PUBLIC RECORD

Australian Government
Anti-Dumping Commission

INVESTIGATION 240

ALLEGED DUMPING OF

RODS IN COIL

EXPORTED FROM THE REPUBLIC OF INDONESIA, TAIWAN AND THE REPUBLIC OF TURKEY

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

May 2014

CONTENTS

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
IPP	Import parity price
OneSteel	OneSteel Manufacturing Pty Ltd
PAD	Preliminary Affirmative Determination
Parliamentary Secretary	The Parliamentary Secretary to the Minister for Industry
SG&A	Selling, general and administrative expenses
SRDM	Sales Reporting Debtor Management
SEF	Statement of Essential Facts
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 24 February 2014, OneSteel Manufacturing Pty Ltd (OneSteel) lodged an application with the Anti-Dumping Commission (the Commission) requesting that the Parliamentary Secretary to the Minister for Industry (the Parliamentary Secretary) publish a dumping duty notice in respect of rod in coils exported from the Republic of Indonesia (Indonesia), Taiwan and the Republic of Turkey (Turkey).

OneSteel provided further information in support of its application on 13 March 2014, restarting the 20 day period for consideration of the application.

OneSteel alleges that the Australian industry has suffered material injury caused by rod in coils exported to Australia from Indonesia, Taiwan and Turkey at dumped prices. OneSteel claimed the industry has been injured through:

- loss of sales volumes;
- loss of market share;
- price undercutting;
- price depression;
- price suppression;
- reduced revenues;
- reduced profits;
- reduced profitability;
- reduced return on investment; and
- reduced employment.

The Commissioner of the Anti-Dumping Commission (the Commissioner) after examining the application gave public notice of his decision to initiate an investigation.

Public notification of the initiation of the investigation was made on 10 April 2014 in *The Australian* newspaper and through Anti-Dumping Notice No. 2014/27.

1.2 Purpose of visit

The purpose of the visit was to:

- obtain relevant information about the Australian market for rod in coils;
- 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 Laverton Steel Mill 105-123 Doherty's Road Laverton North, VIC 3026
Company Representative	Matt Condon, Manager Trade Development, OneSteel
Consultant	John O'Connor, Director, John O'Connor & Associates Pty Ltd
Dates of visit	12 - 15 May 2014

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

OneSteel Manufacturing Pty Ltd	Matt Condon – Manager – Trade Development, OneSteel Ms Stephanie Peenz - Trade Development Officer, OneSteel [redacted] – General Manager, Laverton Steel Mill [redacted] – Sales manager Steel In Concrete - OneSteel [redacted] – Commercial Manager – Rod, Bar & Wire, OneSteel [redacted] – Commercial Services Manager - Steel Manufacturing, OneSteel [redacted] – Senior Planning Analyst, OneSteel [redacted] – Market Manager Steel in Concrete, OneSteel
Consultant	John O'Connor
Anti-Dumping Commission	Candy Caballero, Director Operations 3 Rod Jones, Manager Operations 3 Gavin Crooks, 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 January 2013 to 31 December 2013. The injury analysis period is from 1 January 2010 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 25 May 2014, 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 14 June 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 29 July 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 rods in coils of steel, whether or not containing alloys, that have maximum cross sections that are less than 14 mm.*
>
> *The goods covered by this application include all steel rods meeting the above description of the goods regardless of the particular grade or alloy content.*
>
> *Goods excluded from this investigation are:*
>
> Deformed Bar in coils and stainless steel in coils.

2.2 Tariff classification

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

- 7213.91.00 (statistical code 44);
- 7227.90.90 (statistical code 42).

For the tariff subheadings outlined above, the general rate of duty is currently 5%, however, Indonesia and Turkey are designated DCS countries and Taiwan is designated a DCT[1] country. The rate of duty for rod in coils exported to Australia from DCS and DCT designated countries is free.

The Australian Customs and Border Protection Service's (ACBPS) Trade Branch confirmed that rod in coils of non-alloy steel is classified to 7213.91.00 if the cross section is circular as well as less than 14 mm in diameter. Rod in coils of other alloy steel are classified to heading 7227, but the reference to subheading 7227.90.90 excludes certain alloys such as silico-manganese steel and non-circular sections.

Following discussions with the Commission, the applicant confirmed that the goods under consideration should be entered under the nominated tariff subheadings. However, the Commission notes that the goods under consideration are defined by the description, not the tariff classification.

[1] 'DCT' and 'DCS' are codes applied to classes of countries and places in relation to which special rates apply as specified in Parts 4 and 5 of Schedule 1 of the *Customs Tariff Act 1995.*

3 THE AUSTRALIAN INDUSTRY AND LIKE GOODS

3.1 Australian industry

OneSteel stated in its application that it is the only Australian producer of rod in coil products in Australia. The Commission is not aware of any other producer of rod in coils in Australia and therefore considers that the Australian industry for rod in coils is represented by OneSteel.

