Exporter Briefing – Quintain Steel Co, LTD

Background

- Quintain Steel Co., LTD ("QSC") was founded in 1973.
- The Kuan-Tien Plant was built in 1994 and is the only production unit involving the manufacture of the GUC (as per exporter questionnaire). Capacity – 400,000t
- The main products QSC produce include carbon steel wire and deformed bar in coil (Kuan-Tien Plant), spheroidised wire (Ma-Tou Plant) and galvanised wire (Yung-Kung Plant).

Production

- QSC do not appear (as per their website) to have steelmaking facilities for the production of hot-rolled wire rod products. The assumption is that billets are 100% sourced from elsewhere and merely rolled through the QSC facility.
- The QSC website also lists "grinding equipment for surface quality improvement" as a key feature of their operation stating all of the billet must go through the billet conditioning facility for detecting and grinding (assuring the surface quality is acceptable) before being rolled into the wire rod.

  NOTE :

  [redacted]

  [OneSteel process details regarding billet conditioning]

  [redacted]

- **It appears that QSC are doing billet conditioning on all billets before rolling into wire rod, this should be confirmed as it is unclear why this would be necessary. If confirmed, the appropriate adjustment will need to be made in the production cost.**

Grades and sizes

- Applicable grades for GUC[1] :
  SWRM 6K, SWRM 8K, SWRM 10K, SWRM 12K, SWRM 15K
- Wire rods size range: 5.5mm to 16.0mm.

Commercial arrangements

- The same sales department is involved in domestic and export sales of the GUC.

[1] The Product Specification Manual of Steel Wire Rods available on the QSC Website for Low Carbon Steel

Exporter Briefing – PT Ispat Indo

Background

- Established in Indonesia in 1976.
- Production capacity in excess of 700,000 tonnes (as per website).
- Largest wire rod producer in Indonesia with the highest market share (as per website) - 70% of sales to the domestic market and about 30% exported.
- OneSteel is aware that the Indonesian market is under extreme pressure due to an influx of steel imports from China.
    - In February 2014 it was reported[2] that PT Ispat Indo , together with PT Krakatau Steel filed an application with the Indonesian Safeguards Committee for measures against the importation of hot rolled bars and rod in coils.
    - Also in February 2014 it was reported[3] that Chinese wire rod imports into the Southeast Asian region were up 59% on the year with Indonesia importing 518,000t – a 65% year-on-year rise.
    - On 2nd June 2014, a new policy was enacted in Indonesia under which Indonesian companies will need to receive government approval to import alloy steel. Indonesia is implementing the new regulation in a bid to curb rising alloy steel imports and minimise unfair trade practices, which the government felt can harm the country's iron and steel industry.
      Importers requested a 3-month deferment of the new policy[4] and the Indonesian Ministry of Trade granted a 1-month deferment. In the article, a source states that "apart from insufficient local supply, wire drawing mills also import alloy steel wire rods because of their competitive prices with domestically produced ones".
    - In July 2014 it was reported[5] that Chinese wire rod exporters are fighting each other for a share of alternative but less profitable markets in the wake of anti-dumping measures imposed by the US government – Indonesia features prominently in a chart showing the top export destinations for Chinese wire rod.
- OneSteel is aware[6] that Indonesian steelmakers are under further pressure from a large increase in electricity charges this year. In May 2014 the first of a 4-stage electricity tariff hike took effect and PT Ispat Indo's price increase for domestic wire rod offers increased. The article states that the higher prices could be a result of rising production costs, in addition to renewed weakness in the rupiah which would make the price of imported raw materials relatively more expensive.

[2] SteelFirst article 6 Feb 14 – "Indonesia probes imports of certain hot rolled bar, rod"
[3] SteelFirst article 4 Feb 14 – "China's long steel exports to Southeast Asia up 54% in Jan-Nov 2013"
[4] SteelFirst article 27 Jun 14 – "Indonesia defers implementation of alloy steel import policy"
[5] SteelFirst article 9 Jul 14 – "Feature: China's wire rod exporters seek new markets after US AD move"
[6] SteelFirst article 7 May 14 – "Indonesia's Ispat Indo raises domestic wire rod offers for May"

The electricity tariff hikes (which take effect May 1, July 1, September 1, and November 1 in 2014) will deliver a total increase of 64.7% this year – this will put additional pressure on production costs of energy-intensive electric arc furnace operations.

Production

- PT Ispat Indo manufactures a range of low and high carbon grades of billets, wire rods and bars using approximately 65% scrap and 35% DRI/Pig Iron through an Electric Arc Furnace operation.

⇒ **From the wire rod rolling schematic on the Ispat Indo website, it appears that 2 billet reheat furnaces are in operation with the necessary roll stand configuration to allow two billets to be rolled simultaneously. Gas usage for both preheating furnaces must be taken into account for cost of production.**

Grades and sizes

- The product specifications attached to the exporter questionnaire list the following grades which OneSteel considers to be the ones that most closely resemble the grades exported to Australia:
  SWRM 6/1006, SWRM 8/1008, SWRM 10/1010, SWRM 12/1012, SWRM 15/1015 and SWRM 17/1017
- The product size range includes coil from 5.1mm to 18mm.

