Dear Director

Issues Paper 2016/01
Investigation concerning grinding balls exported from China

We refer to the abovementioned Issues Paper and now offer the following comments to the Commission in that regard, and also in relation to certain other issues, on behalf of our client Changshu Longte Grinding Ball Co., Ltd (“Longte”).

This submission covers the following topics:

A  Longte has not benefited from any alleged LTAR subsidy program.........................1
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A  Longte has not benefited from any alleged LTAR subsidy program

The Issues Paper states that:

The application alleges that Chinese exporters of grinding balls have benefited from the provision of steel billet, a feed material used in the manufacture of grinding balls, by the GOC at less than adequate remuneration.

In this regard we would wish to point out that Longte purchases grinding bars for its manufacture of grinding balls. At no time did Longte purchase steel billet. Therefore Longte has not and cannot have...
benefitted from the provision of steel billet in the manner suggested by the applicants (Moly-Cop Pty Ltd and Donhad Pty Ltd).

Throughout the period of investigation (“POI”), Longte purchased grinding bars from a variety of suppliers. [CONFIDENTIAL TEXT DELETED – time period], grinding bar produced by our client’s parent company Changshu Longteng Special Steel Co., Ltd. (“Longteng”) began to be transferred to Longte, also to be used by Longte in the manufacture of grinding balls. In so far as the applicants might contend that the provision of steel billet to Longteng conferred a benefit on Longte, we advise that Longteng also did not purchase steel billet for the manufacture of grinding bars. The grinding bars supplied by Longteng to Longte were manufactured from raw materials by Longteng in its integrated steel making facility.

Further, and as relevant for present purposes, pursuant to Section 269T of the Customs Act 1901 (“the Act”) a subsidy can only be found to exist where a financial contribution is made by a government of the country of export of the goods, by a public body of that country, or by a private body entrusted or directed by that government or public body to carry out a governmental function, and where that financial contribution involves the provision of goods by that government or body.

Thus, a subsidy of the alleged type could only be found if steel billet had been provided to Longte by the Government of China (“GOC”) or by a public body of the GOC. Quite apart from the fact that neither Longte nor Longteng purchased steel billet for the making of grinding bar or grinding balls, it is also the case that neither the GOC nor any public body of the GOC provided steel billet to Longte. Even in the case of grinding bar, which Longte did purchase, there was no GOC or public body entity involved. This is evidenced by Column E of Exhibit G-6.1, which lists Longte’s suppliers of grinding bar during the POI. None of the parties listed are the GOC or a public body of the GOC. In so far as a Chinese State-invested enterprise (“SIE”) is referred to, it is not a public body, because such entities have repeatedly been found not to be public bodies under Australian law.

Thus, that part of the Issues Paper relating to “Determining Adequate Remuneration in Relation to Subsidy Program 31” does not concern either Longte or (should it be relevant) Longteng.

However, we note that the applicant Moly-Cop alleged, in an undated submission said to be related to “Australian Industry Verification Visit: Moly-Cop (Waratah)” that was placed on the public record on 24 December 2015, that there are two other “programs” it wishes the Commission to investigate – namely “Program 32: Coking coal provided by government at less than adequate remuneration” and “Program 33: Coke provided by government at less than adequate remuneration”. The Commission issued a Supplementary Exporter Questionnaire (“SEQ”) to our client on 12 January 2016, presumably as a result of Moly-Cop’s submission. The SEQ deals with those alleged programs and with various other alleged programs. Our client duly responded to that SEQ on 3 February 2016. The Issues Paper was placed on the public record of this investigation on 18 January 2016, which was after the date of both the Moly-Cop submission concerning alleged Programs 32 and 33 and after the issuance of the SEQ.

In that context we wish to make these observations:

- Longte, the manufacturer of the grinding balls that are under investigation, did not purchase coke or coal during the POI.
- Longteng, Longte’s parent company and a supplier of grinding bar to Longte during the POI, purchased coke and coal for the manufacture of that grinding bar in its integrated steel mill.

