-uses are alike; and
- the goods and locally produced goods are highly likely to be manufactured in a manner which is alike.

A more detailed analysis of goods and like goods is considered in *Consideration Report 301* and is available on the Electronic Public Record.

Having regard to the above, the Commission is satisfied that the Australian industry produces goods which are like to the goods the subject of the application, as defined in s.269T(1).

4 THE AUSTRALIAN INDUSTRY

4.1 Preliminary assessment

Based on information available at the time of preparing this report, the Commission is satisfied that the Australian market for RIC is supplied by imports and one Australian producer.

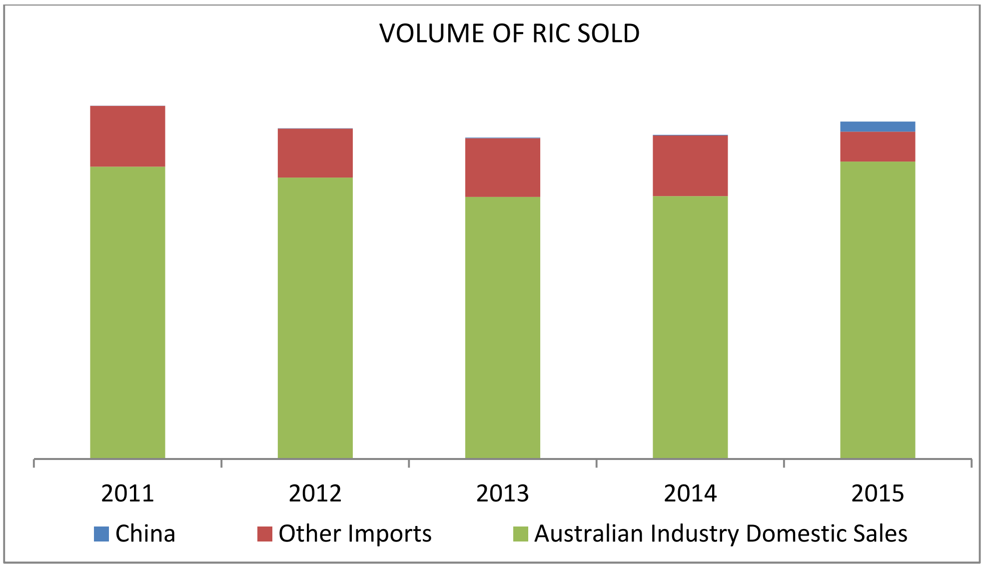
The Commission notes that a significant driver of demand is the rate of construction activity such as new housing, commercial developments, refurbishments of existing properties and engineering projects, including infrastructure.

4.2 Market size and shares

There is only one producer of the goods in Australia. As such, the market size and shares are a mix of production by OneSteel and imported goods. These imported goods include goods from a number of countries. For the purpose of this report, these imports will be separated into those subject to the investigation and other country imports. The other country imports may include both dumped and un-dumped imports.

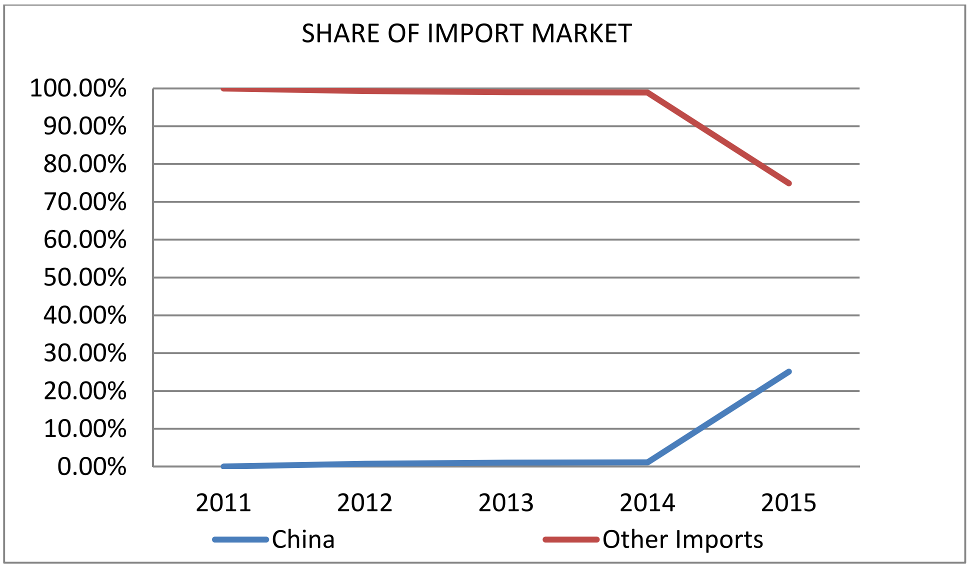
The Commission recognises the majority of the market is supplied by Australian made goods which are manufactured by the applicant. The Commission has consolidated the production amounts from the Australian industry with Department of Immigration and Border Protection import data. Based on the consolidated data, the Commission has calculated a market size of between 550,000T and 630,000T per financial year. The size of the market fell from 2011 to 2013, and has been recovering volume during financial years 2014 and 2015.

The Commission notes that the applicant is the largest supplier into the market by a substantial margin, as can be seen in the following graphs.



Graph 1: Volume of RIC sold in Australia

Graph 1 demonstrates that over the injury period, OneSteel held at least 80% of the market by volume. The maintenance and growth of this proportion over the injury period and the Commission's view on injury is covered below in chapter 7 of this report.