Commercial arrangements (as per exporter questionnaire)

- There are two distribution channels employed by PT Ispat Indo:
  - PT Ispat Indo sells rod in coil directly to end-users, who use it in their own production of downstream products; or
  - PT Ispat Indo sells rod in coil to traders, who then on-sell the rod in coil to their own customers.

⇒ **Prices to traders are reportedly lower than prices to end-users with the reason given that the trader negotiates from a position where they need to achieve a profit when they on-sell the rod in coil – OneSteel requests that the Commission verify this statement as volumes sold are usually more likely to influence pricing.**

- There are no agency or distribution arrangements entered into nor does Ispat Indo enter into any long-term sales contracts. All domestic sales are "spot sales".
- No handling, loading or ancillary expenses are incurred for domestic sales, beyond the cost of loading the coil onto a truck. This is a cost that is borne on both domestic sales and export sales.
- Exports are fully exempted from VAT.

⇒ **Coils are exported in containers. Ispat Indo contracts a service provider to provide "handling and stuffing" services - charged on a per tonne basis and occasionally on a per container basis. These costs are recorded by Ispat Indo in its accounting system and must be verified by the Commission.**

⇒ **Ispat Indo reportedly does not make sales in accordance with price lists. OneSteel finds this unrealistic given the size of the PT Ispat Indo operation and requests that the Commission verify this.**

⇒ **OneSteel requests that the Commission verify the size of the domestic and export sales teams for PT Ispat Indo as it is anticipated that the export sales administration costs may be claimed to be very small compared to domestic (requiring a downward adjustment).**

- Ispat Indo's transport service providers charge Ispat Indo a per tonne fee for inland transportation. Ispat Indo records this amount per sale in its accounting system.
  In all cases, where the delivery terms are "franco", the price includes the cost of delivery to the customer. However, where the delivery terms are "loco", the customer bears the responsibility for collecting the product from Ispat Indo's factory, so no cost of delivery will be reflected in the price.

Exporter briefing – PT Gunung Raja Paksi

Background (from the Gunung Steel Group website)

- Gunung Garuda Group was formed in 1986 and became known as Gunung Steel Group (GSG) in 2001.
- GSG refer to their operation as a "One Stop Steel Shop not to be found anywhere else".

Production

- Annual production capacity is in the order of 300,000t/year.
- Scrap and iron ore are melted in an Electric Arc Furnace and then cast into various products – billets, blooms, beam blanks and slabs. These are rolled into a wide range of finished products.

⇒ **NOTE: wire rod appears to be just one of a very wide variety of long, flat and structural steel products produced by Gunung Steel Group. All operations appear to be conducted at the same premises (covering 200 hectares). Differentiating costs applicable to rod in coil production may involve some complexity.**

- GSG can also provide a number of additional value-added services and have a wire mesh production facility within their operation.
- From the exporter questionnaire it appears that PT Gunung Raja Paksi may purchase billets for their operation (to supplement what they produce through their facility).

Grades and sizes

- The product specifications attached to the exporter questionnaire list the following grades which OneSteel considers to be the ones that most closely resemble the grades exported to Australia:
  SWRM 06, SWRM 08, SWRM 10 and SWRM 15
- Wire rod is produced in sizes ranging from 5.5mm to 13.0mm.

Commercial arrangements

- The exporter questionnaire from PT Gunung Raja Paksi is heavily redacted making it impossible to gain any real insight into their operations or sales processes.
- It appears that an International Trader is used for export sales and local sales are made to distributors.

Exporter Briefing –

Habas Sinai ve Tibbi Gazlar Istihsal Endustri A.S ("Habas")

Background

- Habas was founded in 1956 as an industrial gas producer, steelmaking commenced in 1987.
- The activities in which Habas is involved in currently include producing industrial and medical gases, steel, electrical energy, manufacturing heavy machinery, distributing Liquified Petroleum Gas (LPG), Liquified Natural Gas (LNG) and Compressed Natural Gas (CNG), offering sea transportation services for LPG and operating sea ports.
- Anadolubank Inc. is part of the Habas Group - specialising in business banking and retail banking areas.

Production

- Habas has a liquid steel production capacity in the order of 3,000,000t.
- Having a total of 300MW power generating capacity, Habas provides electricity to the domestic market.

⇒ **The Commission will need to establish at what price electricity and gas (key steelmaking process costs) are transferred to their steelmaking operations compared to the price at which it is sold to other customers (or into the energy grid in the case of electricity).**

⇒ **Habas operates the sea port from which exports to Australia are made. The exporter questionnaire states that loading and handling charges incurred at the port of exportation are reported on a transaction by transaction basis for the wire rod exports. Port handling costs will need to be assessed to ensure that the appropriate cost allocation has been made.**

- Habas manufactures the GUC in it's steel plant in Izmir. Habas' steel plant consists of a meltshop (with 2x EAF furnaces), in which steel billets are produced, and two rolling mills, one for reinforcing bars, the other for wire rod.
- Habas appears to use a combination of scrap, direct reduced iron (DRI) and pig iron in the EAF operation and wire rolling capacity is in the order of 500,000t/year.