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1 This is as per the rulings of the Trade Measures Review Officer in its reports concerning Certain aluminium extrusions (18 April 2011), Hollow structural sections (14 December 2012) and Aluminium road wheels (December 2012), and by the Anti-Dumping Review Panel in its report concerning Coated steel (15 November 2013). These reports are available at [http://www.adreviewpanel.gov.au/Pages/default.aspx](http://www.adreviewpanel.gov.au/Pages/default.aspx)
on the open market in China.

- None of Longteng’s direct suppliers of coke or of coal was the GOC or a public body.
- None of the producers of coke supplied to Longteng by its suppliers were State-invested enterprises.

- [CONFIDENTIAL TEXT DELETED – commercial information about Longteng’s coal supply and suppliers]

Thus, the Program 32 and 33 allegations also do not concern Longteng, because neither Longte nor Longteng purchased coke or coal from the GOC or a public body. Further, even if that were not the case, no pass-through of any alleged subsidy benefit has been asserted by the applicants, and could not be proven.

As to the question of whether a benefit was provided to Longteng, on the incorrect assumption that it had received a financial contribution in the form of the provision of coke or coal by a government or public body at less than adequate remuneration, which would also have to be proven to have passed through to Longte, please refer to the discussion in C of this submission.

B There is no “particular market situation”, and no evidence of one

The Issues Paper states:

As noted above, the application also alleges that there is a situation in the Chinese grinding balls market that renders domestic sales unsuitable for determining normal value under subsection 269TAC(1) of the Act, i.e. that a ‘market situation’ exists under subsection 269TAC(2)(a)(ii) of the Act.

The Issues Paper then goes on to state that it is:

...seeking submissions to inform the determination of a competitive market cost for grinding bar used in the production of grinding balls in the Chinese domestic market for use in determining normal values.

In its immediate transition from allegation (that there is a “particular market situation”) to outcome (that the Commission will determine a competitive market cost for grinding bar), the Issues Paper suggests an indifference to the required legal analysis called for under the Act for the purposes of considering whether there is a “particular market situation”.

Longte’s position is that the Chinese market for grinding balls needs to be considered and analysed by the Commission. It is this product – grinding balls – that are the “like goods”, and it is the “like goods” that are the focus of Section 269TAC(2)(a)(ii) of the Act. Without doing so, the Commission cannot have any justification for considering that the situation in the market for those goods in China is such that sales in that market are not suitable for use in determining a price for the purposes of working out the normal value of those goods. There is no clear focus in either the application or in any of the other information on the public record or emanating from the Commission to suggest that the market for grinding balls has been so considered.

In that specific and important regard, Longte notes that both the steel and the resources industries worldwide are in an extremely depressed state, with commodity prices at historical lows, and that therefore it is reasonable to expect that grinding ball prices in China – being a steel product that is predominantly supplied to the resources industry – would also be depressed. This would suggest to us that a low price for grinding balls (if that be the case) was a reflection of the forces of supply and demand, and not an indication of a particular market situation.

\[2\] ADA, Article 2.2 also refers.
demand in that market, rather than being something “particular” that could be considered to constitute a “particular market situation”. The workings of the forces of supply and demand in a market cannot be creative of a “particular market situation”, because that is how markets work.

Further, in relation to the question of evidence, we offer the observation that the application cites and relies upon findings of a “particular market situation” by the then Australian Customs and Border Protection Service (“Australian Customs”) in respect of hollow structural sections in Report 177. The investigation period for dumping and subsidisation in that investigation was 1 July 2010 to 30 June 2011 – five years ago. In its references to the report of later investigations concerning coated steel and hot-rolled plate steel (reported upon in Reports Nos 190 and 198 respectively), not much is added in terms of later observations of the Chinese market. The investigation periods in those two investigations were FY2012 and calendar 2012 respectively. “Evidence” in relation to these two periods also has nothing to do with the investigation period for this investigation, which is the 12 months ended 30 September 2015. Moreover, none of the products investigated in those cases were grinding balls, which are the goods under consideration in this investigation.