3.2 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 processing and steel distribution businesses.

OneSteel is 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.

The production process for rod in coils made by OneSteel is via one of two distinct steelmaking process routes:

The first is a fully integrated process involving ironmaking (through a Blast Furnace) which provides the main input into the steelmaking process (through a Basic Oxygen Furnace (BOF)). The ferrous feed, including iron ore, pellets and recycled steel (small amounts are added to the BOF process) are sourced from Arrium Mining and OneSteel Recycling. This integrated (ironmaking+steelmaking) operation is used to produce continuously cast steel billets, slabs or blooms at the Whyalla Steelworks.

The second process involves charging scrap steel into an Electric Arc Furnace (EAF). Liquid steel from this process is continuously cast into steel billets. This steelmaking operation takes place at OneSteel's Laverton and Sydney (Rooty Hill) sites.

The steel billets produced through either process route are then charged as feed billets into the Rod Mills at OneSteel's Laverton and Newcastle sites and rolled into coiled rod. The majority of rod in coils is sold internally to [redacted] who further process the rod in coils into finished products that are on sold by OneSteel Distribution.

OneSteel provided a detailed diagram of associated companies in its application. At the visit OneSteel provided a presentation of the integrated supply, production, processing and distribution chain for all steel products and also specifically for rod in coils.

Included in the presentation were also details on the manufacturing process, capacity and product specifications. Copies of these documents are at **Confidential Attachment G1.**

3.3 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 2013.

During the verification visit, OneSteel provided an overview of its accounting and enterprise resource planning systems for the Laverton, Sydney and Newcastle operations.

The Laverton operation comprises an Electric Arc Furnace, a Rod Mill (for coil production) and a Bar Mill (for straight bar production). Laverton uses JD Edwards (JDE) for production, accounts, sales reporting and debtor management (SRDM) and dispatch.

The Newcastle operation comprises a Rod Mill and a ContiStretch facility used for cold-working coiled reinforcing bar. Newcastle uses SAP for accounts, SRDM for sales reporting and debtor management and Newproms for the production and dispatch systems.

The Sydney operation comprises an Electric Arc Furnace and a Bar Mill. Sydney uses SAP for accounts, SRDM for sales reporting and debtor management and Newproms for the production and dispatch systems.

The three entities use Steel Group Invoicing System (SGIS) for sales, and Steel Adhoc Reporting System (SARS) for orders. All external sales by Laverton and Newcastle are processed through Newcastle for accounts purposes.

Hyperion is a financial consolidation tool for all the entities in the 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.

3.4 Relationship with suppliers and customers

As noted in section 3.1 above raw materials, such as recycled steel and billets are supplied by related OneSteel companies. The arms length nature of the provision of those materials is discussed in the section of this report dealing with costs.

OneSteel sells the majority of its rod in coil products to related OneSteel entities and to a number of non-related external manufacturers. Referred to as internal or intercompany sales, the OneSteel related entities include the [redacted]. The arms length nature of the sales is discussed in the section of this report dealing with sales.

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

3.5 Product range and manufacturing facilities

3.5.1 Manufacturing facilities

The Whyalla Steelworks located in South Australia produces steel using a Basic Oxygen Furnace (BOF), where liquid steel is cast into billets, slab or blooms. Whyalla supplied the majority of billet to the Rod Mills in the calendar year 2013.

The Laverton operation produces steel through its EAF using scrap steel as input. The liquid steel is cast into billets which are rolled through the Rod and Bar Mills at Laverton. Bar Mill products (not in coil form) are not part of the goods under investigation.

The Sydney operation produces steel through its EAF using scrap steel as input. The liquid steel is cast into billets, the majority of which are used in the Bar Mill in Sydney with the remainder used in the Newcastle Rod Mill.

The Newcastle Rod Mill uses billet from Whyalla and Sydney to manufacture rod in coils. Reinforcing rod in coils (not included in the goods the subject of this application) are further cold-worked through the ContiStretch facility to obtain the required mechanical properties.

3.5.2 Product Range

OneSteel manufactures rod in coils in a range of diameters and steel grades at its Laverton and Newcastle mills. OneSteel advised in its application that rod in coils are sold in a range of grades that include low, medium and high carbon grades.

OneSteel provided in its application copies of the specification sheets for the two largest selling grades, [redacted], which accounted for approximately [redacted]% of its sales in 2013.

At the visit the following comparison between the Australian standards and international steel grades was provided. The majority of Rod in Coil produced is in the form of low carbon steel in the range 0.05%C to 0.22%C. The aim carbon content is generally reflected in the naming convention irrespective of the international standard that applies (SAE 1012 or SWRM 12 applies for an aim carbon content of 0.12%). The Whyalla Steelworks, Laverton Rod Mill and Newcastle Rod Mill all use different naming conventions when processing the steel internally.