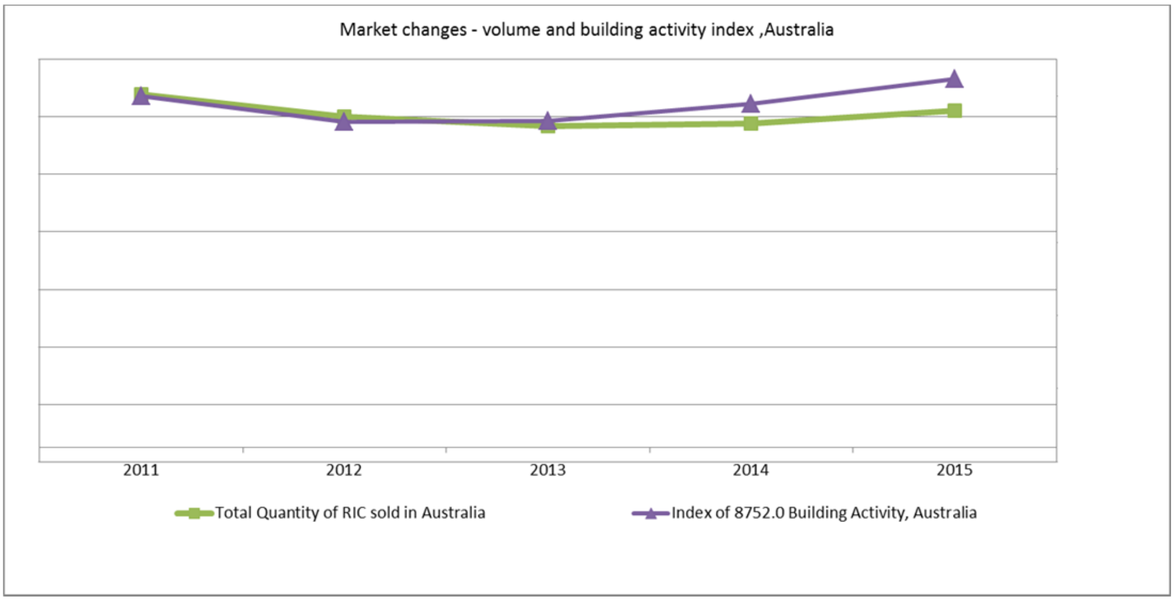


Graph 2: Overall Market Share of Imports of RIC

Graph 2 demonstrates that prior to the 2015 financial year imports of the goods from China were minimal. However, in 2015 RIC imported from China accounted for 25% of all imported RIC for the year. This appears to coincide with the initiation of Anti-Dumping Investigation 240 - Rod in Coils Exported from Indonesia, Taiwan and Turkey.

4.3 Demand

The Commission has been advised by OneSteel that demand for the goods is driven by three main categories of construction, being residential, commercial and engineering. There is also a portion of the goods which are used in wire fencing. As such, the Commission reviewed Australian Bureau of Statistics (ABS) data capturing building activity in Australia through catalogue number 8752.0.



Graph 3: Building Activity impacts on demand

When the movement in building activity and total RIC quantity demanded are compared, it can be seen that the size of the market for RIC is generally correlated with the building market. When the value of building activity as recorded by the ABS increases, there is an increase in the volume of RIC demanded by the Australian market.

As such, the Commission considers that the market is recovering from a recent slowdown, and was growing at the end of the injury analysis period.

Detailed information regarding these graphs including data sources are at ***Confidential Appendix 1***.

5 DUMPING INVESTIGATION

5.1 Preliminary assessment

The Commission has completed a preliminary assessment of the information provided by exporters in regards to dumping.

The Commission has preliminarily assessed the following exporter specific dumping margins in relation to RIC exported to Australia during the investigation period:

Exporters	Preliminary dumping margin
Hunan Valin	9.5%
Jiangsu Shagang	13.1%
All other exporters	18.4%

Further detail of the Commission's approach to these calculations can be found below.

5.2 Export Price

The Commission has calculated export prices under s.269TAB(1)(a) as the goods have been exported to Australia other than by the importer, have been purchased from the exporter by the importer, and the purchase of the goods by the importer was an arms length transaction. Therefore the export price is the price paid or payable by the importer, other than amounts which represent a charge in respect of transport after exportation of the goods.

5.2.1 Hunan Valin

The Commission received a full response to the exporter questionnaire from Hunan Valin. This included a breakdown of each of the export sales completed, a listing of domestic sales and a compilation of cost to make and sell data. The Commission relied upon the data provided by Hunan Valin to calculate quarterly export prices in accordance with s.269TAB(1)(a).

5.2.2 Jiangsu Shagang

The Commission received a full response to the exporter questionnaire from Jiangsu Shagang. This included a breakdown of each of the export sales completed, a listing of domestic sales and a compilation of cost to make and sell data. The Commission relied upon the data provided by Jiangsu Shagang to calculate quarterly export prices in accordance with s.269TAB(1)(a) .

5.3 Normal Value

The Commission has not yet made a finding as to whether a particular market situation exists in relation to RIC within China. As such, the Commission has calculated normal value based on s.269TAC(1) and s.269TAC(2)(c).

For each of the exporters, there was an adjustment required to take into account changes to the applicable value added tax (VAT) payable during the investigation period in order to compare normal values with export prices at the same level of trade.[4] The Commission's understanding is that, up to and including 31 December 2014, alloyed steel rod that was exported would be eligible for a VAT rebate of 9%, against a total VAT rate of 17%, leaving a balance of 8% VAT incurred. From 1 January 2015 onwards, the rebate was removed for boron alloyed steel rod, meaning that the adjustment reflected the full VAT rate of 17% . The Commission notes that it does not appear that the adjustment to the rebate applies to titanium, vanadium, chrome, or other alloyed RIC.

The Commission has therefore applied a VAT adjustment for either 8% (titanium alloys, and boron alloys up to 31 December 2014) or 17% (boron alloys from 1 January 2015 onwards) based on the data received. The data indicates that the domestic cost to make and sell and sales information has been provided on a VAT exclusive basis, and all normal values are calculated that way. This reflects the fact that any VAT paid on the purchase of raw materials or otherwise would be claimed against VAT payable on the sales amounts.

Essentially, the domestic sales attract a 17% VAT and the company can claim the full 17% VAT on the cost to manufacture those goods. On the other hand, export sales are VAT exempt, but the company can only claim a partial VAT rebate of 9%. Therefore, effectively, export sales have a tax burden that is higher by 8% (17% less 9%) and that is the reason for the upwards VAT adjustment.

5.3.1 Hunan Valin

As noted above, the Commission has not yet made a finding as to whether a particular market situation exists in relation to RIC within China.[5]

The Commission utilised the exporter data to calculate a normal value. The normal value was calculated using domestic sales information provided by Hunan Valin, using those sales which were in the ordinary course of trade (OCOT) testing under s.269TAC(1).

When required, the Commission recognised adjustments for timing, alloy, and tax differences. The Commission has not considered adjustments relating to claimed differences between domestic and export production costs for Hunan Valin, pending quantification through the verification process. The Commission will consider other potential adjustments based on verified data received as part of the investigation.

