

Australian Government Anti-Dumping Commission

INVESTIGATION 223

ALLEGED DUMPING OF HOT ROLLED STRUCTURAL STEEL SECTIONS

EXPORTED FROM JAPAN, THE REPUBLIC OF KOREA, TAIWAN AND THAILAND

VISIT REPORT - AUSTRALIAN INDUSTRY

OneSteel Manufacturing Pty Ltd

THIS REPORT AND THE VIEWS OR RECOMMENDATIONS CONTAINED THEREIN WILL BE REVIEWED BY THE CASE MANAGEMENT TEAM AND MAY NOT REFLECT THE FINAL POSITION OF ANTI-DUMPING COMMISSION

February 2014

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ABBREVIATIONS

\$	Australian dollars				
ACBPS	Australian Customs and Border Protection Service				
Arrium	Arrium Limited				
AUD	Australian dollars				
BOS	Basic Oxygen Steelmaking System				
COGS	Cost of goods sold				
the Commission	Anti-Dumping Commission				
CTMS	Cost to make & sell				
EAF	Electric Arc Furnace				
EBIT	Earnings before interest and tax				
EBITDA	Earnings before interest, tax, depreciation and amortisation				
FIS	Free into store				
GFC	Global financial crisis				
HRS	Hot Rolled Structural Steel Sections				
ICH	Collieries Blend Dry				
IPP	Import parity price				
Korea	Republic of Korea				
MES	Manufacturing Execution Systems				
MPa	Mega Pascals				
OneSteel	OneSteel Manufacturing Pty Ltd				
OSMC	OneSteel Metalcentre				
PAD	Preliminary Affirmative Determination				
SG&A	Selling, general and administrative expenses				
SRDM	Sales Reporting Debtor Management				
SEF	Statement of Essential Facts				
SFE	Shape finishing end				
The Act	Customs Act 1901				
The applicant	OneSteel Manufacturing Pty Ltd				
the goods	the goods the subject of the application (also referred to as the goods under consideration or GUC)				
the Minister	the Minister for Industry				
USD	United States dollars				
USP	Unsuppressed Selling Price				

1 BACKGROUND AND PURPOSE

1.1 Background

On 26 August 2013, OneSteel Manufacturing Pty Ltd (OneSteel) (the applicant) lodged an application requesting that the then-relevant Minister, the Minister for Home Affairs, publish a dumping duty notice in respect of hot rolled structural steel sections (HRS) exported from Japan, the Republic of Korea (Korea), Taiwan and Thailand.

OneSteel provided further information and data in support of its application, the last of which was received on 1 October 2013, restarting the 20 day period for consideration of the application.

The applicant alleges that the Australian industry has suffered material injury caused by HRS exported to Australia from Japan, Korea, Taiwan and Thailand at dumped prices. The applicant claims the industry has been injured through:

- price depression;
- price suppression;
- reduced profits and profitability;
- reduced domestic revenues;
- reduced production capacity utilisation;
- reduced employment; and
- reduced attractiveness for reinvestment.

Public notification of the initiation of the investigation was made on 24 October 2013 in *The Australian* newspaper and through Anti-Dumping Notice No. 2013/75.

1.2 Purpose of visit

The Commission visited OneSteel as part of the investigation. The purpose of the visit was to:

- obtain relevant information about the Australian market for HRS;
- gain a greater understanding of the company's manufacturing, marketing and distribution processes;
- verify information provided in the application;
- obtain relevant financial data about claimed injury to the Australian industry; and
- gather information relevant to assessing whether the allegedly dumped imports had caused material injury to the Australian industry.

1.3 Meeting details

Company	OneSteel Manufacturing Pty Ltd Port Augusta Road Whyalla SA 5600
Company Representative	Matt Condon, Manager Trade Measures
Consultant	John O'Connor, John O'Connor & Associates Pty Ltd
Dates of visit	28 October 2013 to 31 October 2013

The following representatives were present at various stages of the meetings:

OneSteel Manufacturing Pty Ltd	Matt Condon, Manager Trade Measures , Manager Steel Products , Commercial Business Partner - Steel Products , General Manager , Market Manager , Product Manager , Commercial Business Partner - Iron Making , Commercial Manager , Finance Systems Analyst
Consultant	John O'Connor, John O'Connor & Associates Pty Ltd
Anti-Dumping Commission	Candy Caballero, Director Operations 3 Adam Yacono, Manager Operations 3 Matthew Williams, Manager Operations 3 Andrea Stone, Manager Operations 3

1.4 Investigation process and timeframes

The Anti-Dumping Commission (the Commission) advised OneSteel of the investigation process and timeframes as follows:

- The investigation period is 1 October 2012 to 30 September 2013. The injury analysis period is from 1 July 2009 for the purpose of analysing the condition of the Australian industry.
- A preliminary affirmative determination (PAD) may be made no earlier than day 60 of the investigation, which falls on 23 December 2013, and provisional measures may be imposed at the time of the PAD or at any time after the PAD has been made. The Commission will not make a PAD until (and if) it becomes satisfied that there appears to be, or that it appears there will be, sufficient grounds for the publication of a dumping duty notice. This was distinguished from the 'reasonable grounds' threshold for initiation of the investigation.
- The Statement of Essential Facts (SEF) for the investigation is due to be placed on the public record by 11 February 2014 or such later date as the Minister for Industry (the Minister) allows under s.269ZHI of the *Customs Act 1901* (the Act). The SEF will set out the material findings of fact on which the Commission intends to base its recommendations to the Minister, and will invite interested parties to respond, within 20 days, to the issues raised therein.
- Following receipt and consideration of submissions made in response to the SEF, the Commission will provide its final report and recommendations to the Minister. This final report is due no later than 28 March 2014 unless an extension to the SEF or the report itself is approved by the Minister.

1.5 Visit report

We explained to OneSteel that we would prepare a report of our visit (this report) and provide it to OneSteel to review its factual accuracy, and to identify those parts of the report it considers confidential.

We explained that, in consultation with OneSteel, we would prepare a non-confidential version of the report, and place this on the investigation's Public Record.

2 THE GOODS

2.1 Description

The goods the subject of the investigation (the goods) are:

Hot rolled structural steel sections in the following shapes and sizes, whether or not containing alloys:

- universal beams (I sections), of a height greater than 130mm and less than 650mm;
- universal columns and universal bearing piles (H sections), of a height greater than 130mm and less than 650mm;
- channels (U sections and C sections) of a height greater than 130mm and less than 400mm; and
- equal and unequal angles (L sections), with a combined leg length of greater than 200mm.

Sections and/or shapes in the dimensions described above, that have minimal processing, such as cutting, drilling or painting do not exclude the goods from coverage of the investigation.

Goods excluded from this investigation are:

- hot rolled 'T' shaped sections, sheet pile sections and hot rolled merchant bar shaped sections, such as rounds, squares, flats, hexagons, sleepers and rails; and
- sections manufactured from welded plate (e.g. welded beams and welded columns).

In support of the goods description, OneSteel stated in their application:

In Australia the goods are commonly known as universal beams, universal columns, universal bearing piles, parallel flange channels and both equal and unequal angles. Universal columns typically have their web lengths similar to their flange lengths, whereas universal beams typically have longer webs than flanges. In some other countries the term "H beams" applies to both universal beams and universal columns and the term "I beams" denotes tapered flange beams.

The common grades of steel that the goods subject to this application are sold to are grade 300 and grade 350. The minimal yield stress of the grade 300 refers to 300 Mega Pascals (MPa) and the minimal yield stress for grade 350 is 350 MPa.

The type of alloys that may be incorporated into the HRS steel sections include but is not limited to boron (typically with a boron amount above 0.0008 per cent or chromium above 0.3%). For clarity, the inclusion of alloy(s) is limited to the shapes and sizes identified above.

The majority of the goods that are subject to this application are manufactured to comply with or exceed the requirements set out in AS/NZS 3679.1:2010 Structural steel Part 1: Hot-rolled bars and sections.

Imported goods are mostly quoted to AS/NZS 3679.1, but if not will generally be quoted to an international standard that stipulates nominal yield strength of 300 Mega Pascals (MPa).

2.2 Tariff classification

The goods are classified to the following tariff subheadings in Schedule 3 to the *Customs Tariff Act 1995*:

- 7216.31.00 statistical code 30 (channels U and C sections);
- 7216.32.00 statistical code 31(universal beams I sections);
- 7216.33.00 statistical code 32 (*universal column and universal bearing piles H sections*); and
- 7216.40.00 statistical code 33 (equal and unequal angles L sections).

For the tariff subheadings outlined above, the general rate of duty is 5% for goods imported from Japan, and free for imports from Korea, Taiwan and Thailand.

The Commission has received advice from the Tariff Policy section of the Australian Customs and Border Protection Service (ACBPS), indicating tariff subheading 7216.50.00 may also be applicable to C sections, only in circumstances whereby these goods are differentiated by industry members and consumers from U sections. The Commission notes that OneSteel considers these products to be interchangeable and the Commission will seek further clarification on this matter during the course of the investigation.

Goods identified as hot rolled other alloy steel sections, as per the specified shapes and sizes described above, are classified to tariff subheading 7228.70.00 in Schedule 3 of the *Customs Tariff Act 1995*. The applicable duty rate for imports from Japan, Korea and Taiwan is 5%, and Thailand is free.

In consideration report 223, the Commission detailed Tariff Concession Orders (TCO) 0513491 and 0513492 may apply to such goods that are classified to tariff subheading 7216.32.00 and 7228.70.00, respectively. After further examining the goods under consideration, and the application of TCO 0513491 and 0513492, the Commission has determined that both TCO's do not apply to the goods under consideration. With reference to TCO 0513492, this TCO was revoked on 5 January 2014, as a subsequent result of 2 years of non-use.

2.3 Australian Standard

At the verification visit, OneSteel provided a copy of *AS/NZS 3679.1:2010 Structural steel Part 1: Hot rolled bars and sections* – Australian Standard (**Confidential Attachment GEN 1**).

This outlined that the Australian Standard requires HRS to be manufactured to Grade 300, which has minimum yield strength of 300MPa, among other criteria (including the requirement of a 'rolled-in' brand identifier in the section at specified intervals, and mass tolerances).

OneSteel confirmed that their entire HRS range is manufactured to meet or exceed the Australian standard.

OneSteel's standard HRS range is manufactured to the 300MPa strength required by the standard, and is branded as '300PLUS'®. OneSteel stated that elements of its 300PLUS® actually exceed the Australian Standard (hence the 'plus' in its brand name).

OneSteel also manufactures HRS product to Grade 350, which has minimum yield strength of 350MPa, for customers who require higher yield strength HRS for certain applications. OneSteel explained that 350 grade is generally only manufactured when a customer orders it (it does not form part of its standard range).