CONFIDENTIAL TABLES ON PRODUCTION GRADES SIZES

Table 1 – available RIC grades and sizes

At the visit OneSteel provided a detailed table of the ranges of rod in coils that it produced and sold, the table details the grade, application in the market, carbon and alloy content and sales values and volumes for 2013. This table is at **Confidential Attachment P1.**

The [redacted] grade is the largest selling grade and is considered a low carbon grade. The [redacted] grade is also considered a low carbon grade.

The table shows that low carbon grades are manufactured in a range from 0.05 to 0.22% maximum carbon content with typical final application end uses in reinforcing mesh and general purpose wire.

Medium carbon grades are manufactured in a range 0.25% to 0.60% carbon with typical final applications in auto springs, chains, barbed wire and cold finished bar used in axles.

High carbon grades are used in spring wire, such as for bed springs, stranded wire and rope.

Within the grades there are special purpose products manufactured for specific end uses, these speciality grades contain alloys to suit the final end use of the product.

Grades ending with a [redacted] have a different cooling method applied to promote a thicker scale on the outer surface for processors requiring scale removal/cleaning in preparation for a coating application.

OneSteel produces rod in coils in sizes from 5.5 mm to 18.5 mm and advised that sizes above 14 mm are low volume speciality grades used in applications such as spring wire.

3.6 Production process

OneSteel provided a description and diagram of its production process with its application. During the verification visit, OneSteel provided a tour of the EAF and Rod Mill facilities where we observed the following parts of the production process:

Steel Making

- *Scrap is loaded from the scrap yard and brought into the EAF facility;*
- *Scrap, fluxes and alloys are combined in the EAF to produce molten steel;*
- *The molten steel is poured into a ladle to separate the molten steel from slag and final adjustments to the molten steel's chemical composition and temperature are done in a Ladle Furnace.*
  The ladle is then transported to the Continuous Casting Machine where the steel flows into a tundish which distributes the steel into a number of water-cooled copper moulds to be cast and cut into billets. Finished billets are held in a storage yard until required.

Rod Mill

- *Prior to rolling in the Rod Mill, the billets are heated in a reheat furnace to the required temperature;*
- *Billets are extracted from the reheat furnace and through a number of rolling stands;*
- *The stands contain a combination of horizontal and/or vertical rolls that are used to effect a step-wise size reduction to the final rod diameter required;*
- *Rolled rod is put through a laying head which transforms the straight continuous rod into rings which are laid onto a cooling conveyor; At the end of the cooling conveyor, the rings drop into a reform tub, forming a coil of loose rings. The coils are compacted and tied using tie wire to enable ease of handling, storage and transport. The compacted coils are transferred to a storage area.*

Material Handling and Dispatch

- *The completed rod in coil is held in a storage yard prior to being sent to the customer.*

As part of the verification visit, we were provided with a process flow map which depicted the production process (included in **Confidential Attachment G1**) from the raw materials stage to the point at which the goods are despatched.

3.7 Annual turnover[2]

OneSteel Manufacturing's annual net revenue for domestic and export sales for all rod and bar products in CY2013 was approximately $[redacted][3] (of which [redacted]% related to export revenue).

Of this total revenue, domestic sales of rod in coils accounted for approximately $[redacted]. By comparison, exports of rod in coils totalled $[redacted][4] over the same period.

3.8 Capacity

OneSteel provided capacity figures in its Appendix A7. OneSteel advised that capacity was calculated on actual production and shifts to achieve that production plus extra production based on unutilised shifts. [redacted] unutilised capacity was calculated on the actual production plus the unutilised shifts.

OneSteel provided documents to support the capacity calculations which including extracts from the accounting systems evidence actual production over the period.

Capacity has been increasing since 2010 which OneSteel explained as due to improvements in production methods.

Capacity utilisation for rod in coils for 2010 -2013 is set out in the table below.

CONFIDENTIAL TABLE CAPACITY UTILISATION

OneSteel's capacity utilisation is further discussed at Section 7.4.3 of this report.

3.9 Like goods

Like goods are defined in the legislation as:

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

OneSteel stated in its application that it considers that the imported rod in coils possesses the same essential characteristics as locally produced rod in coils for the following reasons.

i. Physical likeness:

OneSteel's locally produced rod in coils and the imported goods are manufactured to the requirements of Australian and International Standards, and are alike in physical appearance. The imported and locally produced rod in coils are

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[2] Anti-Dumping Submission - Rod for Coil [redacted] – updated (Confidential Appendix A3)
[3] *Ibid*
[4] Anti-Dumping Submission - Rod for Coil [redacted] – updated (Confidential Appendix A5)

manufactured in a range of grades and diameters.

ii. Commercial likeness:

OneSteel's locally produced rod in coils competes directly with imported rod in coils in the Australian market.

iii. Functional likeness

Both the locally produced and imported rod in coils have comparable or identical end-uses.

iv Production likeness

The rod in coils manufactured by OneSteel is manufactured in a similar manner and via similar manufacturing processes to the imported goods.