Of further concern is that the evidence offered by the applicant in its application, and in its later submission, in support of its ambiguous allegation of a particular market situation in the 12 months ended 30 September 2015 includes:

- BaoSteel’s 2006 annual report – a document which now relates to a period 10 years ago;
- numerous GOC policies and aspirational documents whose period of effect have expired;
- findings made by Australian Customs in Report 190 relating to hot-rolled coil in FY2012;
- summaries of taxes and tariffs on coke, coking coal, iron ore and scrap steel that go no further than 2012;
- the statement that only a minor quantity of iron ore was exported from China… in 2012.

The Commission should find this information, and all of the other outdated allegations proffered by the applicants, to be irrelevant. Any reasonably-minded person in the position of the applicants would be embarrassed by the submission of so much old, time-limited information. An applicant carries the burden of making out its case for the purposes of initiation, and the Commission thereafter has an obligation to ensure its decisions are based on positive evidence. The lack of any evidence to disprove an unfounded assumption – such as would be the case if the Commission continued to rely on information for long-ago investigation periods in previous cases, some of which is up to 10 years old - will not suffice. We submit that a “particular market situation” finding must be made as a question of fact and law. The practice of the Commission might suggest that “particular market situation” findings are now being made against Chinese exporters of steel and aluminium products as a rule of policy.

In short, the applicants simply assume that the Commission will determine that there is a “particular market situation”, and offer nothing new to establish that there is presently such a situation. The Commission should not be complicit in this assumption.

It would also be remiss of us not to point out our client’s opinion that Regulation 43 of the Customs (International Obligations) Regulation 2015 (“the Regulations”) is not a proper implementation of the

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relevant part of Article 2.2.1.1 of the WTO Anti-Dumping Agreement. That relevant part states:

*For the purpose of paragraph 2, costs shall normally be calculated on the basis of records kept by the exporter or producer under investigation, provided that such records are in accordance with the generally accepted accounting principles of the exporting country and reasonably reflect the costs associated with the production and sale of the product under consideration.* [underlining supplied]

If Longte’s records are in accordance with China’s generally accepted accounting principles (“GAAP”) and reasonably reflect its costs, then its costs are to be calculated on the basis of those records. The entering of the actual, invoiced or incurred amounts of Longte's material costs in its records satisfies the test of reasonably reflecting those costs under Article 2.2.1.1. It is submitted that the adoption of the words “reasonably reflect competitive market costs” in the Regulations, and the presumption that the Australian investigating authority can decide for itself what the “competitive market cost” should be, is not in compliance with that Article.

Put simply, the Chinese markets in which Longte and for that matter Longteng acquire their materials are highly competitive. Longte and Longteng do not accept that the costs appearing in their financial records are not the relevant costs for normal value purposes. If an investigating authority does find a “particular market situation”, it has the options of working out normal value on the basis of the exporter’s costs or its third country export prices. In our view it does not have the option of “making up” costs and imputing them to an exporter as if they were its costs. To paraphrase Article 2.2.1.1, Longte’s costs absolutely, and therefore reasonably, reflect the costs associated with the production and sale of the product under consideration.

Longte’s comments about the request in the Issues Paper for:

…submissions to inform the determination of a competitive market cost for grinding bar used in the production of grinding balls in the Chinese domestic market for use in determining normal values. are offered without detracting from Longte’s deep concern about the presumptive misapplication of both the Act and the principles of the Anti-Dumping Agreement by the Commission in its approach towards the determination of normal values in respect of Chinese exporters of grinding balls.

C Comments regarding the consideration of a “benchmark”

To summarise:

- in the case of the subsidy allegation, Longte did not purchase any of its inputs from State-invested enterprises;
- in the case of the “particular market situation” allegation, Longte cannot see evidence of an untoward situation in the Chinese market for grinding balls that would disqualify its domestic prices from comparison with its export prices;
- Longte’s financial records accurately reflect its costs; and
- In the case of any consideration of cost surrogation, which Longte rejects, grinding bar is the only steel product that Longte purchased, and is therefore the only cost that the Commission could consider “surrogating” (again, with Longte’s strong objection).

Thus, even if the Commission maintains a course which continues to label State-invested enterprises as “public bodies” and the Chinese market for grinding balls as being subject to a “particular market
situation”, the only costs that the Commission might seek to “benchmark” in the context of Regulation 43 would be the cost of grinding bar.