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[4] Subsection 269TAC(8)(c) of the Act refers.

[5] Under s.269TAC(2)(a)(ii)

As such, the Commission has calculated normal value based on s.269TAC(1) of the Act, with s.269TAC(2)(c) being applied for one alloy composition due to the operation of s.269TAC2(a)(i).

5.3.2 Jiangsu Shagang

As noted above, the Commission has not yet made a finding as to whether a particular market situation exists in relation to RIC within China. As such, the Commission has calculated normal value based on s.269TAC(1) of the Act, with adjustments under s.269TAC(8) made as required.

The Commission utilised the exporter data to calculate a normal value. The normal value was calculated using Jiangsu Shagang's domestic sales information, using those sales which were in the OCOT under s.269TAC(1).

5.4 Preliminary dumping margins

Preliminary dumping margins for exporters have been calculated under s.269TACB(2)(a).

5.4.1 Hunan Valin

The preliminary dumping margin for Hunan Valin is 9.5%. Further detail regarding the Commission's calculations for Hunan Valin can be found in ***Confidential Appendix 2***.

5.4.2 Jiangsu Shagang

The preliminary dumping margin for Jiangsu Shagang is 13.1%. Further detail regarding the Commission's calculations for Jiangsu Shagang can be found in ***Confidential Appendix 3***.

5.4.3 Other Exporters

The Commission calculated a preliminary dumping margin for all other exporters, using the lowest weighted average export price and the highest weighted average normal value of those calculated for each of the cooperative exporters.

This resulted in a dumping margin of 18.4%. Further detail regarding the Commission's calculations for all other exporters can be found in ***Confidential Appendix 4***.

6 ECONOMIC CONDITION OF THE INDUSTRY

6.1 Preliminary assessment

The Commission has preliminarily assessed that the Australian industry producing like goods has suffered injury in the form of price depression, price suppression, reduced profits, and reduced profitability.

Under s.269TG(1)(b)(i) of the Act, one of the matters that the Commissioner must be satisfied of in order to publish a dumping duty notice is that because of dumping, material injury has been, or is being caused, or has been threatened to the Australian industry producing like goods.

The Commission's preliminary assessment is that the injury suffered is material.

6.2 Commencement of injury, and analysis period

The injury analysis period commences on 1 July 2011. The investigation period is from 1 July 2014 to 30 June 2015.

As noted in section 4.3, as OneSteel is the sole Australian manufacturer of the like goods, all references to the "Australian industry" are also references to OneSteel. The following analysis relies on the verified sales and cost data of the Australian industry.

6.3 Injury claims

As noted at section 1.2, OneSteel alleges that it has suffered material injury, and that the injurious effects of dumping include:

- price suppression;
- price depression;
- undercutting;
- lost sales volume;
- loss of market share;
- reduced capacity utilisation;
- declining employment;
- reduced profit; and
- reduced profitability

For the purposes of considering whether to recommend the making of a PAD the Commission has focused its preliminary analysis on price and profit impacts. The Commission has not had regard to the other factors outlined; these will be considered further in due course.

6.4 Industry pricing analysis

OneSteel's confidential pricing policies will be addressed in greater detail in the visit report. For the purpose of this PAD report, the Commission notes that OneSteel negotiates prices with its unrelated customers on a monthly basis, taking into account known import prices and estimated production and shipping times. OneSteel also takes into account a range of other factors when setting these prices and trading terms. Prices may be set by OneSteel several months in advance with the agreement of the Customer.

For related customers, OneSteel uses a different pricing methodology. The Commission examined the methodology utilised and was that the methodology ensures a market competitive price for the related customers.

OneSteel has provided evidence of China-origin offers being made that were present in the market and with which it was competing during the investigation period. The Commission has tested these offers against the import data.

The following tests have been undertaken for the purposes of considering if a preliminary affirmative decision should be made:

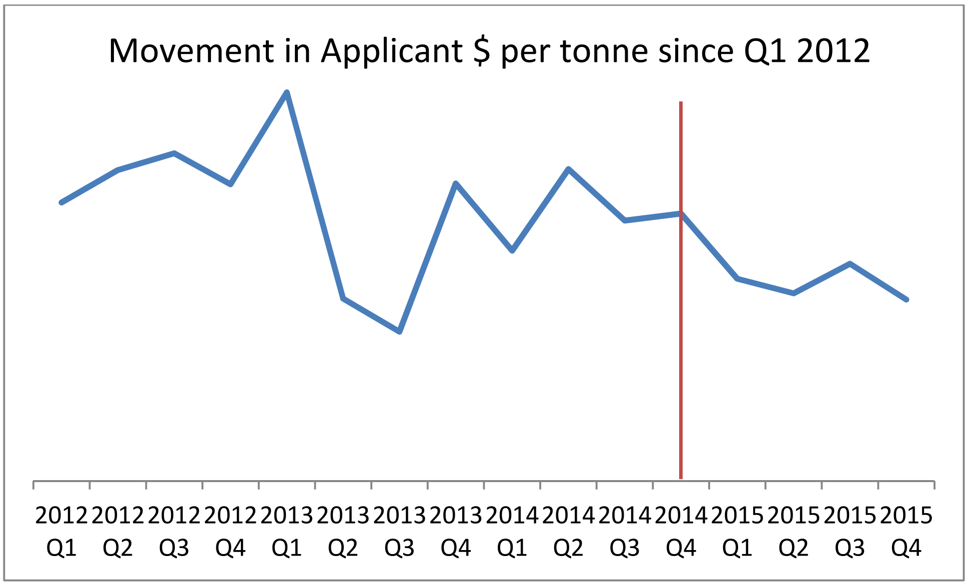
- The Commission reviewed the import offers provided, and supporting evidence surrounding the offers which cover the investigation period, and compared the offers to the CRE data as an appropriate assessment for the accuracy of the import offer information provided.
- The Commission reviewed OneSteel's price offers for several unrelated customers, and compared this to its sales listing to confirm that the price offer amount appropriately reflected the genuine price paid.
- The Commission reviewed the pricing methodology, confirming the following:
    - Quantities for each non-related supplier were confirmed against the A4 information;
    - Prices recorded were confirmed against the price offers, which in turn had been verified against the A4 data;
    - The October price methodology was tested for accuracy of formula's and effectiveness;
    - The October price methodology for a specific related customer was tested based on their volumes, gross price, rebates and net price. Based on 'date of sale' this allowed for the amounts to reconcile within 1%;
    - In addition, the process which was completed was reviewed 'live' on site during the Australian industry verification visit in October 2015.

