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13 September 2017

Mr Bora Akdeniz
Assistant Director - Investigations
Anti-Dumping Commission
L35, 55 Collins Street
Melbourne
Victoria 3000

By email

Received on 13 September 2017

Dear Bora

Alleged dumping of wire ropes from South Africa
Bridon Bekaert – contradictory statements and further evidence

We refer to our previous submissions.

A European Commission merger approval

We wish to draw the attention of the Anti-Dumping Commission (:"the Commission") to the following extracts from the European Commission's report of *Case M.7904 — Bekaert/ OTPP/ Bridon Bekaert Ropes JV Commission decision pursuant to Article 6(1)(b) of Council Regulation No 139/2004 and Article 57 of the Agreement on the European Economic Area*:[1]

1 *However, the Parties submit that the stages in the manufacturing process are different depending on the application, including the design, selection of materials, choice of lubrication, compacting of the strands, the closing of the rope, and coating.*[2]

We draw attention to this extract in support of our clients' objections to the manner in which the dumping margin has been worked out with respect to its exports to Australia. The observation in the EU report to which we refer, which is credited to Bridon Bekaert, is a simple, undeniable proposition. Design, production methods, complexity and end uses have significant impacts on cost and price. Moreover, these differences, customer experience and customer perceptions as to the relevance of those differences, and machine usages mean that wire rope usage is quite strongly "locked in". Customers do not switch between the usage of one manufacturer's wire rope on one day, and another manufacturer's wire rope the next day, and so on.

2 *The market investigation highlighted a degree of brand loyalty. As explained by a competitor, "customers are reluctant to switch when a supplier has a good track-record" given that "there is strong loyalty and brand recognition in this area".[43] A customer emphasised that "there is strong brand preference on the customer side" and that "converting customers to different brands has proven in the past to be difficult".[44]*[3]

1 Full text at http://ec.europa.eu/competition/mergers/cases/decisions/m7904_401_7.pdf
2 *Ibid.*, para (28).
3 *Ibid.,* para (63).

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[43] See agreed minutes of a call with a competitor of 3 February 2016. Also see replies to question 23 of Q2 – Questionnaire to customers and replies to questions 12 and 18 of Q1 – Questionnaire to competitors.
[44] See agreed minutes of a call with a customer of 8 February 2016.

We draw attention to this extract in further support of our previous comments.

B Bridon-Bekaert Ropes Group Annual Report 2016

We also wish the Commission to take note of the following extracts from the *Bridon-Bekaert Ropes Group Annual Report 2016* and for them to be placed on the public record of this investigation:

1 *Economic environment in 2016*

Most ropes markets continued to be depressed in 2016. This applied to the oil & gas sector and to mining markets, although the latter started to show signs of demand pick-up at the end of 2016, supported by increased commodity prices.

Other markets relevant for the ropes business are – amongst others – the equipment sector (crane and hoisting), forestry and fishing, and construction markets.

Our activity performance

Bekaert achieved 34% sales growth in the ropes and advanced cords segment as a result of the integration of the Bridon activities in the Bridon-Bekaert Ropes Group. Depressed market conditions in the oil & gas sector affected the sales volumes and the overall capacity utilization in most ropes plants. Ropes volumes picked up modestly in the fourth quarter and the advanced cords business performed well throughout the year.

The management of BBRG is implementing actions to strengthen its market position and gradually leverage the benefits of its increased scale through improvements in the manufacturing footprint and the global business portfolio. This includes the closure of the Bridon-Bekaert ScanRope AS manufacturing plant in Tønsberg (Norway) and the realignment measures at the Belton facility in Texas (US).

Bridon-Bekaert Ropes Group begins business

Bekaert and Ontario Teachers', the previous owner of Bridon, successfully closed the definitive merger of their ropes and advanced cords businesses on 28 June 2016 and established a joint venture in which Bekaert holds 67% and Ontario Teachers' 33%. Bridon-Bekaert Ropes Group combines the ropes and advanced cords capabilities of approximately 2,500 employees, 18 manufacturing entities across 10 countries, market-focused R&D, and a global sales and services network. The combination of the businesses will leverage the scale and complementary strengths of Bekaert and Bridon and will pursue value creation for customers and for the new group.

Despite the prevailing difficult market and business conditions for ropes, the Board of Directors and the Management team of BBRG strongly believe in the future potential of the merged business. BBRG is taking actions to leverage its competencies and scale, improve the profitability of the business, and serve its customers around the world with unmatched quality and service.[4]

[4] https://annualreport.bekaert.com/en/segment-performance/bridon-bekaert-ropes-group

We draw attention to this extract in support of the following propositions:

- that Bridon Bekaert continues to admit, openly and correctly, that ropes markets around the world – ie *generally* – continued to be depressed because of the stressed state of oil, gas and mining markets, with the latter *"start[ing] to show signs of demand pick-up at the end of 2016, supported by increased commodity prices"*.

- that the merged business of Bridon and Bekaert came into being on 28 June 2016 in *"prevailing difficult market and business conditions for ropes"*,

each of which contradicts the views of the Commission as expressed in the SEF.

3

BBRG

Underlying	2015	2016
EBIT on sales	12.3%	4.1%
EBITDA on sales	18.2%	10.8%
ROCE	12.6%	3.4%

Bridon-Bekaert Ropes Group
€ 319 million
Combined sales
7% [5]

We draw attention to this extract to show that the experience of the Bridon-Bekaert Ropes Group *worldwide* was of a decline in EBIT from 12.3% in 2015 to 4.1% in 2016. This establishes that Bridon-Bekaert's claimed injury in Australia is no different to its experience in other markets around the world. The downturn in world mining markets that has impacted on its financial performance is part of the ebb and flow of its business. This contradicts the proposition that there is anything different – such as alleged dumping – that affected Bridon Bekaert's performance in Australia when compared to Bridon Bekaert's performance overall. The trends are the same, and give no credence to the proposition that Bridon Bekaert was materially injured by alleged dumping in the Australian market in 2016. And, in any event, as Bridon Bekaert's application in this matter indicates, and as does the Australian industry visit report, Bridon Bekaert's Australian operations remained profitable in 2016.