It is submitted that if the Commission did intend to surrogate a grinding bar cost into a construction of Longte’s normal value, that surrogation should be a construction of the cost of grinding bar as supplied to Longte by Longteng, and not a grinding bar “benchmark” from some external source.

First, we are instructed by our client that there is no grinding bar “benchmark cost” that is available or accessible from any information source of which it is aware. Grinding bar is not a product that has an industrial standard. Indeed Longte has specifications and designs [CONFIDENTIAL TEXT DELETED – commercial information about development of Longteng's grinding bar] to avoid it becoming a standard product. Longte is the second largest grinding ball producer in the world. It has an export market focus, with very limited sales participation in the Chinese grinding ball domestic market. Longte’s products are specially designed to suit higher-end export markets. This requires customised grinding bar supply for the making of grinding ball products not commonly used in the Chinese domestic market.

Secondly, it is noted that the Issues Paper refers to the perceived need of the Commission to determine:

    a competitive market cost for grinding bar used in the production of grinding balls in the Chinese domestic market, for the purposes of determining the normal value of the goods in accordance with the Customs Act 1901 (the Act).

As we have pointed out, in Longte’s case the Commission has available to it Longteng’s detailed cost records of the conversion of iron ore, coke and coking coal into steel billet and then into grinding bar. Neither Longteng nor Longte purchased steel billet. Thus, there is not a cost of steel billet in either company’s records that the Commission could determine does not reasonably reflect a competitive market cost for steel billet. Moreover, the grinding bar cost that would “reasonably reflect competitive market cost” for Longte would be Longteng’s grinding bar costs worked out by surrogating coke and coal costs into that cost.

Therefore no “benchmark” cost for Longte-purchased grinding bar is available in any publicly available statistics, nor could there be due to the specialised nature of the grinding bar used by Longte as an export-focussed grinding ball manufacturer. In that context we remind that, [CONFIDENTIAL TEXT DELETED – time period], Longte’s related party Longteng manufactured grinding bar in its integrated steel plant which it then supplied to Longte for Longte’s manufacture of grinding balls, and that Longteng’s costs were the subject of verification by the Commission. Thus, the Commission has available to it the full costs of a private limited liability company for the manufacture of grinding bar for that period. In that case the Commission’s only “concern” could be the cost of inputs to that process which - from the applicants’ perspective - can only relate to Programs 32 and 33. Thus, the Commission might decide to seek out benchmarks for coke and coal to incorporate into Longteng’s costs. It is again noted that all of this proposed cost surrogation and “benchmarking” is objected to by Longte.

Longte’s suggestion, therefore, is that the Commission use Longteng’s production cost of grinding bars, in its integrated plant, in the second half of the investigation period as the “benchmark” cost of grinding bar in the cost calculation for Longte for the entire investigation period, with coke and coal costs to be surrogated into Longteng’s costs in so far as the Commission maintains its view that “surrogation” of the cost of inputs purchased on the Chinese market is needed.

It does occur to us that Longteng’s conversion costs of steel billet into grinding bar have been made available to the Commission, and that the Commission might look to those costs as being in some way relevant or useful for working out a grinding bar benchmark cost (eg, as an uplift to a steel billet benchmark cost) for other exporters. (As already mentioned, Longte would not agree with such an
approach in its own case, because to do so would involve ignoring the fact that Longte does not buy steel billet.) However if that is what was proposed in relation to other exporters, that did purchase grinding bar, then Longte would insist that Longteng’s conversion costs not be shared or adopted in any way in the determination of normal values for those other exporters. Longteng and Longte considers these costs to be super-efficient, and to be an important aspect of the Longteng group’s competitive advantage in the production of grinding balls. In further elaboration of this, we note that an “average” manufacturer in China would not have available to it the kind of critical equipment that Longte has in place – such as [CONFIDENTIAL TEXT DELETED – industrial information] - for high level grinding bar production. Indeed, these facilities typify the high-specification of the integrated steel plant recently built by Longteng. For example, it supports Longte’s premium grinding ball manufacture with [CONFIDENTIAL TEXT DELETED – industrial information], the running costs of which are roughly [CONFIDENTIAL TEXT DELETED – number]% lower than other steel mills who are mainly running RH (Ruhrstahl and Heraeus) facilities - a technology developed in the 1950s.