Because of the above, the Commission accepts for preliminary purposes that both the non-related and related markets are exposed to market price movements.

During the investigation, the Commission may consider undertaking further analysis of the pricing methodology for a subsequent period.

6.4.1 Price depression, price suppression and undercutting

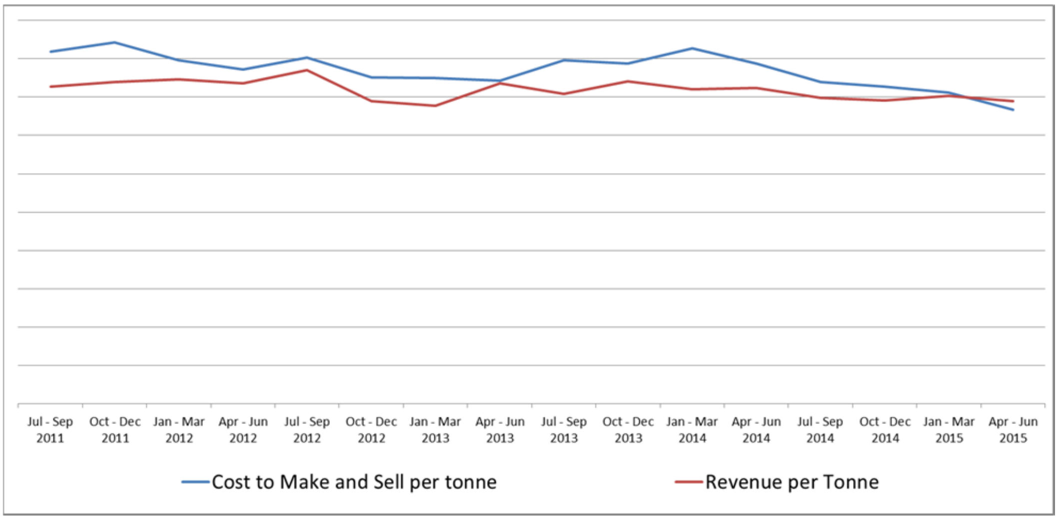
Price depression occurs when a company, for some reason, lowers its prices.



Graph 4: Changes in applicant revenue per tonne since 2012 Q1

The graph demonstrates that since the start of the Q1 2014 the market has shown indications of significant price pressure at several times. The most recent price depression trend aligns with the commencement of Chinese imports from Q4 2014 onwards. There has been a sustained reduction in revenue generated per unit relative to prior years. The Commission had identified the applicant has been injured through price depression.

Price suppression occurs when price increases, which otherwise would have occurred, have been prevented. An indicator of price suppression may be the margin between prices and costs.

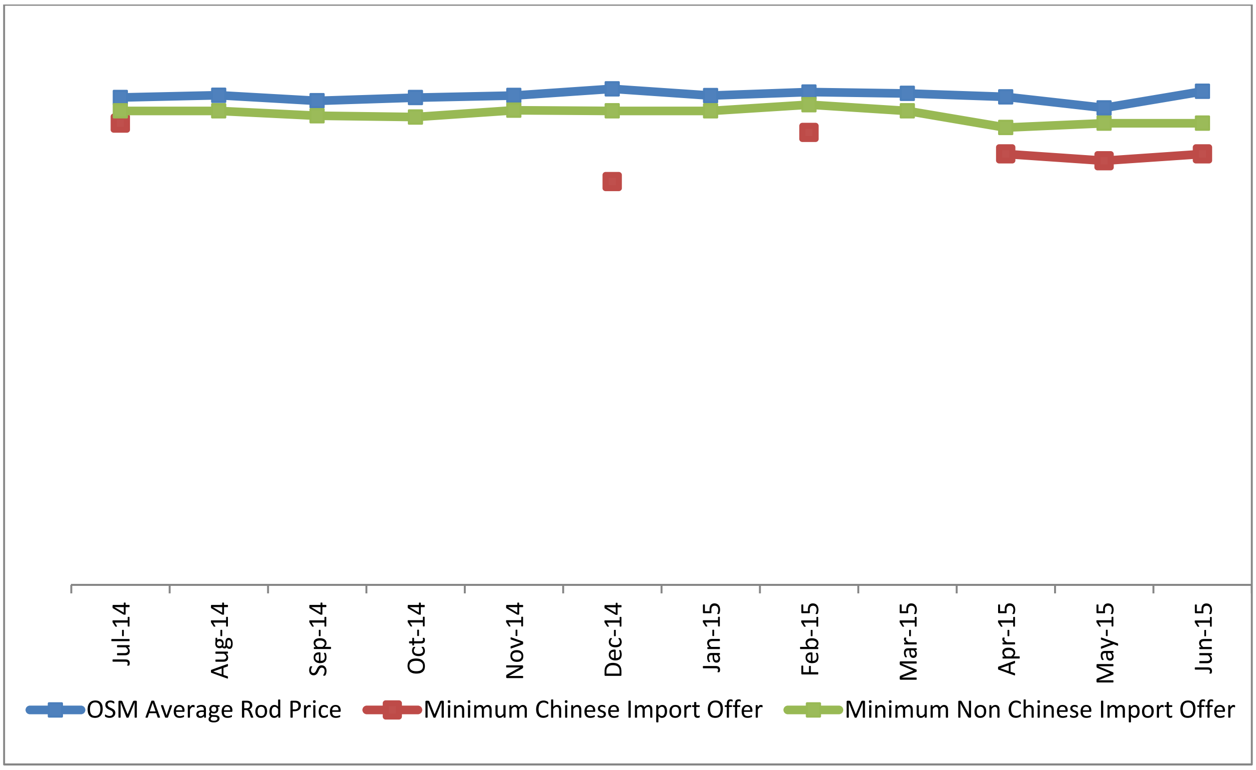


Graph 5: OneSteel Revenue compared to Cost to Make & Sell per quarter

The revenue generated has been lower than the cost to make and sell per tonne for the entire investigation period, excluding the most recent quarter. A normal business unaffected by dumping would look to increase prices to, at a minimum, cover their cost to make and attempt to generate a small profit margin. The applicant has not been able to do this for the injury analysis period indicating that price suppression exists in the market.