2.4 International Standards

OneSteel explained that there are differences in steel quality and properties, grades, mass tolerances and other product characteristics between HRS sold in Australia and those sold in overseas domestic markets, which are reflected in the various international standards that HRS is manufactured to.

OneSteel provided copies of various international HRS standards including the Thailand Industrial Standard - TIS 1227-2539 (**Confidential Attachment GEN 2**) and the Japan Industrial Standard - JIS G 3192, (**Confidential Attachment GEN 3**).

OneSteel also provided a table that it had generated, comparing mass tolerance levels (i.e. the acceptable actual weight of steel sold under the standard, which may vary from its theoretical weight) for various international standards (**Confidential Attachment GEN 4**). OneSteel discussed this in the context of considering the impact on differences between actual and theoretical weights when determining dumping by exporters. OneSteel advised that this was an issue that it would further consider and discuss with the Commission during the investigation.

3 THE AUSTRALIAN INDUSTRY

3.1 Corporate, organisational and ownership structure

OneSteel is a wholly owned subsidiary of Arrium Limited (Arrium), formerly OneSteel Limited.

Arrium is an international mining and materials company listed on the Australian Securities Exchange. The company is structured around three key businesses segments:

- Arrium Mining: an exporter of hematite iron ore and also supplies iron ore feed to OneSteel's integrated steelworks at Whyalla;
- Arrium Mining Consumables: supplies resource companies with a range of key mining consumables, including grinding media, wire ropes and rail wheels; and
- Arrium Steel: comprises steel manufacturing, recycling, and steel distribution businesses.

OneSteel forms part of the Arrium Steel business. OneSteel produces a wide range of finished long products including reinforcing bar and rod, HRS, merchant bar, rail and wire products.

At the verification, an organisational chart was provided, which outlined Arrium's structure (**Appendix 1**).

3.2 Accounting structure and details of accounting systems

OneSteel's accounting period is 1 July to 30 June. Its financial statements are prepared in accordance with Australian Accounting Standards and International Financial Reporting Standards and are consolidated into the annual statements of Arrium, which are audited annually.

The most recent audited full year accounts provided to the investigation are for the year ending 30 June 2012.

During the verification visit, OneSteel provided an overview of its accounting and enterprise resource planning systems:

- SAP is used for purchasing, maintenance, accounts payable, the fixed assets register, inventory valuation, non-trade invoicing and by-product invoicing;
- Sales Reporting Debtor Management (SRDM) system is used for invoicing of HRS, rail products and sleepers;
- various manufacturing execution systems (MES) are used to record production and inventory tonnes - the data in these systems is posted manually into SAP on a monthly basis; and
- Hyperion is used for corporate consolidation and reporting (for the entire Arrium group).

OneSteel advised that it has one profit centre, at the total business level, and operates numerous cost centres that record costs at different stages of the production processes.

OneSteel advised that the costs are classified into 6 different 'types' or categories:

- selling and administration;
- operations support;
- maintenance;
- process;
- product; and
- despatch.

3.3 Relationship with suppliers and customers

OneSteel purchases magnetite and hematite iron ore (such as pellet and lump ore), from Arrium Mining's iron ore operations located in the Middleback Ranges, South Australia. OneSteel also purchases a small amount of quartz and dolomite from Arrium Mining.

These related party transactions are further discussed in Chapter 10 of this report.

OneSteel submitted that it has no relationship other than a commercial buyer/seller relationship with any other supplier.

During the verification visit, OneSteel provided a list of its coal suppliers, namely

. Similarly, OneSteel outlined that they source alloys such as ferro silicon, high carbon ferro manganese and medium carbon ferro manganese from

OneSteel sells it HRS products to a network of national, regional and state distributors, comprising related and non-related entities, which is further outlined in section 5.1 of this report.

3.4 Product range and manufacturing facilities

3.4.1 Manufacturing facilities

OneSteel's manufacturing facilities are:

- the fully integrated Whyalla Steelworks including the Hot Rolled Structural Mill
- two electric arc furnaces (EAF) located in Sydney, New South Wales and Laverton, Victoria;
- Bar and light structural mills at Laverton and Sydney;
- several other rod and bar and wire mills located in various locations around Australia.

The Whyalla integrated works produce metal for OneSteel's manufacturing operations across all sites, while the EAFs produce steel for use in facilities other than Whyalla.

The Whyalla Steelworks produces steel using a basic oxygen steelmaking system (BOS), where liquid steel is cast into billets, slab or blooms. The EAFs produce steel and cast liquid steel into billet.

Billet is used as feed for rod and bar products (not subject to the investigation), slab and bloom is the feed product for OneSteel's structural mill.

3.4.2 Product Range

OneSteel manufactures:

- HRS;
- other hot-rolled structural sections that fall outside the scope of the investigation;
- rail and sleepers;
- rod and bar products; and
- wire products.

OneSteel manufactures HRS in a range of shapes, sizes, grades, thicknesses and lengths at its structural mill in Whyalla. OneSteel also makes one model of hot rolled structural sections at Whyalla that fall outside the scope of this investigation (100mm universal columns).

The Laverton structural mill makes smaller hot rolled structural sections that are all outside the scope of the investigation.

OneSteel advised that its HRS is manufactured with physical dimensions based on imperial measurements, although they are referred to as a metric equivalent.

As an attachment to its application, OneSteel provided a copy of its *Pricing and Availability Guide*, which is discussed further in Section 5.4 of this report. This guide details the range of HRS products for sale by OneSteel, base product prices, pricing extras and bundle sizes for the standard range of HRS.

In addition, OneSteel has various product catalogues, size and specification information available on its website, <u>www.onesteel.com</u>.

These sources confirm that OneSteel's product offering includes HRS in various:

- profiles (parallel flange channels (channels), angles, universal beams, universal columns and universal bearing piles);
- dimensions;
- thicknesses; and
- lengths (standard lengths being 9 18m for channels and beams and 9 15m for angles with other lengths by enquiry).

The profiles and relevant sizes of HRS listed in OneSteel's *Pricing and Availability Guide* are outlined below in Table 1.

Channels	Angles	Universal Beams	Universal Columns	Universal Bearing Piles
150PFC	125x125	150UB	100UC	200UBP
180PFC	150x90	180UB	150UC	310UBP
200PFC	150x100	200UB	200UC	
230PFC	150x150	250UB	250UC	
250PFC	200x200	310UB	310UC	
300PFC		360UB		
380PFC		410UB		
		460UB		
		530UB		
		610UB		

Table 1 – available HRS profiles and sizes

We understand that OneSteel did manufacture, or had the ability to manufacture, the entire range of HRS within the *Pricing and Availability Guide* during the investigation period.

3.5 **Production process**

During the verification visit, OneSteel provided a tour of the integrated steelmaking facilities at Whyalla. We observed OneSteel's production process to be as follows:

Coke Making

• Coking coal is converted to coke through a heating process in coke ovens.

Iron Making

• Molten pig iron is made in a blast furnace from pellets of iron ore and coke.

Steel Making

• The molten pig iron is transferred to Steel Making where scrap and alloys are added in the Basic Oxygen Furnace to produce molten steel;

- The molten steel is poured into a combi-caster which produces slabs, blooms or billets in various lengths, widths and heights; and
- Blooms are the feed for the Hot Rolling Structural mill and are stored in the bloom yard until required.

Structural Mill

- Prior to rolling in the Structural mill, the blooms are heated in the re heat furnace to the required temperature;
- Blooms are extracted from the reheat furnace, descaled and transferred to the rolling stands; and
- The stands contain a combination of horizontal and/or vertical rolls that are used to shape the products. Stand rolls are unique for each section.

Shapes Finishing End

- After exiting the final stand, the shapes are cut with the hot saw into long lengths and transferred to the cooling beds. Samples for testing are taken at the hot saw; and
- After cooling, the shapes are straightened, inspected, cut to customer length, bundled, stencilled and labelled. The label contains information on shape, size, grade and metre weight.

Material Handling and Dispatch

• The products are then stored in Whyalla prior to being sent to the Distributor's warehouse or directly to their customer's facility.

As part of the verification visit, we were provided with a number of process flow maps, which depicted the production process (**Confidential Attachment GEN 5**) from raw materials stage to the point at which the goods are despatched.

3.6 Annual turnover

Of this total revenue, HRS manufactured by OneSteel accounted for approximately during the investigation period, with exports accounting for %.

3.7 Capacity

In Confidential Appendix A7 of the application, OneSteel provided capacity and capacity utilisation figures for the Whyalla plant in terms of a percentage of actual tonnes to budgeted tonnes.

This indicates that the HRS capacity of the Whyalla mill on average for the period FY2010 – FY2013 was approximately tonnes per annum (based on budgeted figures).

Within A7, OneSteel included data of its HRS production volumes, which indicated its capacity utilisation to be as follows:

	FY2010	FY2011	FY2012	FY2013
OneSteel Capacity Utilisation	%	%	%	%

OneSteel's capacity utilisation is further discussed at Section 7.2.4 of this report.

3.8 Exports

In addition to its Australian sales of HRS, OneSteel also exports HRS to

OneSteel explained that it has experienced export ______, and that this ______ [export performance] can be partially attributed _______[reason for export performance].

We observed that exports to **accounted** during the 2013 financial year accounted for approximately **1**% (**Counter** tonnes) of OneSteel's HRS sales volume, and **1**% of HRS sales revenue. This is **accounted** of **1**% compared to 2010 and 2011, and **1**% compared to 2012 in both value and volume.

3.9 Like goods

In its application, OneSteel stated that it is the sole Australian producer of HRS, which it submits are like goods to the goods under consideration. The basis for this claim by OneSteel is that the HRS products that it manufactures:

- are alike in physical appearance;
- compete directly in the same market;
- are directly substitutable; and
- have the same end-uses

as imported HRS.

In light of the above, OneSteel considers that the essential characteristics of imported HRS are the same, or similar, to locally produced HRS. OneSteel stated that essential characteristics that were alike include physical, commercial, functional and production likenesses.

Based on discussions and verification with OneSteel, we consider:

- the primary physical characteristics of the goods and locally produced goods are similar;
- 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 they have a similar range of end-uses; and
- the goods and locally produced goods are manufactured in a similar manner.

In light of the above, we are satisfied that the Australian industry produces like goods to the goods the subject of the application, as defined in section 269(T) of the Act. The issue of like goods will continue to be assessed throughout the investigation.

4 AUSTRALIAN MARKET

4.1 Background

OneSteel submitted that the Australian HRS market is comprised of OneSteel (the local manufacturer), overseas manufacturers/exporters, importers (some of which buy directly from the exporter and others via overseas and local trading houses), distributors, wholesalers/ resellers and end-users.

In its application, OneSteel submitted that import supply is from a number of countries, identifying Japan, Korea, Taiwan and Thailand as major sources. In the ACBPS database, we found that there were no other significant sources of import supply.