Longte is the only grinding ball manufacturer in the world that has a fully integrated production line. The huge production and volumes provides a very beneficial scale effect at both steel making and round bar rolling. This lowers Longte’s costs in comparison to its other steel mill competitors.7

The comments which follow in relation to the “competing” benchmarks (“MEP” and “SBB”) are offered for the Commission’s consideration without detracting from Longte’s disagreement with the concept that a steel billet benchmark could be relevant to its individual situation.

D Comparison and evaluation of available steel billet data

In the recently published Statement of Essential Facts in the Commission’s ongoing investigation concerning steel reinforcing bar from China (“SEF 300”),8 the Commission states:

The Commission considers that an appropriate benchmark for steel billet costs in China is the average monthly prices paid in the East Asia region for billet imports minus an average rate of domestic profit of cooperating Chinese exporters from sales of steel billets in their domestic markets. McGraw Hill Financial Service (Platts) publishes East Asian steel billet import prices at cost and freight (CFR) terms. The published prices are for billets that are SD290, Q235 or equivalent quality billets delivered to a main East Asian port.

The Commission notes that there are no reliable, published steel price indexes for the Australian standard billet that is used to manufacture the goods. The Commission acknowledges that there are some physical, chemical and alloy dissimilarities between the billets Chinese exporters use for the production of Australian standard rebar and the selected benchmark billets. However, the Commission considers that the selected billet prices are conservative and it is unlikely that the billets in East Asian index price would cost more to manufacture.

In our view, if a benchmark is required, relevant information published by McGraw Hill Financial Service (“Platts”, also referred to from time to time as “SBB” which is an acronym for the Steel Business Briefing issued by Platts)9 is to be entirely preferred over any information published by

[7] See Attachment 1 for a detailed flowchart and description of Longteng’s state of the art steel-making.
[9] Platts is a source of benchmark price assessments for a number of commodity markets: energy, petrochemicals, metals and agriculture. It is a division of McGraw Hill Financial, which conducts “credit ratings, benchmarks and analytics for the global capital and commodity markets”. The Steel Business Briefing (SBB) and sister company The Steel Index were purchased by Platts in 2011, and the brand name for SBB has been replaced by “Platts".
MEPS International Ltd ("MEPS").

Our research informs us that Platts is an objective, well-resourced and well-used benchmark in the steel industry. MEPS displays bias and is not as transparent, as reputable or as popular as Platts. Moreover, the specific MEPS data offered and promoted by the applicant Moly-Cop is not reliable market data at all, as we now explain.

1 Objectivity

A review of information published by MEPS indicates that the MEPS organisation is antithetic towards China and the Chinese steel industry.

MEPS publishes a monthly China Steel Review intended to inform subscribers on China's influence on the global steel scene and its impact on regional steel markets across the world. The keynote article in the December 2015 edition of the Review entitled [CONFIDENTIAL TEXT DELETED –not for publication] expresses the following qualitative judgment of China's steel industry:

[CONFIDENTIAL TEXT DELETED –not for publication]\(^{12}\) [underlining supplied]

The section of the Review entitled [CONFIDENTIAL TEXT DELETED –not for publication] states:

[CONFIDENTIAL TEXT DELETED –not for publication]\(^{13}\) [underlining supplied]

It is a matter of grave concern and disquiet that Moly-Cop would advocate the use of information in its own interest from a source which is evidently pro-Western and pro higher prices. The language used by MEPS and the clear direction of its commentary is anti-China. The invective aimed at the Chinese steel industry is the language of the demagogue, not of the analyst. The comments that MEPS distributes to its subscribers and identifies as its own are those of a political campaign rather than those of an independent analysis of the state of the steel industry and of market prices.

Whether or not MEPS' analysis of the situation of the steel industry in China along with the condemnation of the practices that it alleges are undertaken by the GOC betray any actual bias on the part of the company is not to the point. Such language has no place in any objective, independent and reputable analysis of any industry, and must cause any reasonable person to question the intent and direction of the data that it publishes.