The Commission analysed the price offers to market which the applicant had received, and identified that since entering the Australian market, Chinese prices for RIC have been consistently the lowest.

As noted above at 6.4, the Commission analysed all data provided by importers, exporters, and the applicant have been reviewed at FOB point in line with the CRE data. This analysis demonstrated that for the period, China prices were undercutting other price offers for RIC in Australia.



Graph 6: Undercutting review of selected customers

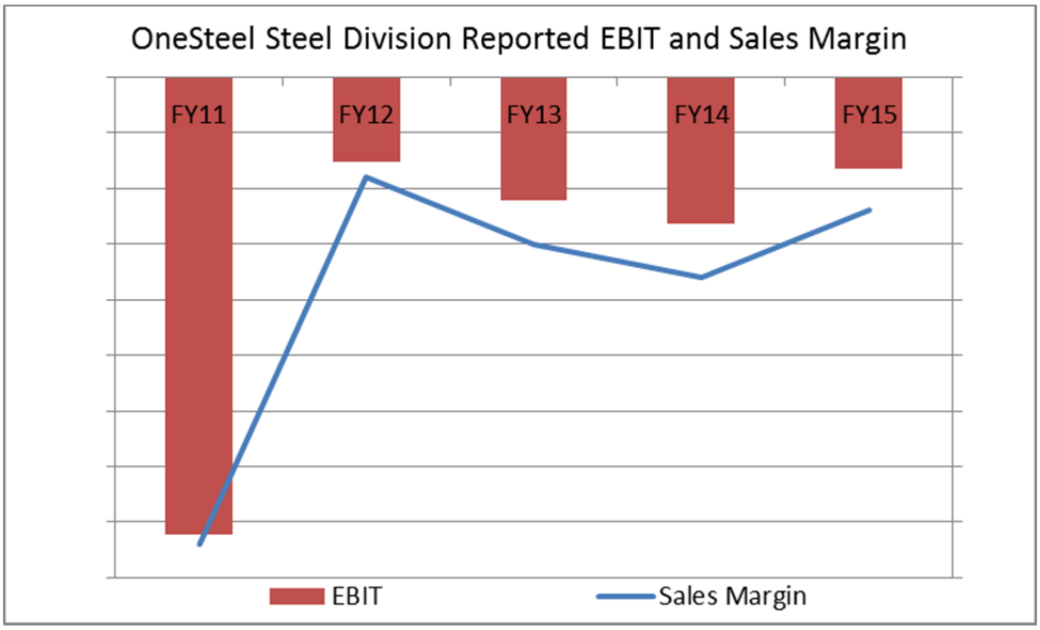
The graph identifies that over the investigation period the price offers being provided to the market by Chinese manufacturers of the goods were consistently lower, which aligns with the CRE data analysed by the Commission.

6.4.2 Reduced profits and reduced profitability

The applicant stated that they compete on price as an effective way to maintain production volume through their manufacturing assets.

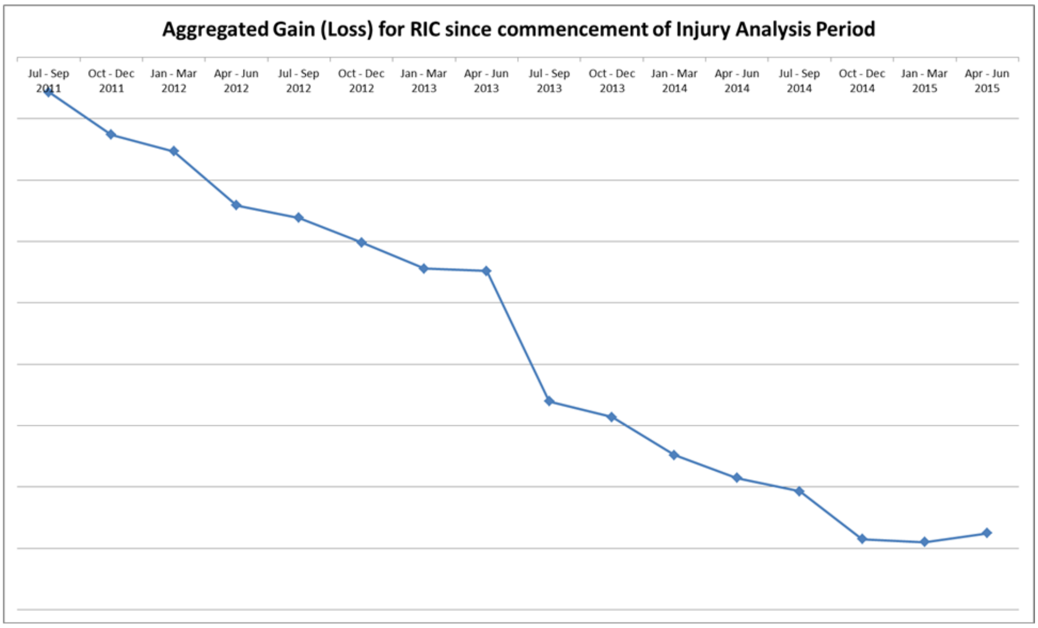
The Commission noted that OneSteel's attempts to maintain volume have had an impact on profits and profitability. Where there has been price suppression, price depression, and undercutting as identified, the net revenue per unit of the applicant has been lower for the same level of production than it would be otherwise.

OneSteel's financial reporting is separated into three divisions. OneSteel's RIC is produced and sold by and the financial results are captured within the Steel division.



Graph 7: OneSteel Steel Division results[6]

As can be seen for the injury period, the Steel division has not reported a positive sales margin or EBIT for the segment. The price depression and suppression have directly impacted on the net revenue, and total profit generated. The impact of the price effects has directly led to continued reduction in retained profits for the segment.



Graph 8: Aggregate losses accrued by applicant

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[6] Sourced from Arrium 2015 Financial Report, page 31.

When profitability is restricted to the goods under consideration, the aggregated loss is demonstrated above. Even accounting for the improvement in profitability in Q4 2015, the compounding losses are significant.