In Confidential Appendix A2 to the application, OneSteel estimated the total Australian market in FY2013 to be tonnes. We note that OneSteel's capacity figures (budgeted) for FY2013 state that OneSteel's capacity for FY2013 was tonnes, meaning that OneSteel considers that it has the capacity to supply over % of the Australian HRS market. OneSteel informed the Commission that it is able to increase its budgeted capacity to produce HRS sections by adding additional shifts.

4.2 Market segmentation and end use

OneSteel explained that the key market segments for structural steel are commercial construction, mining and resource construction, engineering fabrication, and, to a lesser degree, residential construction, manufacturing and piling.

OneSteel stated that universal columns are generally used in vertical support applications, whilst universal beams and channels are used in horizontal applications. Structural angles are generally used in bracing applications.

OneSteel explained that the relative strengths and weaknesses of key market segments drive the overall market size.

4.3 Demand variability

OneSteel explained that demand for HRS has improved since the global financial crisis (GFC), but that the market remains highly competitive and price sensitive. OneSteel submits that demand variability for HRS within the Australia market is driven by the following factors:

- variability of investments in key market segments, including non-residential construction, engineering construction, mining and resources infrastructure, and manufacturing; and
- seasonal fluctuation, in particular the traditional construction industry holiday period in December and January.

The Commission observed movements in OneSteel's sales volumes consistent with seasonal fluctuation.

Further discussion of movements in OneSteel's sales volumes is contained in Chapter 7 of this report.

4.4 Substitutable Products

OneSteel explained that reinforced concrete and imported fabricated steel components are substitutable products in some market construction and engineering markets, for example, in high rise buildings.

4.5 Market size and share

In its application, OneSteel submitted its estimates of the Australian market size and share of HRS over the last four financial years.

OneSteel estimated the Australian market, based on sales tonnes, has steadily declined over the last four financial years from **and the second** in 2010 to **and the second** tonnes in 2013.

The information provided by OneSteel in relation to the Australian market is depicted in Figure 1, below.



Figure 1 – Australian Market Size for HRS – FY 2010 to FY 2013

At the consideration stage of the investigation, a comparative analysis of the data provided by OneSteel and that held in the ACBPS database was undertaken.

After adjusting for the relevant tariff classifications, goods descriptions and price ranges, to identify the goods, it was determined that OneSteel's estimate of the market was reasonable.

Verification of the sales data provided by OneSteel in its application (and used in its estimates of market size and share) was undertaken with OneSteel during the verification visit, and is discussed further in Chapter 5 of this report.

During this period, OneSteel sold between and and tonnes of HRS annually, and its market share fluctuated between %.

Verification of import sales will further inform the Commission of the reasonableness of the data submitted by OneSteel.

4.6 Marketing and distribution

Distributors are themselves supplied by the Australian industry, or through large steel trading houses such as **a second**, who import HRS.

OneSteel explained that the vast majority of its customers are considered to be large/medium-sized distributors.

The Australian HRS distribution chain is understood to be (generally) as follows.



OneSteel explained that, while most of its sales are to distributors, a small percentage of its sales are to an exporter,

. [customer details].

Further discussion of OneSteel's distribution arrangements is contained in Chapter 5.

5 SALES

5.1 General

OneSteel provided a detailed, line-by-line-sales listing of its domestic sales of HRS for the investigation period.

During verification, OneSteel explained that the listing includes:

- sales to an exporter [customer details]; and
- sales of size 100mm universal columns (H-sections), which are not subject to the investigation (size range in-scope: 130mm - 610mm) – these have been excluded from our analysis.

The provided data identified, for each line, the:

- customer;
- product details grade, size, section shape, length;
- model code;
- invoice details date, number;
- mass;
- gross invoice value;
- rebates, discounts, settlement discounts; and
- net invoice value.

We were able to verify the data within these listings, as discussed in Section 5.7 and 5.8.

Analysis of OneSteel's domestic sales for the investigation period showed that

[HRS Product] accounted for the largest sales volume of like goods, representing % of domestic sales volume.

5.2 Customer base

Within the Australian market for HRS, OneSteel sells the vast majority of goods to a network of national, regional and state distributors. Namely, these distributors are:





Of these, only OSMC is related to OneSteel.

5.3 Ordering, invoicing and delivery arrangements

5.3.1 Stock ranges

OneSteel advised that there are three different stock 'ranges' for HRS that can be ordered:

- ex-rolling;
- central stock; and
- rapid range stock.

Ex-rolling – stock supplied via the general rolling schedule. OneSteel provides a copy of the production schedule (refer to section 5.3.3) to customers via email and they can order in advance depending on their needs and the published schedule.

Central stock – a range of ex-rolling product where the customer can order and store the stock on OneSteel's premises until they need it (i.e. OneSteel acts as a warehousing facility for their customers in Whyalla).

OneSteel advised that central stock for each customer

.[central stock distribution arrangements].

OneSteel estimated that ex-rolling (including central) stock accounts for approximately % of its HRS volume.

Rapid range – a range of stock kept in inventory by OneSteel that can be shipped soon after ordering. OneSteel explained that this range is a mixture of the most popular stock which they have high degree of confidence will be sold. Rapid range stock has a strong level of demand and is available for customers on a short lead time. OneSteel estimated that approximately

5.3.2 Ordering process

Sales orders are submitted to the OneSteel Sales & Service Centre in two ways, either electronically through an electronic data interchange system for customers who have access to this facility, or alternatively through fax or email.

OneSteel explained that all orders submitted must contain full company details, specifics of the products, quantity, shipping address and the desired delivery date.

OneSteel uses EzyCommerce as the medium to electronically exchange information with customers (where they have access to this facility), allowing the dissemination of information relating to purchase order placement, order acknowledgement, order status, advanced shipping notification, payment and invoicing.

Upon receipt of the order, OneSteel issues an order acknowledgement, whether that is via a system return message or fax/email.

OneSteel advised that there is a minimum order quantity that applies to

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	Iminimum order quantities detailed
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5.3.3 Invoicing and delivery

OneSteel primarily uses rail to transport stock out of Whyalla. The HRS is transported via rail to steel terminals in capital cities is the rail freight handler.

Ex-rolling (including central stock):

OneSteel advised that ex-rolling stock (including central stock) have a typical week rolling cycle, depending on the section types.

OneSteel explained their rolling stock delivery program, providing a copy of the latest delivery program and rolling schedule, **Confidential Attachment DOM 1**), covering delivery week for 2013 to delivery week of 2014.

The program lists the closing dates for the relevant section's shape and size, and corresponding delivery week.

OneSteel advised that delivery lead time varies between different geographic regions within Australia, with locations spilt between those identified and classified **sector**. [delivery regions].

Invoices for ex-rolling (central) stock [invoice details].

Rapid range:

OneSteel advised that the lead time for rapid range stock is approximately 2-3 weeks, and invoices for this range of stock are

.[invoice details].

5.3.4 Payment and delivery terms

Products are delivered on a free-into-store (FIS) basis

. HRS is shipped from the steel terminals via truck to the

customer by

[delivery company]. At the verification visit, OneSteel provided a diagram showing their annual HRS Movements from Whyalla (**Confidential Attachment DOM 2**).

OneSteel advised that different customers have different credit terms, ranging from days. OneSteel explained that imported HRS is generally offered at days (from bill of lading) credit.

5.4 Pricing

5.4.1 Previous pricing system

OneSteel advised that, previously, the starting point for pricing for HRS was the price list published in the *Pricing and Availability Guide* made available to customers (the most recent version, dated **Constantion**) was provided as an attachment to the application and is attached to this report as **Confidential Attachment DOM 3**).

OneSteel explained this guide should be read in conjunction with the *Guide to Purchasing Hot Rolled and Welded Structural Steel* for purchases of HRS (**Confidential Attachment DOM 4**). This guide details the commercial terms in which OneSteel may enter into a supply agreement with an approved customer for HRS, covering the ordering process, specifications and standards, freight and lead times.

The *Pricing and Availability Guide* displays a price structure, whereby different models of HRS are priced in \$ per tonne for the standard product grade, length, and for delivery within mainland Australia. The guide also lists pricing extras for:



The formula for calculating the total price for HRS in accordance with the guide is as follows:



OneSteel advised that various rebates and discounts were applicable to the price based on the *Pricing and Availability Guide*.

OneSteel explained that the listed base price per tonne was a reflection of the prices which were once achieved by it in the marketplace; however the base price in the guide is now largely disconnected from the agreed final net price negotiated with customers.

5.4.2 Current pricing system

OneSteel explained that the base prices in the *Pricing and Availability Guide* are no longer operable, and that it instead arrives at its base pricing on an import parity price (IPP) plus local premium, which is determined in response to **available** in the marketplace by various importers of HRS.

OneSteel explained that its change to an IPP-based model is due to the increased pressure placed on it by its customers to complete with lower-priced imported HRS.

All other aspects of the *Pricing and Availability Guide* are still operable (i.e.), as are various rebates and discounts (see Section 5.4.3).

OneSteel explained that it includes a written description of the IPP process in its newer versions of Distributor agreements with customers. Furthermore, its

.[customer premium clarification].

Determining import parity price:

OneSteel explained that, on a monthly basis, it calculates and disseminates available in the IPP models, based on the prices available in the Australian marketplace.

. [price offer mechanisms].

OneSteel explained that, in order to compete in the marketplace, [pricing strategy] is used to drive its IPP model.

OneSteel demonstrated how its IPP calculation worked, supplying a **Definition** IPP calculation spreadsheets **Definition**. (**Confidential Attachment DOM 5**). In this, we observed that OneSteel:

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- applied a local price premium

to arrive at a per tonne price offer for the various shapes of HRS, as well as a weighted average price.

We sighted a . [documents to support IPP sighted]. .[price policy]. OneSteel explained that the price determined

[further explanation of customer pricing policy].

OneSteel advised that a system of discounts and rebates also operates under the IPP system (refer Section 5.4.3 for further discussion).

Determining a local premium:

We asked OneSteel how its local 'premium' is established.

OneSteel advised that a number of factors are included in its calculation of its applicable local premium (it's 'value proposition'), which OneSteel .[application of local premium].

(Confidential Attachment DOM 6), which outlined OneSteel provided their value proposition (the premium, which we noted is applied as part of its IPP policy).

OneSteel described their value proposition characteristics as

OneSteel explained that, for different customers, divergent features of their value proposition were important. It outlined how the value proposition characteristics were , and also provided the methodology quantified

[application of local premium]

OneSteel indicated, in some limited circumstances, they will deviate from IPP as their primary pricing policy and apply a specific pricing arrangement, for example a one-off project, whereby a base price may be negotiated and

5.4.3 Discounts and rebates

OneSteel explained that customers receive various discounts and rebates, which are negotiated as part of arriving at the final agreed net price.