4 *Interest income and expenses amounted to € -73 million, significantly higher than last year (€ -62 million) as a result of the gross debt increase (by € 320 million) related to the Bridon merger. Other financial income and expenses amounted to € -37.5 million (versus € -33.8 million) and was the result of an adverse non-cash impact of € -42.7 million related to the fair value adjustment of the conversion option of the previous bond in line with the evolution of the share price, and the fair value adjustment of the option under the new convertible bond which resulted in a positive impact of € +5.3 million.*

Bridon-Bekaert Ropes Group

Bekaert achieved 34% sales growth in the ropes and advanced cords segment. The integration of the Bridon activities accounted for an increase of 37%. Unfavorable currency effects (-2%) and a slight organic sales decline (-1%) tempered the growth. Depressed market conditions in the oil & gas sector affected the sales volumes and the overall capacity

5 https://annualreport.bekaert.com/en/report-of-the-board/key-figures-per-segment

utilization in most ropes plants. Ropes volumes picked up modestly in the fourth quarter and the advanced cords business performed well throughout the year.

We project continued difficult market circumstances in oil & gas markets in the near future. We do expect improved results from Bridon-Bekaert Ropes Group in the course of 2017. The management is implementing actions to strengthen its market position and gradually leverage the benefits of its increased scale through improvements in the manufacturing footprint and the global business portfolio. This includes the closure of the Bridon-Bekaert ScanRope AS manufacturing plant in Tønsberg (Norway) and the recent announcement of the realignment measures at the Belton facility in Texas (US).

The one-off adjustments accounted for € -22 million: € 9 million from M&A transaction fees and € 13 million related to asset impairments and restructuring costs, mainly regarding the closure of the ScanRope facility.[6]

We draw attention to these extracts for the following reasons:

- that the debt burden of the merger of the wire ropes businesses was a significant impact on Bridon Bekaert in 2016 (said to be *"€ -73 million, significantly higher than last year"*), being a factor unrelated to alleged dumping; and

- that the M&A transaction fees related to the merger (said to be *"€ -22 million"*) also impacted unfavourably on Bridon Bekaert's costs in 2016.

Bridon Bekaert was massively affected in its Australian business by difficult conditions in the resource sector that caused mine closures and machine shutdowns which almost uniquely affected its business by reducing its sales volumes. At the same time, Bridon Bekaert suffered the cost increases that naturally accompany a reduction in throughput, as well as the imposition of debt and financial expenses from an international merger process. If it was caused injury, this was as a result of factors other than alleged dumping. We submit that it is simply not credible to maintain the opinion that South African wire ropes – sold to existing customers, at existing prices, in that part of the market already occupied by South African wire ropes - can be said to have caused material injury to Bridon Bekaert in 2016.

5 **5.3. Interest income and expense**

in thousands of €	2015	2016
Interest income on financial assets not classified as at FVTPL	8 585	6 325
Interest income	**8 585**	**6 325**
Interest expense on interest-bearing debt not classified as at FVTPL	*-55 864*	*-64 581*
Other debt-related interest expense	*-8 123*	*-7 673*
Interest expense	-63 987	-72 254
Interest element of interest-bearing provisions [1]	-6 771	-7 239
Interest expense	**-70 758**	**-79 493**
Total	**-62 173**	**-73 168**

[1] *See note 2.7. 'Restatement and reclassification effects'.*

The higher gross debt in the second half of 2016 (Bridon-Bekaert Ropes Group) and a higher average interest rate explains the increase in interest expense. Interest expense on interest-bearing debt not classified as at fair value through profit or loss (FVTPL) relates to all debt instruments of the Group, other than hedging instruments and interest-rate risk mitigating derivatives designated as economic hedges.[7]

Again, we respectfully refer the Commission to the debt burden placed on the Bridon-Bekaert

6 https://annualreport.bekaert.com/en/report-of-the-board/summary-of-financial-review
7 https://annualreport.bekaert.com/en/report-of-the-board/key-figures at page 32.

Ropes Group by its merger in 2016, as documented by this extract from its Annual Report.

5 *"The results of 2016 are a reflection of what we are capable of and have made us more confident and more ambitious about our future. We are on a transformation journey towards 10% underlying EBIT margin."*[8]

Without conceding, in any way, that a decision to impose dumping duties would be in any way merited or justified in this case – it would not – we query what profit expectations Bridon Bekaert has urged upon the Commission for the purposes of working out a so-called "non-injurious price". As above, Bridon Bekaert is on record as saying that a 10% EBIT is its financial performance goal. The data available in its application and on the public record indicates Bridon Bekaert's continuing profitability. Notwithstanding those facts, the SEF presumes to impose a 28.9% dumping duty on our client's exports to Australia. We query the Commission as to whether there is a logical relationship between Bridon-Bekaert's goal of a 10% EBIT and a punitive 28.9% dumping duty with respect to our client's exports.

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In view of this additional evidence and our further submissions, our clients repeat their request for the termination of this investigation, on the basis that it cannot be established, in the circumstances of the wire ropes market in Australia in 2016, and given the way that wire ropes are selected, supplied and used, that the alleged dumping of wire ropes from South Africa caused material injury to the Australian industry in the 12 month period of investigation of 2016.

Yours sincerely

Daniel Moulis
Partner Director

[8] https://annualreport.bekaert.com/