6.4.3 Other economic factors

The Commission notes that a number of other economic factors which may indicate that injury has occurred have been submitted by the applicant. These other factors will be addressed in the Australian Industry verification report, to be published in due course.

6.5 Summary of Economic Condition of Industry and Injury Claims

The Commission's preliminary assessment is that the industry analysis indicates sufficient grounds to support a claim that OneSteel has experienced injury in the forms of:

- price suppression;
- price depression;
- reduced profit; and
- reduced profitability

The Commission's preliminary assessment has not considered other injury claims made by the applicant, including:

- lost sales volume;
- loss of market share;
- reduced capacity utilisation; or
- declining employment.

The Commission intends to consider these claims through the investigation.

Notwithstanding the preliminary conclusions on injury, the Commission will further analyse any additional information obtained, or provided to it, during the investigation.

7 CAUSATION

7.1 Preliminary assessment

Section 269TAE outlines the factors that the Parliamentary Secretary may take into account in determining whether material injury to an Australian industry has been or is being caused or threatened. The following section of this report provides a summary of the Commission's key considerations in its causation assessment. The Commission is continuing to investigate, analyse and assess all causation factors.

The Commission has preliminarily assessed that the dumping of RIC exported to Australia from China has caused material injury to the Australian industry producing like goods.

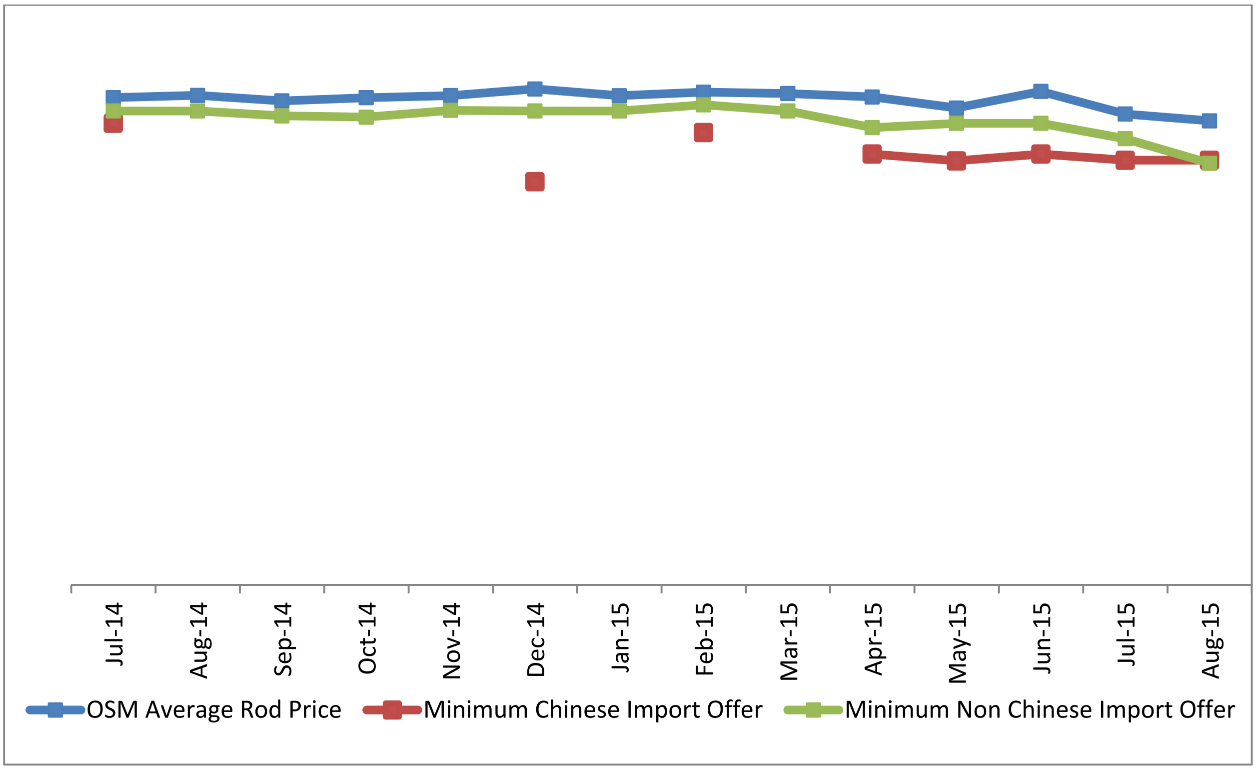
7.2 Price, profit and profitability effects caused by dumping

The Commission has analysed the sales data provided by OneSteel to identify those customers in Australia that it has in common with the cooperating exporters. The Commission has compared the sales to these common customers during the investigation period. The Commission observed that the imported product regularly competes directly with OneSteel (in terms of the same customers, for like models of similar sizes and carbon content).

The Commission notes OneSteel maintains a price setting policy which is based on market forces.

Given the commoditised nature of the goods, once the products from China became commercially accepted within Australia, the price impacts of China would also have an effect on the pricing of export offers coming from other countries. This is driven by the competitive nature of the market, whereby traders and importers are looking to maximise their potential returns without having specific ties to any one supplier or country. The presence of imports being dumped from one country can therefore have a significant impact on the price offers across the entire market, including depressing offers from other countries below the price point at which they would normally offer to supply.

The graph below covers the investigation period and the following 2 months, to ensure that the business decision regarding price impacts would be appropriate recognised noting that prices are contracted in advance. This analysis also assists the Commission to judge whether injury may still be occurring.



Graph 9: Price Comparison between OneSteel, China, Other Importers

Price offers of exporters of the goods to Australia are used by domestic customers to leverage lower prices from OneSteel. These prices are influenced by the dumped goods. As such, in circumstances where the applicant may still be maintaining a significant level of volume in the market, the dumping of RIC has a direct impact on the prices received by the applicant.