Grades and Sizes

- As stated in the exporter questionnaire, Habas has assigned the same model code to the identical products in the domestic and Australian market based on the carbon content range as per the specifications. Wire rod is comparable if falling within the same carbon content range.
- The production range includes wire rods with a diameter of 5.5mm to 19mm.

Commercial arrangements

- Sales are always on an actual weight basis in the domestic market, as are the export sales.
- Habas uses service providers to ship goods directly from Habas' port to the Australian port.
- Loading and handling charges incurred at the port of exportation are reported on a transaction by transaction basis for the wire rod exports.
- The Turkish inward processing regime ("IPR") provides tax exemptions to the Turkish manufacturer/exporters by permitting manufacturer/exporters to import raw materials free of import duties, resource utilization fund (KKDF) and value added tax if such inputs are intended for producing final goods for export.

⇒ **The exporter questionnaire refers to "packing costs" reported by Habas. Greater clarity will need to be sought regarding any additional packing arrangements made for exports (compared to domestic sales) and associated costs.**

⇒ **OneSteel note that the other Turkish producer named in this investigation (DILER) is a member of the "Steel Exporter's Association" and pays 0.0005% of its export value as a fee. DILER also paid an "Inspection fee" to an independent company for all of its sales to Australia. It should be verified whether these fees apply to the Habas operation also.**

⇒ **OneSteel requests that the Commission verify the size of the domestic and export sales teams for Habas as it is anticipated that the export sales administration costs may be claimed to be very small compared to domestic (requiring a downward adjustment).**

Exporter briefing –

DILER Dis Ticaret (DDT) / DILER Demir Celik Sanayi ve Ticaret A.S. (DDC)

Background

- The two DILER companies involved in manufacturing, sales, marketing and distribution of the GUC are:
    - DDC – DILER Demir Celik – is the only company in the Diler Group that produces the GUC. Besides wire rods, DDC produces steel billets, round bars and deformed bars (rebar). DDC also handles the sales of the GUC in the Turkish domestic market.
    - DDT – DILER Dis Ticaret – established in 1984 as the foreign trade company in the DILER group that handles all export sales produced by other Group companies including DDC.

  Production, cost and domestic sales information are provided by DDC, export sales to Australia data are provided by DDT.
- DDC was established in 1954.
- DDC started production of wire rod in 2008 (Rod Mill commissioned in 2008).
  ⇒ **Verification required - new rolling mill depreciation schedule (2008 to present)?**

Production

- DDC produces billets through a meltshop equipped with one 100MVA ultra high power finger-shaft electric arc furnace. In 2008 DILER started a new rolling mill facility located 2km away from its old factory to produce plain and deformed wire rods. The annual capacity of wire rod production is 400,000t.
- The exporter questionnaire states that DILER use billets manufactured by DDC for making the GUC.

Grades and sizes

- The exporter questionnaire reports that goods under consideration sold in the domestic market and exported to Australia by DILER are identical (has no physical difference).
- Wire rods produced in the range of 5.5mm to 20mm.

Commercial arrangements

- In DDC, there are three different cost centres; billet, rebar and wire rod.
- Sales to Australia were made directly from the Mill to the independent traders (no agency or distributor agreements were entered into in relation to the Australian market).
- All export sales are “made to order”. Export sales prices do not vary according to the distribution channel.

- **DILER reportedly had no price list in the domestic market or for the Australian market. OneSteel requests that the Commission verify this point – difficult to believe no price lists exist for an operation the size of DILER.**
- Goods are sold on an actual weight basis.
- For the exportation of the GUC from the mill to the port, DILER either used an independent transportation company or sometimes its related transportation company RESA – both companies issue invoices on a transaction basis. The transportation cost from the mill to the port was included in the export price.

⇒ **Packing of export product is reported to be similar for the domestic market and the Australian market. OneSteel requests that the Commission verify this point as export coils are likely to be containerised whereas domestic sales would likely be transported by truck with very different costs applying.**

- DILER is a member of the "Steel Exporter's Association" and pays 0.0005% of its export value as a fee. DILER also paid an "Inspection fee" to an independent company for all of its sales to Australia.

⇒ **OneSteel notes that "Faruk Shipping Industry & Trading Inc." is a newly established company which oversees all the shipping and chartering services of the Group Companies (since 2003). Cost arrangements should be clarified.**

⇒ **Atlas Energy Production Co. is part of the DILER group and was set up to generate and sell electricity. A thermal power plant project with 2x600 MW capacity started operation in December 2010. The project is expected to start power generation in 2014. The Commission will need to verify whether DDC electricity is being supplied by this facility and if so, at what price electricity is transferred to their operations compared to the price at which it is sold to other customers (or into the energy grid).**