OneSteel explained that discounts are applied pre-invoice, whilst rebates are calculated and applied post-invoice, and paid at different times depending on the nature of the rebate.

OneSteel outlined that the following combination of discounts and rebates may apply to its customer base:

- settlement discount of % off the invoice price;

discount types].

Our verification of these discounts and rebates is discussed later in this chapter.

5.5 Level of trade, related and unrelated customers

OneSteel sells to a network of national, regional and state distributors, noting % of sales are made direct to end users such as **Selection**. OneSteel explained that it considers distributors to all be at the same level of trade.

OneSteel explained that, in terms of domestic sales, it does not differentiate between related and unrelated customers.

OneSteel sells HRS to OSMC, a related, but separate legal entity. Sales to OSMC for the investigation period accounted for . of domestic HRS sales. In OneSteel's accounts, these are listed as 'intercompany' sales, but OneSteel explained these are not at a transfer price but are true 'sales' of the goods at an arm's length price.

OneSteel explained that OSMC is bound by the same pricing policy as non-related customers, as detailed above, and that OSMC, like unrelated customers, put pricing pressure on OneSteel to address import offers in its IPP model.

We examined the weighted average net (post-discount and rebate) prices of related party transactions, comparing and contrasting these with unrelated transactions for all HRS products for the investigation period. For some months and products, we observed that prices to OSMC were

.[observations of selling

prices].

In light of the above, we do not consider that there is evidence that suggests that prices to OSMC are not arm's length or affected by the relationship with OneSteel.

We are satisfied that selling prices of HRS to both related and unrelated parties can be relied upon in the assessment of the economic condition of the Australian industry.

5.6 Distribution Agreements

As discussed previously, OneSteel identified that it predominantly sells to national and regional steel distributors (with a small percentage of sales going to end users). These distributors hold 'distributorships' with OneSteel for supply.

OneSteel explained that these are

. [agreement

types and details].

OneSteel provided copies of **Confidential** formal distributor agreements, (**Confidential Attachments DOM 7 – 9**) which are in place with its existing customer base.

OneSteel advised that these distributor agreements generally set out the high level commercial principles for the supply of HRS to the specific distributor.

We observed that these agreements detail terms of trade, duration, products covered, purchasing targets, premium levels charged and discount and rebate structures.

5.7 Verification of sales data to audited financial statements

To assess the submitted line-by-line sales data for completeness and relevance, verification to audited financial statements was undertaken.

OneSteel explained that sales are recorded and invoiced through the SRDM system and input on an aggregated, month-by-month basis into SAP.

During the verification, OneSteel provided a *HRS Data* – *SALES price vol. source* spreadsheet (**Confidential Attachment DOM 10**) developed to support the sales volumes and values for HRS submitted in the appendices as part of their application.

The spreadsheet contains details of all sales, domestic, intercompany and exported, split into two classifications, structurals (channels and angles) and universals sales (beams, columns and bearing piles) volumes and values, on a monthly, quarterly and annual basis for the period FY2010 – Q1 FY2014. OneSteel explained that this data included sales of 100mm universal columns (not the goods).

OneSteel explained that, for accounting purposes in SAP, it routinely classifies HRS as either 'structurals' or 'universals'.

We reconciled sales volumes and values reported in Appendix A6 (domestic costs), A3 (turnover) and A4 (sales listing – ensuring to include the sales of 100mm universal beams, which were included in this listing, but easily identified by listed product characteristics) to the *HRS Data* – *SALES price vol. source* (Confidential Attachment DOM 10) spreadsheet, matching these appendix figures with the monthly sales volumes and values recorded.

We selected May 2013 as the period to verify through SAP to the audited financial statements.

OneSteel provided a summary sales report from their SRDM system for May 2013 (**Confidential Attachment DOM 11**). We observed that the report contained the details pertaining to sales volumes and values for:

- rails (internal and external sales);
- sleepers;
- goods which form part of the rail system (e.g. clips, pads, sleeper plates and the like);
- billets for other OneSteel manufacturing sites; and
- domestic and export structural and universal products, for both external and 'intercompany' customers.

We noted that sales of other items, such as by-products (e.g. scrap, nut, coke, sulphate of ammonia) are not recorded in the SRDM system.

We traced the sales volumes from the SRDM report through to the *HRS Data* – *SALES price vol. source* spreadsheet and reconciled these amounts, noting the totals also reflected exports sales volumes.

OneSteel demonstrated how the rebates accrued for May 2013 could be subtracted, and the rebates accrued in the previous month (April) reversed from the SRDM report to arrive at a net figure of **\$** which reconciles within a 0.01% variance to the *HRS Data* – *SALES price vol. source* spreadsheet, which we consider immaterial.

OneSteel provided an extract of a SAP report showing the rebate amounts for May 2013 to verify the accuracy of the rebate amount deducted (**Confidential Attachment DOM 12**).

OneSteel then provided a SAP profit and loss (P&L) statement for May 2013 (**Confidential Attachment DOM 13**), and demonstrated how the SRDM report directly reconciled to the P&L. OneSteel then demonstrated how other revenue (including by-product sales) and rebates are aggregated with the SRDM revenue to arrive at total sales revenue in the SAP May 2013 P&L, which is broken into L1 (external) and L2 (intercompany) sales.

We examined other listed revenue types in the SAP P&L (**Confidential Attachment DOM 13**), to ensure no other items related to HRS.

Being satisfied with the link between SRDM and SAP, we then reconciled the total SAP P&L for FY 2013 to Hyperion's total sales figure for FY 2013 (the Hyperion profit and loss statement for OneSteel is at **Confidential Attachment DOM 14**).

We then sought to reconcile Hyperion to the total audited consolidated accounts for Arrium. OneSteel explained that it was easiest to do this at the earnings before interest (EBIT)/earnings before interest, tax, depreciation and amortisation (EBITDA) level.

To do so, OneSteel provided a segment report showing the EBIT and EBITDA separately for the entities within the Arrium Steel business (i.e. Manufacturing, OneSteel Recycling, OneSteel Australian Tube Mills). This forms **Confidential Attachment DOM 15**.

We were able to reconcile the EBITDA and EBIT figures reported for OneSteel through Hyperion and SAP.

We then sought to trace the Arrium Steel figures to the consolidated Arrium Limited income statement for financial year 2013. OneSteel provided a copy of the consolidated segment P&L report which is contained in the 2013 annual report (**Confidential Attachment DOM 16**). We observed the EBIT figure for the Arrium Steel business

reported in the segment report provided by OneSteel reconciled with the EBIT figure recorded in the audited accounts.

5.7.1 Completeness and relevance of sales data - conclusion

Having regard to the above, we consider that the Appendix A4 sales data provided represents reasonably complete and relevant accounts of the sales of HRS during the period from 1 October 2012 to 30 September 2013, noting that the sales of 100mm universal columns should be removed prior to undertaking analysis of this data, as these are not subject to the investigation

5.8 Verification of sales data to source documents

To assess sales data for accuracy, verification to source documents was undertaken.

Prior to the verification visit, the Commission selected thirteen sales from the submitted Appendix A4 sales listing; these are outlined in the table below.



Table 2 -Sales sample

The selected transactions covered various quarters, products, grades, rebates and customers within the investigation period. We advised OneSteel that we required supporting documentation for each selected sale.

In reference to the selected sales, OneSteel provided:

- invoices;
- despatch notices;
- SAP screen-shots, evidencing payment into the SAP account; and
- rebate credit notes.

We noted that the above evidence was not included in full for all selected sales transactions, however given the number of selected samples and available information; we consider the evidence provided to be reasonable for verification testing.

These documents form Confidential Attachment DOM 17.

5.8.1 Invoice/despatch details

We noted that the despatch notices contained sufficiently detailed information, incorporating the product length, grade and height. Combined with the commercial invoice, we were able to reconcile the transaction details reported in the detailed sales spreadsheet at Appendix A4, including dates, volumes and values.

5.8.2 Proof of payment

Although OneSteel provided evidence from SAP of funds being credited to its account for the selected invoices, we conducted further verification to source documents for four selected transactions.

OneSteel provided remittance advices from their customer (showing multiple invoices and a total remittance advice amount) for these sales, and we observed that the selected invoice was among these and the invoiced amount was correctly listed.

On some remittance advices, the invoiced amount was shown pre % discount and the discount was shown collectively at the bottom of the advice. For others, the invoiced amount was shown net of the % discount (depending on the style adopted by the customer).

The total remittance advice was then shown to have been credited to OneSteel's account in a provided bank statement/document.

We are satisfied that the invoice amount shown is the amount paid less the % settlement discount, where applicable (i.e. all customers except). We note that rebates are credited later.

5.8.3 Rebates and net price

We observed within the A4 sales listing that rebates, where applicable, were recorded separately and deducted to arrive at a final net price per tonne of HRS. We noted the rebate amount shown can be an aggregate of multiple relevant rebates for each sales transaction.

OneSteel advised that, when rebates are credited, it generates a credit note for each customer.

OneSteel explained that some rebate types can be reconciled through a credit note to the relevant commercial invoice (i.e. the invoice number is linked to the credit note); however in some cases, rebates are not able to be aligned to a specific invoice number (such as

.[nature of rebates].

For these rebates, OneSteel explained that

.[further explanation of

rebates].

OneSteel produced a rebate allocation spreadsheet (**Confidential Attachment DOM 18**) containing the monthly allocations. The spreadsheet contained all rebates accrued and credits issued from April 2009 to September 2013 as reported in SRDM, excluding non-rebate credits (e.g. damaged goods), showing the allocation of rebates based on sales tonnes per customer to arrive at a per monthly tonne rebate amount.

We selected four sample transactions, and requested OneSteel provide the corresponding credit notes (**Confidential Attachment DOM 19**). We verified that the credit notes reconciled with the SRDM source data, and traced them to the A4 sales listing.

Noting the difficulty in aligning rebates with their applicable invoice, we consider OneSteel's rebate allocation methodology to be a reasonably accurate approach.

5.8.4 Accuracy of sales data - conclusion

Having regard to the above, we consider the Appendix A4 Sales data provided is a reasonably accurate account of the sales of HRS during the period from 1 October 2012 to 30 September 2013, that customers are paying the invoiced amount less the % settlement discount, and that rebates are credited to OneSteel's customers.

5.9 Sales – conclusion

We consider that OneSteel's sales data in Appendix A4 is a reasonably complete, relevant and accurate reflection of the sales of HRS made during the period 1 October 2012 to 30 September 2013.

Accordingly, we consider OneSteel's sales data in Appendix A4 is suitable for analysing the economic performance of its HRS operations from 1 October 2012 to 30 September 2013 (noting that sales of 100mm universal columns must be excluded).