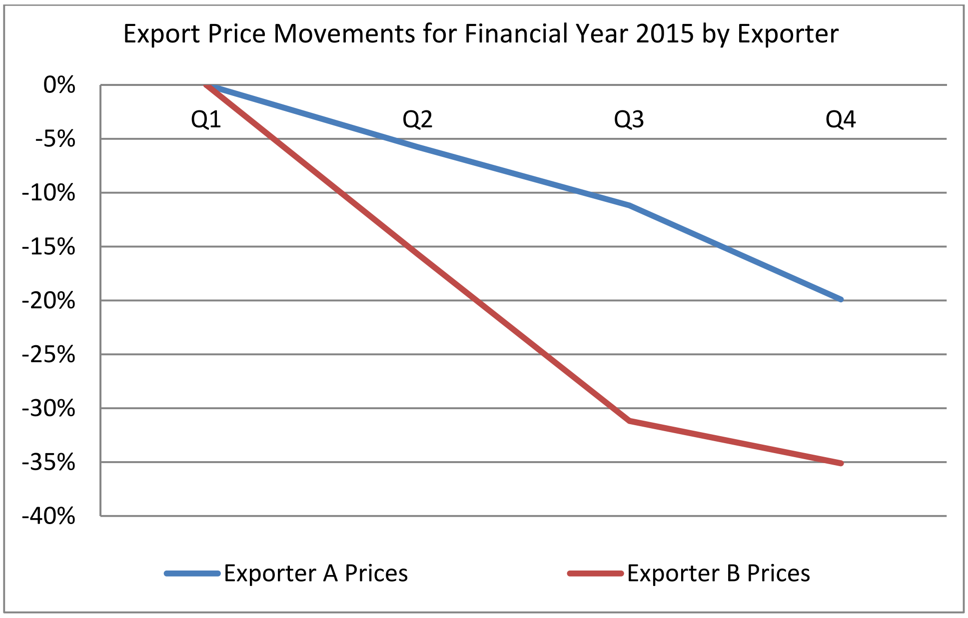
When tested against the CRE information, for each of the 6 months over the investigation period where a Chinese price offer was sighted, it was the lowest price in the market. This was also reflected in the FOB prices when compared to other countries.

Without the dumped prices from exporters in China, the leverage point would be other importers of the goods at a higher price point, being the minimum non-Chinese import offer. The non-Chinese import offer would itself be higher without the influence of the Chinese product at dumped prices.

The applicant also provided evidence of documentation from sales meetings which demonstrated that the price point which they were being leveraged against was the price point provided by China.

It is recognised by the Commission that imports of the goods under consideration from China did not begin to gain market acceptance until late financial year 2014, and as such, the injury analysis for this preliminary assessment will focus on the impacts from 1 April 2014 through to 30 June 2015.

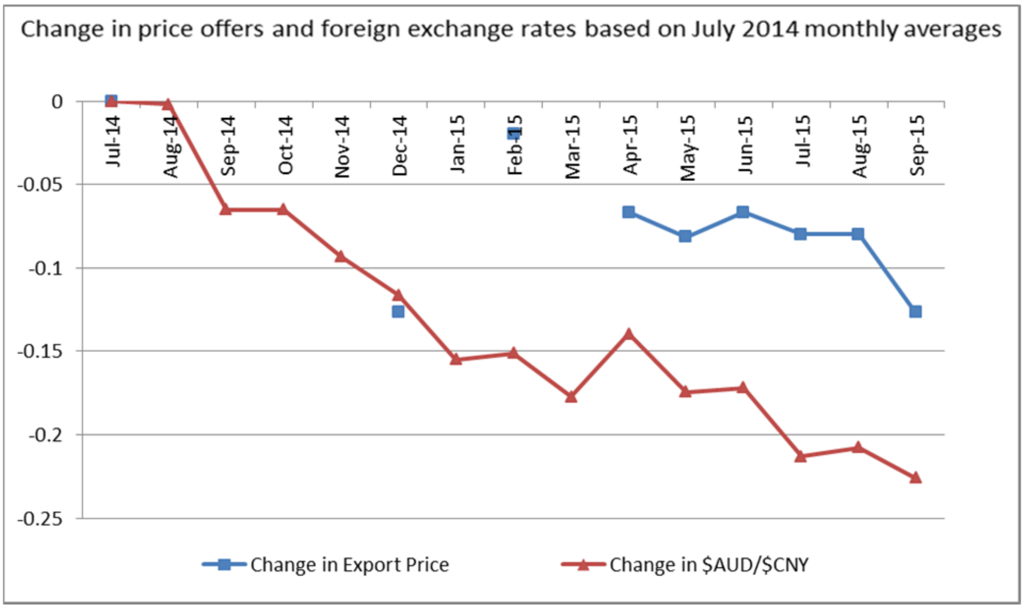
The Commission considered export price movements in the exporters' home currency ($CNY) to consider the potential impacts of currency fluctuations on the price offers.



Graph 10: Exporter price movements in $CNY

The Commission used the Q1, 2015 export price for each exporter as a baseline, and mapped the change in export price relative to this point on a quarterly basis. As can be seen, there is a significant reduction in export price from the start of the 2015 financial year for each subsequent quarter, demonstrating a willingness by exporters to reduce their prices beneath the prices offered domestically in an attempt to gain volume in the market.

The analysis of price suppression, price depression and undercutting is further supported by the continued reduction in prices over the financial year at the same time that the exchange rate tied to the offers was declining. While the converted value of $CNY which the exporters received was already reducing based on the falling exchange rates, the exporters' effective $AUD export price also dropped, exacerbating the price impacts.



Graph 11: Exporter price offers and foreign exchange movements - $AUD/$CNY

As can be seen, the downward trend in pricing through the financial year demonstrates that the amount received by the exporter has declined not only because of the reduction in prices, but also due to a decline in currency.

The Commission considers that the continued willingness to supply into the market at reduced prices while foreign exchange rates move against the exporters is an indicator of both the commoditised nature of the good, and the willingness of the exporters to undercut other prices.

Due to the impact which the dumped Chinese goods have on price negotiations with OneSteel customers, the existence of dumped goods at the lowest price point within the market has had a direct impact on the revenue and profitability of the applicant.

7.3 Injury caused by factors other than dumping

Following *Consideration Report* 301, the Commission has not obtained any significant new evidence which would indicate that there are factors other than dumping which are causing the injury observed. The Commission will continue to consider the impact of factors other than dumping on its injury analysis throughout the investigation.

8 NON INJURIOUS PRICE

8.1 Preliminary assessment

The Commission notes that the injury claims which have formed the focus of this PAD are based primarily upon the impact of the pricing model which OneSteel utilises as covered at 6.4 above.

Based on this information, and the preliminary nature of this assessment, the Commission has come to a similar conclusion as disclosed in the final report to case Investigation 240.