The reporting in the MEPS China Steel Review is to be contrasted with that of a recent SBB Daily Briefing. The daily briefing contains seven brief articles on the situation of the steel industry in Asia, focussing especially on China, written by six different authors. The language of the Platts briefing is objective and straight-forward:

[CONFIDENTIAL TEXT DELETED –not for publication]\(^{15}\)

The language is objective, and devoid of advocacy, and the opinions are clearly identified as being attributed to particular traders.

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10 MEPS (International) Ltd is a consultancy operating in the worldwide steel sector. Its website states that it was formerly known as Management Engineering & Production Services.
11 See Attachment 2, MEPS China Steel Review, December 2015, p. 1. This document is available to MEPS subscribers and is not for public distribution or reproduction, therefore it has been provided as a confidential attachment.
13 Ibid, p. 4.
14 See Attachment 3, SBB Daily Briefing, 1 February 2016. This document is available to Platts subscribers and is not for public distribution or reproduction, therefore it has been provided as a confidential attachment.
15 Attachment 3, Fu Li and Lucy Tang, Rebar unchanged on limited buying Asia.
2 Resourcing

In comparing the resourcing of the companies it is relatively clear that Platts/SBB should be preferred by the Commission over MEPS.

- MEPS claims to provide the “most comprehensive analysis of steel market prices in the world”.\footnote{MEPS (International) Ltd (http://www.meps.co.uk/)} However, our internet research suggests that it is a company of between 11 and 50 people\footnote{MEPS International Ltd, Linkedin (https://www.linkedin.com/company/meps-international-ltd)} that produces regional updates and steel price updates monthly.\footnote{MEPS, MEPS Steel Prices Online (http://www.meps.co.uk/world-price.htm)}

- On the other hand, Platts is a company of over 1,000 people\footnote{Platts, About Platts (http://www.platts.com/about )} (working across eight sectors) that produces updates on the steel industry in real-time, daily, weekly and monthly.\footnote{Respectively, Platts, Metals Alert (http://www.platts.com/products/metals-alert); Platts, SBB Steel Markets Daily (http://www.platts.com/products/steel-markets-daily); Platts, Platts World Steel Review (https://www.steelbb.com/worldsteelreview/); and Platts, Steel Raw Materials Monthly (http://www.platts.com/products/steel-raw-materials-monthly).} As outlined below, Platts has publicly available, detailed documents outlining methodology of pricing for each sector it covers, and each product that it covers within the steel sector.

3 Methodology and comprehensiveness

The MEPS website offers no specific methodology documents, but there are a few publicly available statements on methodology to be found there. One, under “Product and Price Definitions” states the following:

\textit{METHODOLOGY} - Steel price information is obtained through confidential discussions with a wide range of steel buyers in twenty eight countries throughout the world. From the conversations, we gain information about real deals made, the steel supply demand balance and short term requirements of the market. After analysing the results, we determine a price range each month for seventeen different steel product forms.\footnote{MEPS, Product and Price Definitions (http://www.meps.co.uk/definitions.htm)}

A further statement on methodology advises:

\textit{RESEARCH METHODOLOGY}… From the information gathered plus published data and MEPS analysis, we were able to make an assessment of the average steel usage, for each industrial sector. Regional differences were accommodated. Using the above criteria, in conjunction with MEPS researched, selling values for the individual rolled steel products, a notional January 2007 average steel price was calculated for each industrial sector. These were referenced index 100. All subsequent index values have been taken from this point - based on the monthly changes in negotiated steel prices. Forecasts are updated monthly and extend for a period of one year into the future with a rolling 5 years historical data. A chart showing both historical and future trends will be displayed. The data is updated online on the last day of the month.\footnote{MEPS, Industrial Sector Steel Purchasing Price Indexes (http://www.meps.co.uk/SteelPurchasingPricindex.htm)}

Another page states that for the API Linepipe Steel Price Index X60/65 Composite:

\textit{The results of the investigation are evaluated to check that the values presented are within an acceptable tolerance band. Those outside a reasonable tolerance are excluded from the final results. Finally, the data is analysed and average quarterly steel prices calculated. The}
pricing information is then translated into index values for inclusion in the report.\(^{23}\)

No further methodology is given and no market location for pricing assessments is publicly advised for any products. However, some further pricing definitions are provided in documents available to subscribers, for example in the *China Steel Review* referred to above. For example, following price definitions are given:

\[\text{[CONFIDENTIAL TEXT DELETED --not for publication]}^{24}\] [underlining supplied]

In summary, the MEPS explanations – especially those parts that are underlined – demonstrate a subjective selectivity and the exclusion of relevant market data in the assembling of its benchmarks. The reference to a claimed [CONFIDENTIAL TEXT DELETED --not for publication] from Chinese steel producers bears out the lack of objectivity of the MEPS organisation and its pro-Western approach to steel prices.

Platts has detailed and publicly available documents outlining its methodology for various price assessments.\(^{25}\) The “Steel, Ferrous Scrap and Noble Alloys Methodology and Specification Guide” describes the methodology for indexes and assessments for the “entire process of producing price values for the specified market period”.\(^{26}\) This 32 page publicly available document outlining the methodology of steel pricing by Platts is clearly more significant than anything made available by MEPS.

For example, the document states that the following sources of data are used:

- Confirmed transactions;
- Firm bids that are open to the marketplace as a whole, with standard terms;
- Firm offers that are open to the marketplace as a whole, with standard terms;
- Expressions of interest to trade with published bids and offers, with standard terms;
- Indicative values, clearly described as such;
- Reported transactional activity heard across the market, clearly described as such;
- Other data that may be relevant to Platts assessments.\(^{27}\)

The “MOC price assessment principles” section of the Methodology document also states that:

MOC [Market on Close] guidelines are designed to avoid distortion of the final price assessments by eliminating inputs that are not fully verifiable, and by disregarding one-offs or unrepeatable transactions, or those that may distort the true market level. Transactions between related parties are, for instance, not considered in the assessment process.

Platts does not specify a minimum amount of transaction data, or a transaction data threshold, for the publication of its price assessments. Physical commodity markets vary in liquidity… Platts seeks to receive market information from as broad a cross section of the market as possible.\(^{28}\)

Platts further extensively outlines its data methodology under the headings “Data Quality and

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\(^{23}\) MEPS – API Linepipe Steel Price Index X60/65 Composite (http://www.meps.co.uk/APIIndex.html).
Note: API stands for American Petroleum Institute.

\(^{24}\) Attachment 2, p. 8.

\(^{25}\) The metals methodology and specifications are available at http://www.platts.com/methodology-
specifications/metals.


\(^{27}\) Ibid, pp. 2 to 3.

\(^{28}\) Ibid, p. 4.
In Part VII of the document, “Definitions of the Trading Locations for Which Platts Publishes Indexes or Assessments” a specifications guide is given for the location of pricing assessments, amongst a number of other factors. An excerpt showing the critical, relevant and comprehensive approach of Platts/SBB to its data sets is provided below:

To further exemplify the detailed approach of Platts/SBB, we note the explanation it provides for product SB01142 HRC East Asia Import CFR weekly:29

Prime Hot Rolled Steel Coils of new manufacture, chemical and mechanical tolerances will be based on SS400 or equivalent specifications. The assessment will reflect specifications normalized to SS400 or equivalent coil of 3 mm thickness and 1,200-1,500 mm width. The location specified will be the port of Ho Chi Minh City, Vietnam, the main destination of cargoes traded in the spot market in Asia. Platts will consider for assessment deals, bids and offers for cargoes of other qualities and sizes, and delivered into other Northeast and Southeast Asian ports, normalized to the clarified specifications. Normalization for quality and size will be done based on current premiums and discounts applied by the market, and that for location will utilize freight netback and net forward calculations. Information about known tariff and non-tariff barriers in the various jurisdictions will also be used in the normalization process.30

In summary, we suggest that Platts/SBB is better resourced, better explained, more comprehensive and, importantly, more objective.