6 COST TO MAKE AND SELL

6.1 General

6.1.1 Data provided

OneSteel provided a completed Appendix A6 (A6.1 domestic costs and A6.2 export costs) in its application, reporting actual costs to make and sell (CTMS) on a quarterly and financial year aggregate basis for the period 1 July 2009 to 30 September 2013.

The data contained in Appendix A6 reflects the CTMS in aggregate for all structural and universal HRS products (i.e. not separated by product type or model). OneSteel explained that it does not record costs by model and that it is difficult to quantify the cost differences between models, noting that they would be relatively similar with some variation for rolling time differences between profiles and sizes.

OneSteel acknowledged that its submitted CTMS data included the cost to make 100mm universal columns (not subject to the investigation). Noting that the company

, [costs and sales information] we consider this to be acceptable.

OneSteel's CTMS data is broadly categorised and presented as:

- Manufacturing costs:
 - o raw materials;
 - o other variable costs (comprising of variable manufacturing overheads & byproduct credits)
 - o fixed manufacturing overheads and
 - o depreciation
- Selling, general and administration costs:
 - selling costs;
 - o distribution costs;
 - o administration costs; and
 - other costs (despatch).

Prior to the visit, OneSteel provided two additional workbooks to support the data submitted in Appendix A6:

- a *HRS Data* workbook (of which the *HRS Data SALES price vol., source* spreadsheet discussed in Chapter 5 forms part thereof); and
- a Total overheads workbook.

These form Confidential Attachments CTMS 1 and 2.

These workbooks provide relevant data in monthly, quarterly and yearly (financial year) aggregates.

The *HRS Data* workbook supports OneSteel's manufacturing costs, as well as its distribution expenses, while the *Total overheads* workbook supports all remaining selling, general and administrative expenses.

6.1.2 Explanation of manufacturing cost methodology, data and worksheets

Being a fully integrated manufacturer, OneSteel's HRS manufacturing process incorporates numerous materials and undergoes multiple production steps to make and cast steel, then hot-roll this cast steel into HRS.

At various steps, raw materials and other inputs are included in the process, saleable or useable by-products are created, and yield losses incurred. For example, in making coke from coal, suitable coke is produced, coke of inappropriate sizes are created and sold as a by-product, and coke oven gas is generated (which gets re-used by OneSteel as an energy source in the later blast furnace steel making process).

OneSteel's costing methodology accounts for these inputs, yield losses, and by-products to arrive at a fully absorbed cost to make HRS in its Appendix A6.

Noting the complexity of OneSteel's manufacturing process, and the cost calculations provided, an explanation of the calculation worksheets is provided below. We followed this process with OneSteel at the verification and consider it a reasonable and accurate method of calculating and recording manufacturing costs.

1) PRODUCTION Cost spreadsheet to the Appendix A6

- The HRS Data workbook includes a PRODUCTION Cost spreadsheet, which arrives at a monthly actual unit cost for each element of the raw materials, variable overheads, by-product credits, fixed overheads and depreciation, per tonne of HRS. The sheet also includes a total cost figure for each cost element by month, and quarterly and yearly aggregates (the unit cost multiplied by the production volume).
- On a quarterly aggregate basis, the Appendix A6 sums these per tonne unit costs in the appropriate category (see 6.1.1 above) and multiplies the sum by the production volumes of HRS in the quarter (itself verified see below) to arrive at a total cost for that component in the quarter.
- These amounts are then summed for all of the cost to make elements and divided again by the production tonnes in the quarter to reach a unit cost to make for the quarter in the A6.

2) PRODUCTION Cost sheet and supporting manufacturing process sheets

- To arrive at the unit costs for each raw material element (pellets, ore, col, fluxes, and the like), fixed and variable overheads and depreciation, the *PRODUCTION Costs* spreadsheet links to associated sheets by production process that separately reflect the costs recorded at each major step in the manufacturing process:
 - *Prod CO* (the coking oven process where coal is turned to coke);
 - *Prod BF* (the blast furnace where coke (produced), pellets, ore and other elements are made into 'hot metal');

- Prod BOS (the basic oxygen furnace where the hot metal is made into liquid steel);
- Prod Combi (the combi caster where liquid steel is made into cast slabs or blooms – prior to this, some liquid metal is diverted to the billet caster where billets are made);
- Prod Mill (where blooms from the combi caster are fed into the structural mill and rolled into shapes; and
- Prod SFE or shapes finishing end (where HRS and sleepers are finished prior to this rails have been diverted to the Rail Finishing End process, while following this sleepers move on to the 'trak-lok' for further working).
- Each of these sheets demonstrate the cost and volume of inputs into each production step on a monthly basis, the conversion costs, overheads (including depreciation) and the production tonnes out of that process (where multiple products are made e.g. HRS, rail, sleepers, this is split by products). OneSteel explained that it is these costs that can be traced back to source documents.
- Each cost centre sheet then arrives at a weighted average actual cost to manufacture the output for each process for that month (e.g. the *Pod CO* sheet ends with a unit cost to make coke, the *Prod BF* at the cost to make hot metal, and so forth).
- The output of each sheet is then fed into the next sheet (representing the next stage of the manufacturing process), though the figure that feeds into the following sheet accounts for the opening inventory of the output being transferred, so is a weighted average of the actual manufacturing cost in the month and the value of opening inventory.
- The process is complicated where the feed is split into different production lines (i.e. hot metal comes out of the BOS and some goes to the billet caster and some to the combi caster). OneSteel has ensured that the weighted average cost of the applicable split feed through the cost (this was demonstrated in the *Prod Mill* spreadsheet, where only the cost of slabs and blooms out of the combi caster (and not billets from the billet caster) are feed into the structural mill.
- The PRODUCTION Costs spreadsheet:
 - picks up the cost of each raw material component as they are input into the process (e.g. coal at the coking stage); and
 - aggregates conversion, depreciation, other overheads and by-product credits from each stage of the production process; then
 - yields these throughout each step of the production process to account for the difference between feed in and product out of each process, arriving at the unit costs for each component of raw materials, overheads, depreciation and by-product credits per tonne of HRS out of the SFE.

For example, coal is only input once into the process (at the coking oven stage), so to arrive at the unit cost of coal per tonne of HRS out of the SFE, the cost is yielded along each step of the process based on the volume of coal in the input, its unit cost and the output production.

6.1.3 Verification focus

OneSteel explained that it was able to demonstrate the cost of components input into its manufacturing process in the individual manufacturing process sheets.

During the verification, attention was focused on the '*Prod Mill*' sheet to verify conversion costs, the '*Prod CO*' sheet to verify coal costs and the offset of the sale of the by-product sulphate of ammonia, and the '*Prod BF*' sheet to verify the cost of pellets and iron ore.

6.2 Verification of manufacturing costs data to audited financial statements

To assess cost to make for completeness and relevance, verification to audited financial statements was undertaken.

In the application, OneSteel provided a copy of their chart of accounts (**Confidential Attachment GEN 6**), the audited financial statements for the 2012 financial year (**Confidential Attachment GEN 7**), and internal management reports (**Confidential Attachment GEN 8**).

Noting that costs are recorded down to a monthly figure in the *PRODUCTION Costs* sheet (which we have observed reconciles to the A6), we chose to focus our upwards verification on the month of May 2013, to SAP.

As noted in Section 6.1.2, we have observed the link between the costs submitted in the Appendix A6 and the *PRODUCTION Costs* spreadsheet.

We noted the total manufacturing costs for HRS out of the SFE for May 2013 were **Sector** in the *PRODUCTION Costs* spreadsheet, which reflects the unit cost of manufacture of HRS out of the mill multiplied by the production volume.

OneSteel extracted a cost of goods sold (COGS) report from SAP showing individual product COGS for every item sold during May 2013 (**Confidential Attachment CTMS 3**). We observed the total COGS for May 2013 in this report was **\$2000**, with HRS reflecting **\$2000**.

We reviewed all COGS codes from SAP for the month to ensure no other COGS items applied to HRS goods.

We cross-matched the cost to make total for May in the *PRODUCTION Costs* sheet, with the value reported in the COGS SAP report, and noted a variance of 0.36%. We considered this variance reasonable, given the differences between costs of manufacture and COGS.

OneSteel produced a report for COGS from SAP for the 2013 financial year (**Confidential Attachment CTMS 4**). From this report, OneSteel produced a month-by-month summary and demonstrated how the COGS SAP total for May 2013, **Sector** was reflected in the yearly COGS total of **Sector**.

We traced the yearly COGS total in the 2013 SAP report into the SAP P&L report for OneSteel (**Confidential Attachment CTMS 5**). OneSteel were able to show how this amount combines with other COGS accounts (to provide a yearly total COGS for OneSteel).

We were able to reconcile the SAP P&L at the EBIT level to Arrium Limited's consolidated audited financial statements (refer Chapter 5).

6.2.1 Completeness and relevance of cost to make and sell data - conclusion

Having regard to the above, we consider that the CTMS data in Appendix A6 provided represents reasonably complete and relevant accounts of the fully absorbed costs to manufacture HRS during the period from 1 October 2012 to 30 September 2013.

6.3 Verification of manufacturing costs to source documents

To assess production cost data for accuracy, verification to source documents was undertaken.

6.3.1 Production volumes

OneSteel provided a number of spreadsheets (Confidential Attachment CTMS 1 and **CTMS 6**) developed to support the production volume data for HRS submitted in Appendix A6.

OneSteel provided a detailed Steel Product Manufacturing Process Map (Confidential Attachment GEN 5) identifying key stages of the manufacturing process. OneSteel explained that the SFE is the final stage of the production process in which HRS products pass, and OneSteel measure output at this stage as the final HRS production volume.

OneSteel explained the production reporting process, with the structural mill recording the nominal tonnes produced per month at the time the goods pass through the hot saw (the final process in the structural mill process, prior to the SFE stage), identifying the specific product type, size and length of structurals and universals products by rolling IDs.

To determine the nominal tonnes of HRS out of the SFE, OneSteel advised that actual scrap product created in the SFE process is identified and deducted from the total nominal tonnes feed into the SFE.

We observed that the production volumes recorded in the A6 directly reconciled to the HRS volumes recorded in the *PRODUCTION Costs* spreadsheet.

We noted that the domestic production volume recorded in the A6.1 is in fact the total production volume in the *PRODUCTION Costs* spreadsheet minus the export sales volume (itself verified – refer to Chapter 5). OneSteel explained that this is due to the logic that export production is effectively equal to the sales volume, as all HRS for export is manufactured to order and the stock maintained by OneSteel is to service its domestic market.