Effectively, the Commission is not able to determine selling prices at a time unaffected by dumping, has not yet finalised a view regarding an appropriate level of profit, and, due to the commoditised nature of the goods under consideration, is unable to provide certainty that selling prices of un-dumped imports are not affected by other dumped imports.

As such, the Commission considers that in a market unaffected by dumping, the applicant's revenue would be influenced by relatively higher import prices. In this case, as the benchmark would be higher by at least the rate of the security imposed, it follows that the applicant's prices would be higher by at least the same rate.

Accordingly, the Commission has found a preliminary non-injurious price (NIP) as being equal to each exporter's normal value.

As the NIP is equal to each exporter's normal value, the lesser duty rule will not come into effect for the purposes of calculating an appropriate rate of security.

8.2 Relevant Legislation

Dumping duties may be applied where it is established that dumped imports have caused or threatened to cause material injury to the Australian industry producing like goods under s.269TG. The level of dumping duty imposed by the Parliamentary Secretary cannot exceed the dumping margins, but under s.8(5B) of the *Customs Tariff (Anti-Dumping) Act 1975 Act* the Parliamentary Secretary must have regard to the desirability of fixing a lesser amount of duty if it is sufficient to remove injury.

This mechanism is commonly referred to as the lesser duty rule. If certain circumstances exist, the Minister is not required to have regard to the lesser duty rule. However, the finding of these circumstances does not prevent the Minister from considering and applying the lesser duty rule where the Minister considers it would be appropriate to do so.

The lesser duty rule is given effect through the calculation of a Non Injurious Price ("NIP"). The NIP is the price that would be sufficient to remove the injury caused to the Australian industry by dumping as required by s.269TACA.

The Commission generally derives the NIP 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 (USP).

The Commission's preferred approach to establishing a USP 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 USP, the Commission then calculates a NIP 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.

8.3 The Commission's assessment

The Commission considered whether any of the preferred options for estimating the USP are appropriate in this case. The Commission notes that this is the first opportunity for comment regarding the assessment of the non-injurious price, and as such the Commission has considered previous comments on the topic.

The Commission has noted OneSteel's claims that historical sales data provided in the investigation has been affected by dumping. It is noted that the Commission has historically identified dumping within the market for these goods. As such, the Commission is not satisfied that using historical sales data is a suitable method for calculating the USP, as these prices may be subject to suppression due to dumping from other sources.

The Commission has also considered OneSteel's argument that a USP should be calculated using industry's costs plus an appropriate uplift for profit. The Commission is not satisfied that the profit uplift proposed by OneSteel can be reasonably linked to its RIC business, and may in fact reflect a profit appropriate for a specific steel product, or part of the process. Given OneSteel's market position as a fully integrated producer of steel using both Basic Oxygen Furnace and Electric Arc Furnace processes at different sites, further analysis is required prior to accepting this rate of profit.

The Commission has previously considered arguments submitted by Stemcor and is of the view that the methodology proposed does not of itself address the issue of establishing the price at which OneSteel might reasonably be expected to sell RIC in a market unaffected by dumping. Stemcor's arguments are, in the Commission's view, focused on the cost implications of the OneSteel business structure. While these issues may have an impact on the OneSteel pricing of RIC, they do not address the issue of the price at which OneSteel might reasonably be expected to sell RIC in a market unaffected by dumping.

The Commission does not consider that the price of RIC imported from other countries into the Australian market is a suitable basis for a USP. The Commission notes that it cannot determine whether the prices from those countries have also been impacted by dumped imports from China, either directly due to price suppression through trading houses or through displaced volume in the other exporter's domestic markets leading to a lower price point for exported goods.

In the absence of a suitable method of determining the USP, the Commission has considered an alternative approach to establishing the NIP. As highlighted earlier in this report, OneSteel's prices are impacted by import prices with recognition of local supply.

The Commission is of the view that in a market unaffected by dumping, it is reasonable to expect that OneSteel would continue to set its prices with regard to import prices. In this case, as the price of imports would be higher at least by the dumping margins found, it would be expected that OneSteel prices would also be higher by at least the percentage of the dumping margins found.

Accordingly, the Commission considers that the NIP for each exporter is a price equal to the respective normal value. This redresses the effects of dumping without redressing the effects of any other factors influencing price.

As the NIP is set at the same price as the normal value, the lesser duty rule does not come into effect.

9 PROVISIONAL DUMPING MEASURES

9.1 Finding

Based on the verified and unverified information outlined in this report, the Commission is satisfied that securities are necessary to prevent material injury being suffered by the Australian industry whilst the investigation continues. The Commission therefore recommends that the Commissioner request the Commonwealth requires and takes securities in respect of imports of RIC from China entered for home consumption on or after 2 December 2015[7].

9.2 Provisional measures

The forms of duty available when implementing measures are prescribed in the *Customs Tariff (Anti-Dumping) Regulation 2013* and include:

- combination of fixed and variable duty method (combination method);
- floor price duty method;
- fixed duty method ($X per tonne); or
- ad valorem duty method (i.e. a percentage of the export price).

The current proposed securities are recommended to be taken as an ad valorem measure.

The Commission calculated that the NIP is equal to the corresponding normal value of each exporter from China. This means that the normal value is the operative measure. Therefore, securities will be at the level of the full dumping margins as shown in Table 3 below.

Exporter / Manufacturer	Effective level of securities
Hunan Valin	9.5%
Jiangsu Shagang	13.1%
Other Exporters	18.40%

Table 3 – Preliminary Dumping Margins

Further consideration will be provided to the type of measure to apply to any interim dumping duties payable as the investigation progresses.

[7] Subsection 269TD(4)

10 APPENDICES AND ATTACHMENTS

Confidential Appendix	Commissioner's Instrument
Confidential Attachment 1	Market Analysis
Confidential Attachment 2	Dumping Margin Calculation – Hunan Valin
Confidential Attachment 3	Dumping Margin Calculation – Jiangsu Shagang
Confidential Attachment 4	Dumping Margin Calculation – Other Exporters
Confidential Attachment 5	Injury & Causation Graphs & Information
Confidential Attachment 6	Australian market price testing
Confidential Attachment 7	Analysis of import price effects
Confidential Attachment 8	CRE price comparison.