4 Popularity and usage

We are instructed that Platts is preferred by the North America and Asian steel industry. The steel index CRU31 is popularly used amongst steel producers in South America. The Elecmetal group of companies, for instance, uses both CRU and Platts in their sales business in different countries, but does not use MEPS. Most of the Longteng and Elecmetal group executives we have spoken with in preparing this submission were unaware of MEPS or required it to be explained to them before they

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30 Ibid, p. 16.
31 http://steel.crugroup.com/long/ataglance/
had any recollection of it.

We are instructed by our client that Platts is the most well received index in the industry, and that it is used by leading companies such as Rio Tinto and BHP.

5 Credibility and representativeness

The benchmark proposed by the applicant Moly-Cop relies only upon MEPS steel billet price data relating to Turkey and South Africa. It is a simple average of that data. The applicant claims that all other price data must be excluded on the basis that that would incorporate Asian prices which would be influenced by Chinese export prices. This selection of a benchmark is arbitrary, with no reasons provided to demonstrate why the simple average price of two outlier markets such as Turkey and South Africa is considered to be a reasonable reflection of a competitive market cost for steel billet available to a Chinese grinding bar or grinding ball manufacturer.

A benchmark said to reasonably reflect competitive market cost must reflect the real world market. The fact is that China accounts for more than half of the world’s steel output and is an active participant in the world steel market. This is the competitive market condition that exists in the real world. An exercise that attempts to find a steel benchmark that excludes China, or a benchmark “free” from China influence, is flawed, fanciful and discriminatory.

But even more importantly, the MEPS data referred to by the applicant Moly-Cop is neither accurate nor credible. We draw the Commission’s attention to the website link provided in Moly-Cop’s submission, which is said to be the source of its claimed benchmark as calculated at Table C-1.1.2 of its submission. The MEPS website in the link provided show MEPS “steel billets” prices for seven countries from June 2015 to October 2015, thereby providing a three month overlap with the January 2015 to August 2015 data provided by Moly-Cop. The MEPS webpage reports the prices in local currency, and in “US Dollar/tonne equivalent”. The local currency prices for South Africa – one of the two countries identified by Moly-Cop as being its preferred basis for benchmark and cost surrogation – have not changed in the June to October period at all (and the same is true for the Pakistan prices shown):

![Graph of MEPS steel billet prices for South Africa and Pakistan from June 2015 to October 2015](image)

What this means is that MEPS does not or did not have steel billet price data for those countries in all of those months. Presumably, that was an estimate for the first month, which was simply carried over to the following months for which MEPS had no data available. There may be another explanation and we would be glad to be informed of it.

The data offered to the Commission by the applicant Moly-Cop shows month-to-month variations only because of exchange rate fluctuations between the relevant local currency and USD. It appears that the variations have nothing to do with steel billet prices and trends in any market.

The facts that such data is used by MEPS in its “most comprehensive analysis of steel market prices in the world”, and that it has been presented to the Commission by Moly-Cop in a way which masks its defects, raise serious concerns about the reliability of MEPS data and about the credibility of the

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32 The webpage does not indicate that historical/earlier data is available.
applicant.

6 Conclusion

In summary, the data provided by Platts/SBB and its explanations of methodology in relation to its data is comprehensive and transparent. It is well-used and relied upon by the steel industry, indicating both confidence and respect in its statistics. Platts provides steel pricing information, reviews or reports in real-time, daily, weekly and monthly. Platts provides detailed, publicly available documents on its methodology across all of the sectors it covers, including a 32 page document on steel pricing.

Most significantly, the Steel Business Briefing produced by Platts is an objective source of information. The MEPS keynote essay of its China Steel Review proclaims that inaction by Western governments in relation to China’s steel industry is a [CONFIDENTIAL TEXT DELETED –not for publication]. We have highlighted other aggressive criticisms of the Chinese steel industry as well.

Independence and transparency are integral to the reliability of information. We submit that MEPS does not demonstrate those qualities, and that any reliance on it by an Australian Government agency would present the appearance of a bias that has no place in administrative decision making.

Yours sincerely

Daniel Moulis
Principal Partner

Attachments