We observed that:

- The reported total production for the SFE for May 2013 was **Control** Tonnes, which was split into **Control** tonnes of HRS and **Control** tonnes of sleepers (which are also finished on the SFE).
- The *PRODUCTION Costs* sheet retrieved these volumes from the *Prod SFE* manufacturing process sheet (see Section 6.1.2), which identifies monthly production volumes of the SFE split into universals, structurals and sleepers.
- OneSteel provided an 'Inventory movement' spreadsheet (Confidential Attachment CTMS 6), generated from its MES system, which included a 'Monthly data' sheet, showing the feed tonnes of universals, structurals and sleepers from the hot saw into the SFE, and the actual scrap of each product type produced at the SFE. This was supported by numerous spreadsheets, including:
 - a 'Comcast' spreadsheet showing production out of the hot saw (at the end of the structural mill) and whether this was of universals, structural, rails or sleepers, by rolling ID; and
 - a monthly scrap production record for May.
- The Monthly Data spreadsheet:
 - adjusted the actual scrap amount by % to account for known historical variance (see below); and
 - arrived at a total production volume for each product type by deducting the adjusted scrap volume from the feed tonnes for each product out of the hot saw.
- This directly reconciled with the *Prod Mil* volumes.

In relation to the scrap adjustment, OneSteel explained the % variance was

[explanation for variance].

OneSteel provided data from MES for the period January 2011 to December 2011 (**Confidential Attachment CTMS 7**) to substantiate the historical variation of **10**%. We verified that the deduction of the additional scrap adjustment of **10** tonnes (**10**%), coupled with the scrap deduction, reconciled with the stated total universal production volumes of **10** tonnes for May 2013.

6.3.2 Raw materials

Coal

Verification testing of production costs to source documents commenced with an examination of one of the key raw materials - coal.

OneSteel provided actual monthly costs and volumes of coal entering the coking oven in the *Prod CO* manufacturing process spreadsheet. We sought to verify the total cost of coal for May 2013.

OneSteel provided a copy of a monthly cost report for the 2013 financial year (**Confidential Attachment CTMS 8**), specifically in relation to dry coal consumption costs. OneSteel explained that this report was maintained outside of SAP, by the accounting team. We noted the total monthly cost for May listed in this report reconciled with the *Prod CO* manufacturing process spreadsheet.

We observed the monthly dry coal consumption costs reflected **differing** coal types for May 2013, which were listed by name in the cost report.

From the monthly cost report, we selected the **consumption** cost to th

We observed in SAP that the consumption value in the cost report is based on the average weighted cost per tonne of coal for the month, multiplied by the coal consumed in the month. The average weighted cost per tonne of coal for the month is calculated by SAP and is based on the quantities and values of the beginning inventory and receipts for the corresponding month.

We sought to verify the receipts received in the **set** inventory account for May 2013, in SAP totalling **\$ 1000**. We selected goods receipt **# 1000** out of eight purchase orders displayed, which accounted for approximately 97% of the **set** coal receipted for the month.

OneSteel provided an extract from SAP of purchase order

(**Confidential Attachment CTMS 10**) in SAP, which listed for materials (coal itself), freight and into store costs. We traced the SAP recorded amounts to two commercial invoices for coal and a stevedoring invoice (**Confidential Attachment CTMS 11**).

Pellets and Ore

We selected pellets and ore costs for May 2013 for further verification of raw material costs, which are recorded in the *Prod BF* manufacturing process spreadsheet (as pellets and ore are incorporated into the production process at the blast furnace)

In the *Prod BF* sheet, OneSteel provided actual monthly costs and volumes for the ferrous feed components of hot metal associated with the blast furnace stage. We observed the stated costs reflecting pellets **\$ and black blac**

OneSteel traced these figures to a blast furnace manufacturing process ferrous feed report for May 2013 (**Confidential Attachment CTMS 12**).

OneSteel advised transactions for pellets and ore are related party transactions with Arrium Mining, hence no invoices are issued for these goods, and we were thus unable to verify down to the invoice level for pellets and ore.

We observed the price per tonne of pellets for May recorded in the SAP ferrous feed report was **\$ 1000** and ore **\$ 1000** per tonne. Refer to Chapter 10 of this report for discussion on related party transactions.

We sought to verify evidence of the transfer payment amounts between Arrium Mining and OneSteel. OneSteel supplied a SAP report outlining the Whyalla Steelworks intercompany loan account **CTMS**, totalling **COnfidential Attachment CTMS 13**). We observed a breakdown of this account and were able to reconcile both the pellet and ore costs.

6.3.3 Other manufacturing costs

By-product credits, fixed and variable manufacturing costs and depreciation are the remaining costs contained in OneSteel's Appendix A6 - domestic costs to make.

We selected the structural mills stage of the production process (recorded in the *Prod Mill* spreadsheet) to focus our verification testing to quarter four (April to June) of the 2013 financial year for these costs.

We were able to collectively trace these costs to SAP, as OneSteel provided a quarterly cost centre report from SAP for the 'Structural Mills - Process' cost centre for the selected quarter (**Confidential Attachment CTMS 14**). This report listed details of all 'process' costs at the structural mill (i.e. everything except raw material costs).

We observed the total conversion costs, by-product credits and depreciation costs totalled **From Mill** in SAP and largely reconciled, with an immaterial variance of 0.04% to the *Prod Mill* spreadsheet, which we are satisfied feeds to the *PRODUCTION Costs* spreadsheet, and into the A6 (refer to Section 6.1.2).

Having matched it to the *Prod Mills* spreadsheet, we then sought to trace selected other costs listed in the *Structural Mills* - *Process* cost centre report spreadsheet down to source documents.

<u>Labour</u>

We sought to verify actual conversion costs for labour, observing the total labour costs of for quarter four in the SAP *Structural Mills - Process* cost centre report (Confidential Attachment CTMS 14).

We noted the total labour costs within the SAP report comprised differing labour types i.e. normal time, overtime and selected 'labour wages – normal', reported as **\$**

OneSteel produced a SAP report for normal wages for the quarter (**Confidential Attachment CTMS 15**), and explained the report displayed labour costs for certain payrolls. We observed the values reconciled and were satisfied no further examination of payroll records was required.

Depreciation

We asked OneSteel to further demonstrate the value for deprecation in the SAP *Structural Mills – Process* cost centre report.

OneSteel explained that, during the selected quarter,

.[explanation for variance].

OneSteel provided a 'Rolling Mills – May 13 Depreciation' reconciliation spreadsheet. In this, OneSteel supplied a copy of it's:

- fixed asset depreciation register from SAP for the quarter; and
- SAP records of the manual roll depreciation entries.

When summed, these figures reconcile to the depreciation figure in the *Structural Mills* - *Process* cost centre report spreadsheet.

Consumables - oils and greases

Within the SAP Structural Mills – Process cost centre report, the cost of 'consumables' was recorded.

We sought to verify costs relating to oils and greases, a component of total consumables costs.

The *Structural Mills* – *Process* cost centre report reported value of **\$** consumed oils and greases (Confidential Attachment CTM 14).

OneSteel supplied a SAP report for this cost element for the selected quarter, which listed all purchases of greases and oils for the structural mill (**Confidential Attachment CTMS 16**). We selected one transaction for May 2013, with a volume of **Listed** litres, valued at **\$10000**.

We traced the SAP recorded amounts for oils and grease to a commercial invoice, and verified the amounts (**Confidential Attachment CTMS 17**).

By-product credits

As discussed previously, OneSteel explained the HRS manufacturing process creates a number of by-products, which are either re-used in the production process (e.g. scrap metal, coke oven gas) or sold to customers (e.g. sulphate of ammonia, tar, nut coke and breeze not of a suitable size for the blast furnace).

As previously stated, by-product credits are yielded throughout the entire production costs to reflect the yielding at each stage of the manufacturing process, up until the SFE stage. Where they are incurred in the production process, they are listed in the relevant manufacturing process spreadsheet, where they offset the costs of the output product.

OneSteel advised that, where by-products that are saleable are produced, they are valued by OneSteel at their net realisable value. Other by-products that are created and re-used by OneSteel (e.g. coke oven gas) are valued in various ways depending on the product. OneSteel explained that coke oven gas is valued at the cost of natural gas, less a set percentage to account for the fact that it is internally produced.

For the purposes of verification, we selected a by-product credit of sulphate of ammonia, incurred at the coking oven stage and hence recorded in the *Prod CO* manufacturing process spreadsheet), which showed the May 2013 sulphate of ammonia offset was **\$**

OneSteel submitted a SAP report for the sulphate of ammonia inventory account (**Confidential Attachment CTMS 18**) for May 2013. We observed that the weighted average inventory value of sulphate of ammonia. We noted two sales transactions for the month and verified one sale to source commercial invoices (**Confidential Attachment CTMS 19**).

For May 2013, we observed that the incoming production of sulphate of ammonia is a byproduct credit, rather than only a sales credit. The inventory value of the total cost of sulphate of ammonia produced in the month is then offset for production of that month. We observed that the product is valued at the net realisable value in SAP at a rate of \$ _____, which was reflected on the commercial invoice of the sales transaction and verified in the SAP account (**Confidential Attachment CTM 18**).

6.3.4 Accuracy of production costs - conclusion

Having regard to all of the above, we consider that the production cost data provided is a reasonably accurate account of the actual costs to manufacture HRS during the period 1 October 2012 to 30 September 2013.

6.4 Verification of selling, general and administration costs

To verify selling, general and administration (SG&A) cost data for completeness, relevance and accuracy, upwards verification to the financial statements was undertaken, along with an assessment of the reasonableness of allocations and the expenses included in the HRS costs.

6.4.1 Verification of selling, general and administrative costs to audited accounts

As discussed previously, we have verified OneSteel's financial year 2013 P&L from SAP to Hyperion and Arrium Limited's audited financial statements at the EBITDA level.

To verify the total selling, general and administration cost pools that have been allocated by OneSteel to HRS and other products (see discussion of the allocation methodology and an assessment of its reasonableness below), OneSteel provided an SG&A reconciliation workbook (**Confidential Attachment CTMS 20**).

Within this workbook, OneSteel was able to demonstrate how the total pool of selling, administration and despatch costs reconciled to the company's P&L.

To verify to the pool of distribution costs, OneSteel explained that freight is captured in the P&L under the 'COGS Frgt Out/Recov'. It provided a *Freight* workbook (**Confidential Attachment CTMS 21**). This demonstrated the total pool of freight costs that were allocated by OneSteel to different products (see discussion below) and directly reconciled this pool of costs to the company's P&L in SAP.

We observed the total freight amount for all products for May 2013 was \$

6.4.2 Reasonableness of allocations

OneSteel advised that SG&A costs are allocated on the basis of sales volumes, as opposed to sales values. OneSteel explained that it selected this allocation methodology predicated on the fact OneSteel sell based on tonnes, with varying prices per tonne for each product, across the product offering. OneSteel however noted that there was minimal differentiation in the work required to produce and sell each of the products. We consider the explanation reasonable.

In discussing OneSteel's accounting structure, it was explained that selling and administration costs are captured in cost centre series beginning with one, and despatch costs are captured in series six.

Selling, administration and other (despatch) costs

The A6 links to the *Total overheads* workbook (see Section 6.1.1).

Within this workbook, a *Report* spreadsheet was provided, where quarterly per tonne costs of each component of selling, administrative and despatch costs are calculated, with reference to a SAP generated report of total costs in these categories by month. These quarterly costs link directly to the A6.

The quarterly per tonne costs are multiplied by the sales tonnes in the A6, which reconcile to the verified A4 sales volumes, to arrive at a total cost for that component.

In the *Report* spreadsheet, these quarterly costs are broken down into monthly costs as well.

1) Selling expenses

In the *Report* spreadsheet, the selling expenses are calculated as the costs of the HRS marketing cost centre divided the total sales volume (see below) of structurals (both domestic and export) to arrive at a unit cost that feeds into the A6.

The other Marketing cost centre (identified as 'rails') is removed from the calculation and not allocated to HRS. OneSteel explained that the HRS marketing cost centre is solely focussed on the selling of HRS domestically and internationally, while the other cost centre is dedicated to rails marketing (these represent sales teams). It is therefore considered reasonable to exclude the rails marketing costs from the HRS expenses.

2) Despatch expenses

The despatch expenses are broken down by cost centre into despatch costs for various products. Of these, *WSW: Despatch* relates to HRS and the other is the despatch costs for other products. The other product costs are removed from our SG&A, which we consider reasonable.

The *WSW: Despatch* expenses are then allocated over the total HRS sales tonnes to arrive at a unit cost that feeds into the A6.

3) Administration expenses

The administrative costs are the total of all other remaining costs, allocated evenly across all products, making no differentiation between HRS and other OneSteel products. We consider this to be reasonable.

Distribution costs

The distribution cost in the A6 links to the *HRS Data* – *SALES price vol. source* spreadsheet, within this, a unit monthly and quarterly HRS freight amount per tonne is listed.

In the A6, this unit amount for HRS freight is multiplied by the sales volume to arrive at total freight amount for the applicable quarter.

In the *Freight* workbook (see above), OneSteel demonstrated how its unit HRS freight amount is calculated for May 2013. OneSteel explained that this unit cost comprised of two components:

- moving the goods by rail to ______ terminal in the destination city; and ______
- costs for services provided by for terminal services and delivery to the customer, which is a fixed rate per tonne for HRS and other products.

To demonstrate rail charges, OneSteel provided a full listing of rail freight invoices for May 2013. Within this invoice listing, OneSteel was able to identify which invoices (and parts thereof) applied to shipments of HRS, by reference to shipment numbers. OneSteel then derived a total HRS freight amount by dividing the HRS invoice total by the freighted HRS volume.

OneSteel was able to demonstrate how it could filter and unfilter this invoice listing to only capture HRS. We were able to cross-check the filtered and unfiltered version of the data and OneSteel provided a corresponding invoice to show how various product types were delineated to ensure freight costs were filtered on HRS for the above calculation.

We verified the **Exercise** terminal charges to a commercial invoice (contained in the *Freight* workbook).

The rail and charges together arrived at a unit freight amount for May 2013 which was \$

We observed that the HRS domestic monthly freight total of **\$** was calculated with reference to the total weighted average monthly unit freight amount multiplied by the sales volume. This was then summed with the freight charges for other products (calculated in the same way as HRS charges), to arrive at the total pool of distribution costs for May 2013 (verified to the P&L above).

We are satisfied the monthly freight amounts are accurate and reasonably allocated to HRS.

6.4.3 Conclusion

Having regard to all of the above we consider the SG&A cost data provided is a reasonably complete, relevant and accurate account of the actual costs to sell HRS during the period 1 October 2012 to 30 September 2013.

6.5 Costs to make and sell – conclusion

We consider that OneSteel's CTMS data in Appendix A6 is a reasonably complete, relevant and accurate reflection of the actual CTMS for HRS during the period 1 October 2012 to 30 September 2013.

Accordingly, we consider OneSteel's CTMS data in Appendix A6 is suitable for analysing the economic performance of its HRS operations from 1 October 2012 to 30 September 2013.

7 ECONOMIC CONDITION OF THE INDUSTRY

7.1 OneSteel's injury claims

In its application, OneSteel claimed that the alleged dumping of imports of HRS had caused material injury through:

- price depression;
- price suppression;
- reduced profits and profitability;
- reduced domestic revenues;
- reduced production capacity utilisation;
- reduced employment; and
- reduced attractiveness for reinvestment.

This chapter charts and examines OneSteel's performance in the context of the alleged material injury. This analysis has been completed using the data provided by OneSteel which was subject to verification testing.

7.2 Commencement of injury, and analysis period

OneSteel submitted in its application that material injury caused by the importation of dumped HRS has been occurring for a number of years, with an increased impact being experienced during the 2013 financial year.

As specified in *Consideration Report no. 223*, the Commission has set the period for assessing the condition of the Australian industry from 1 July 2009.

Charting and analysis has been completed both on a quarterly basis and for an annualised, 12 month period, which is aligned with the investigation period, 1 October 2012 to 30 September 2013.

7.2.1 Price suppression and depression

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

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

The two figures below illustrate, on a quarterly and annualised basis, the movements and relationship between OneSteel's total domestic HRS CTMS and revenue.



Figure 2: Domestic Sales Revenue v Total CTMS (Qtrly)



Figure 3: Domestic Sales Revenue v Total CTMS (Yearly) Note: Each year refers to a period between 1 October and 30 September.

The two figures below illustrate, on a quarterly and annualised basis, the movements and relationship between OneSteel's weighted average unit selling prices and unit CTMS.



Figure 4: Unit Sale Price v Unit CTMS (Qtrly)



Figure 5: Domestic Unit Revenue v Unit CTMS (Yearly)

The above figures illustrate that, for a significant proportion of the charted quarters, OneSteel's cost to make & sell (CTMS) has exceeded revenue, both on a weighted average value basis and total value basis.

We observed spikes in CTMS and revenue during Q4 of FY2010 and Q4 FY2013, and a spike in revenue in Q1 FY 2011. We discussed this with OneSteel, and they explained that:

- the significant spike in CTMS for Q4 of FY 2010 related to an incident involving a blast furnace at OneSteel's Whyalla Steelworks which resulted in lost production in that quarter and increased costs for that quarter; and
- the reason for the spike in unit revenue in Q1 of FY2011 related to an increase in OneSteel's IPP. The increased IPP resulted from increases in the price of scrap increasing import prices and movements in the Australian dollar.

The figures below illustrate unit revenue as a proportion of unit CTMS. Figure 6 is based on quarterly data and Figure 7 is based on annual data.



Figure 6: Unit revenue as a proportion of unit CTMS (Qtrly)



Figure 7: Unit revenue as a proportion of unit CTMS (Yearly)

We identified that:

- unit revenue as a proportion of unit CTMS has declined on an annualised basis since 2011; and
- Although unit CTMS has reduced by 4% in FY 2013, the unit selling price has had a greater rate of decline, of 9%, over this period.

7.2.2 Volume trends

In its application, OneSteel has not claimed material injury in relation to loss of sales volume and market share. OneSteel submitted that it is a volume sensitive supplier and has maintained its sales volume by lowering its prices. OneSteel also claims that it incurred increased losses on sales of HRS that could have been sold domestically had the goods under consideration not been imported at dumped prices.

Figures 8 and 9, below, illustrate OneSteel's domestic sales volumes (in tonnes) on an annual and quarterly basis.



Figure 8: OneSteel Domestic Sales Volume (Qtrly)



Figure 9: OneSteel Domestic Sales Volume (Yearly)

These graphs illustrate that OneSteel has largely maintained its sales volume over the charted period. This is consistent with OneSteel's submission that they are a volume sensitive supplier that has maintained its sales volume by lowering its prices.

7.2.3 Profits and profitability

Movements in OneSteel's quarterly and annualised profits and profitability are illustrated in the following charts.



Figure 10: Total Domestic Profit & Unit Profitability (Qtrly)



Figure 11: Total Profit & Unit Profitability (Year)

We observed on an annualised basis that unit profit and profitability have been negative across the injury analysis period and show a declining trend from Y2 onwards.

This is consistent with OneSteel's submission that it has suffered injury through reduced profits and profitability.

7.2.4 Other economic factors

In support of its claim of material injury, OneSteel provided information in Appendix A7 of its application.

Capacity utilisation

We noted OneSteel's capacity utilisation has trended downwards over the injury analysis period, and is based on production volumes of HRS versus budgeted capacity for HRS.

Employment

We noted a fluctuation of staff employed in the production of HRS over the injury analysis period. OneSteel explained a reduction of staff occurred in 2013, as a result of an effort to reduce its costs in response to declining margins.

7.3 Conclusion

Based on an analysis of the information contained in the application and obtained during our visit, we consider OneSteel has experienced material injury in the form of:

- price depression;
- price suppression;
- reduced profits;
- reduced profitability;
- reduced revenue;
- reduced employment numbers; and
- reduced capacity utilisation rates.

8 CAUSAL LINK

We discussed with OneSteel whether the alleged dumping of HRS is causing material injury to the Australian industry.

8.1 Price effects

As discussed previously, OneSteel stated that IPP is the primary pricing policy adopted for their sales of HRS to domestic customers. When computing domestic HRS selling prices, OneSteel explained that they apply a market-based benchmarked IPP, and a premium charge above IPP.

OneSteel stated that they operate in a price sensitive market, and presented data to further explain the market role of IPP in the Australian HRS market. The data showed a summary of the offers made in the Australian market by exporting mills from the countries under investigation. OneSteel discussed their observations of a pattern in the marketplace, whereby if one exporting mill misses sales tonnes for a period of time, the price will be lowered for subsequent periods to obtain sales tonnes. OneSteel further discussed IPP and the suppressing effect on its domestic sales price, the impact on profit and profitability and the inability of OneSteel to increase its price without losing market share.

In the application, OneSteel provided to the Commission sourced offers from the market which reflect market offers from exporting mills from the countries under investigation

offers from exporting mills

.[evidence provided of offers]. This included

market

[other evidence]. In addition, OneSteel provided a

spreadsheet which compared its monthly weighted average selling price (FIS) against the import offers available in the marketplace, showing it actively assessed and discussed those offers with customers.

During the verification visit OneSteel provided two examples of sales that were significantly affected by IPP and pressures from allegedly dumped imports:

The first example comprised an offer made by OneSteel to

.(Confidential Attachment CL 1). We

observed the stated offer to

against the stated IPP of \$ per tonne

. OneSteel explained this was evidence of where

price negotiations and a substantial reduction in selling price to compete in close proximity to the import offer, still resulted in a loss of supply.

The second example evidenced price negotiations between OneSteel and based on an import offer of **\$ and per tonne for** 2013 (**Confidential Attachment CL 2**).

OneSteel provided a copy of **Attachment CL 3**), evidencing the agreed offer for beams in **CL 3** (Confidential 2013 for delivery next month to **CL 4**). OneSteel explained that based on an agreed offer of **Sector** per tonne, the expected price for **CL 4**) showing the final agreed price was **Sector** per tonne, **Sector** per tonne below the expected price. OneSteel explained that this was evidence of their price being suppressed, as a result of IPP pressure.

The Commission will further evaluate price undercutting claims during the course of the investigation process, through verification of actual selling prices in Australia by importers and comparing and contrasting these with the selling prices by the Australian industry, for sales transactions made under the same conditions.

8.2 Volume effects

The data submitted by OneSteel in its application indicates that the Australian HRS market size has been declining year-on-year since July 2009. As detailed in section 4.5, OneSteel's market share has been reasonably consistent over this period, and in the 2013 financial year it experienced a marginal increase in market share.

OneSteel acknowledged that it has been able to maintain stable volumes over this period, and explained it has been able to maintain market share on the basis of being a price taker in the market and sought to attract new, and retain existing customers by competing on price and its value proposition.

However, OneSteel highlighted the necessity of maintaining volume, to ensure the viability of their business.

OneSteel discussed its integrated manufacturing process, and the requirement to maintain minimum production volumes due to the continuous usage of the blast furnace. OneSteel explained that it is not possible to reduce the capacity of a blast furnace beyond approximately ..., without risking the stability of the furnace, ensuring that OneSteel must continue to manufacture steel, which it then must sell in a viable form (such as HRS).

OneSteel further explained the commercial imperative to actively compete on price, which is driven by IPP, in order to maintain minimum levels of production.

8.3 Factors other than dumping

8.3.1 Australian dollar

Outlined below in Figure 12 are the movements in the Australia dollar (AUD) and US dollar (USD) exchange rate over the injury analysis period, provided on a quarterly basis.



Figure 12: Average AUD/USD for the Investigation Period by quarter

OneSteel noted that a strong AUD, sitting in close proximity to parity with the US dollar, has made it more attractive for purchasers of HRS to seek supply from overseas, consequently making it more difficult for OneSteel to compete for sales. OneSteel indicated further depreciation of the AUD may make imports less attractive, and benefit OneSteel; however any anticipated gain may be partially offset by an increase in OneSteel's key input costs for coal, which is purchased in USD.

8.3.2 Market trends

<u>GFC</u>

OneSteel explained that the market for HRS has not recovered to the position held prior to the GFC, whereby market demand for HRS was outstripping capacity, with high prices being achieved, which were almost double historical sales prices.

OneSteel explained that, post the GFC, the market for HRS has been relatively flat, with financial institutions less willing to lend. OneSteel further explained that the Government stimulus program did assist in overcoming some of the effects of the GFC.

Downturn in construction

OneSteel submitted that the construction sector is the prime driver of the HRS market, with non-residential construction approximately reflecting % to % of the HRS market. OneSteel explained that the downturn in the construction industry and mining industry has impacted on market demand for HRS over the injury analysis period.

Substitutable products - multi-story buildings

As discussed in Chapter 4, structural HRS may be substituted for concrete in some construction and engineering markets, particularly in high rise buildings. OneSteel explained that several factors influence purchasing decisions, including builder's familiarity with the system, total building cost, speed of construction, access to earlier return on investment and safety. OneSteel stated that although there is variation between the application of each product, there was no significant market change or trend.

Summary

OneSteel explained that, despite the high AUD, and market trends outlined above, the most significant factor causing material injury is competing with dumped imports, which are undercutting domestic selling prices, and profit and profitability.

9 UNSUPPRESSED SELLING PRICE

During the verification visit, we informed OneSteel of the Commission's approach to establishing an Unsuppressed Selling Price (USP), through the following hierarchy:

- Market approach: industry selling price at a time when the Australian market was unaffected by dumping;
- Construction approach: the Australian industry's cost to make and sell, plus a reasonable rate of profit; or
- Selling prices of un-dumped imports in the Australian market.

Having calculated the USP, the Commission then calculates the Non-Injurious Price by deducting the most efficient importer costs incurred in getting the goods from the free on board point at export (or another point if appropriate) to the relevant level of trade in Australia. The deductions normally include overseas freight, duty, insurance, into store costs and amounts for importer expenses and profit.

OneSteel advised the Commission that it would lodge a submission at a later date outlining their view on the most appropriate method to calculate the USP.

10 RELATED PARTY PURCHASES

As discussed previously, OneSteel explained that pellets, ore, quartz and dolomite are supplied for the production of HRS through related party transactions with Arrium Mining, specifically the Middleback Ranges operations.

We requested a copy of the written contract or transfer pricing agreement, which governs the sales of goods between the related legal entities. OneSteel advised there was no written transfer pricing agreement between these related, but separate legal entities.

OneSteel explained the transfer pricing policy setting arrangements between themselves and Arrium Mining. In summary, transfer prices for these commodities are set by senior management as part of broader budget discussions, which occur on an annual basis, and result in prices determined for a quarterly period.

We discussed with OneSteel whether these goods were being transferred at a market price; OneSteel explained that the transactions between the related parties were occurring at [pricing]. OneSteel further explained that generally, [price].

negotiation].

At the visit, OneSteel explained that it does not supply magnetite iron ore (either pellets or lump) to any unrelated parties. However, OneSteel clarified after the verification visit that in fact, Arrium Mining does supply small quantities of magnetite iron ore (either pellets or lump) to unrelated parties.

During the visit, OneSteel produced two reports (**Confidential Attachment GEN 9** and **Confidential Attachment GEN 10**) which contained data and analysis of the transfer prices relating to pellets and ore.

Within this, OneSteel provided SAP screen shots from Arrium Mining accounts (Confidential Attachment GEN 9), which showed that for May 2013, the total cost of inventory (excluding the costs to transfer the goods) incurred for Arrium Mining was for pellets and for ore. The transfer price to OneSteel per tonne of pellets was for ore, showing the purchased price below actual cost from Arrium Mining.

OneSteel further included analysis conducted of Platts price data (Hematite Chinese iron ore fines), utilised to determine an estimated market price for pellets and ore, by accounting for the known pricing difference between iron ore fines, lump and pellets, and the applicable exchange rate.

The analysis shows for the May 2013, the estimated market price for pellets and ore were and **Sector** respectively.

A comparison between the estimated market value and the transfer price shows that OneSteel were able to purchase ore and pellets from Arrium Mining at a price

The Commission notes the nature of the transactions between the related parties, and impact on the price. We have not sought to re-calculate OneSteel's submitted costs with reference to a determined arm's length market price, but will consider this issue further as the investigation progresses.

11 APPENDICES AND ATTACHMENTS

Appendix 1	Organisational structure
Confidential Attachment GEN 1	Australian Standard AS/NZS 3679.1
Confidential Attachment GEN 2	Thailand Industrial Standard TIS 1227-2539
Confidential Attachment GEN 3	Japan Industrial Standard JIS G 3192
Confidential Attachment GEN 4	Email advising mass tolerance table
Confidential Attachment GEN 5	Production process maps
Confidential Attachment GEN 6	Chart of accounts
Confidential Attachment GEN 7	Audited financial statements for the 2012 financial year
Confidential Attachment GEN 8	Internal management reports
Confidential Attachment GEN 9	SAP report – Arrium mining accounts
Confidential Attachment GEN 10	Internal spreadsheet – Platts data and analysis
Confidential Attachment DOM 1	Delivery program October 2013
Confidential Attachment DOM 2	Annualised HRS Movements ex Whyalla
Confidential Attachment DOM 3	Pricing and availability guide
Confidential Attachment DOM 4	Guide to purchasing hot rolled and welded structural steel
Confidential Attachment DOM 5	IPP calculators
Confidential Attachment DOM 6	PowerPoint presentation on value proposition
Confidential Attachment DOM 7	Distribution agreement 1
Confidential Attachment DOM 8	Distribution agreement 2
Confidential Attachment DOM 9	Distribution agreement 3
Confidential Attachment DOM 10	HRS Data – SALES price vol. source spreadsheet

Confidential Attachment DOM 11	SRDM report – sales volumes and values
Confidential Attachment DOM 12	SAP report – Profit centre showing rebate amounts May 2013
Confidential Attachment DOM 13	SAP report – General journal of SRDM sales revenue & Steelworks P&L report
Confidential Attachment DOM 14	Hyperion profit and loss statement for OneSteel
Confidential Attachment DOM 15	Extract of Arrium Mining and Materials segment report for EBITA and EBIT
Confidential Attachment DOM 16	Report - Extract of the segment information from the Arrium Limited 2013 Annual Report
Confidential Attachment DOM 17	Commercial documents and SAP report for the sales sample
Confidential Attachment DOM 18	Internal spreadsheet – Rebates apportionment
Confidential Attachment DOM 19	Credit notes - Rebates
Confidential Attachment CTMS 1	Internal spreadsheet – HRS data workbook
Confidential Attachment CTMS 2	Internal spreadsheet – Total overheads workbook
Confidential Attachment CTMS 3	SAP report – COGS May 2013
Confidential Attachment CTMS 4	SAP report – COGS 2013 financial year
Confidential Attachment CTMS 5	SAP report – P&L report 2013 financial year
Confidential Attachment CTMS 6	Report – Inventory movement
Confidential Attachment CTMS 7	Report – MES monthly variation of HRS sections (hot saw to bundles)
Confidential Attachment CTMS 8	Report – Monthly coal costs
Confidential Attachment CTMS 9	SAP report – ICH inventory account
Confidential Attachment CTMS 10	SAP report – ICH coal purchase order
Confidential Attachment CTMS 11	Commercial invoices and stevedoring invoice

Confidential Attachment CTMS 12	SAP report – Main costing for blast furnace: product
Confidential Attachment CTMS 13	SAP report – trial balance confirming intercompany loan amount
Confidential Attachment CTMS 14	SAP report – Structural mill process
Confidential Attachment CTMS 15	SAP report – Wages (normal time) account
Confidential Attachment CTMS 16	SAP report – Oil and greases
Confidential Attachment CTMS 17	Commercial invoice – oils and greases
Confidential Attachment CTMS 18	SAP report - sulphate of ammonia inventory account
Confidential Attachment CTMS 19	Commercial invoices - sulphate of ammonia
Confidential Attachment CTMS 20	SG&A reconciliation workbook
Confidential Attachment CTMS 21	Freight workbook
Confidential Attachment CL 1	Email and commercial documents - OSMC
Confidential Attachment CL 2	Email between OneSteel and [customer]
Confidential Attachment CL 3	[customer pricing method]
Confidential Attachment CL 4	[customer pricing method]