From information submitted in the application, gathered during the visit to the OneSteel and responses from exporters and importers the Commission observed that locally produced rod in coils and imported rod in coils:

- Are alike in physical appearance;
- Compete directly with each other in the Australian market;
- Have comparable or identical end-uses; and
- Are manufactured in a similar manner.

The Commission noted in Consideration Report No. 240 (CON 240) that rod in coils with a maximum cross section of 14 mm or more may be considered as a like good and that this issue would be examined further during the investigation.

OneSteel provided the Commission with detailed information of its sales of rod in coils including those with a cross section of 14mm or greater for 2013.

The Commission notes that all sales with a cross section greater than 14 mm were of a similar product code to two auto springs manufacturers, OneSteel said that these sales were of a specialist spring grade. The Commission also notes that there are sales of these product codes in sizes less than 14 mm and that prices were similar regardless of the size. The larger sizes also have the same physical appearance and end use.

The Commission considers at this stage of the investigation that rod in coils with a cross section of 14mm or greater is a like good.

The Commission is 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 Introduction

OneSteel submitted that the Australian market is supplied by itself and imports from a range of countries including Taiwan, Turkey, Indonesia and New Zealand. OneSteel also submitted that rod in coil is a commodity product and that end users can quickly change their source of supply between exporters and countries.

OneSteel said that imports from Indonesia, Taiwan and Turkey have increased since 2010 displacing import volumes from New Zealand and other countries as well as impacting on OneSteels sales volumes.

OneSteel explained that rod in coils is sold nationally with the majority of sales in the eastern states of Queensland, New South Wales and Victoria and that all sales [redacted]. [redacted] will purchase rod from either OneSteel, an importer or import the product themselves.

4.2 Market segmentation and end use

OneSteel explained that the key market segments for rod in coil are commercial and residential construction, wire, mining and resource construction, and, to a lesser degree, engineering fabrication and springs.

In its application OneSteel stated that rod in coils less than 14mm is a semi-finished intermediate feed material that is largely utilised by the wire manufacturing industry. Wire manufacturers subject the rod in coils product to cold drawing processes which produces wire for use in a variety of applications which include:

- Concrete reinforcing mesh manufacturing (Steel in Concrete)
- Wire manufacturing (wire rope, springs, nails, fencing)
- Mine mesh manufacturing
- General manufacturing
- Reinforcing ligatures

Rod in coils for the mesh market and general purpose wire is the dominant market sector comprising approximately [redacted]% of OneSteel's sales. Products in this sector [redacted].

The other market sectors include bedding and auto springs, rural and manufacturers' wires, rope and strand products and special purpose wire. OneSteel advised that products in these sectors [redacted].

The Commission noted in CON 240 that it may further review the rod in coil market by the grade of steel.

The information provided by OneSteel at **Confidential Attachment P1** shows that there is a range of grades of steel used to manufacture rod in coils for the market sectors and that factors, such as carbon content and or alloy content may not necessarily determine the sector or end use for that product.

The Commission notes, for example, that low carbon content rod in coil may have alloys added or a separate process used, to produce a special purpose rod in coil distinct from what would be typically used in the mesh and wire sector.

OneSteel also advised that most specialist grades, including spring grades require a steel billet with lower levels of residual elements that is best produced through a blast furnace and BOF process rather than an EAF process where higher residual element levels are likely due to the scrap input.

The Commission considers at this stage of the investigation that whilst there are separate market sectors for rod in coils that it is not practicable to reliably separate those sectors by steel grade and content.

4.3 Demand variability

OneSteel said that demand variability is driven by the market for mesh wire which comprises four major segments:

- Residential – the housing market where the mesh is used in concrete slabs;
- Non-residential – such as warehouses, office buildings;
- Mines - used to line tunnels in the mines; and
- Engineering – bridges and roads.

OneSteel explained that the residential market is the main driver of demand for mesh wire. OneSteel said that there was some seasonal fluctuation at the end of the year as the construction industry closed for the Christmas holiday period.

4.4 Substitutable Products

OneSteel said that products described as “fit for purpose” were substitutable products; these products, such as reinforcing mesh, automotive and bed spring cold wire, were essentially the finished products that end users produced from the rod in coils.

4.5 Market size and share

In its application OneSteel estimated the size of the Australian market using Australian Bureau of Statistics import data, data from an independent recognised international supplier of trade statistics and sales to external customers.

The Commission examined the Australian Customs and Border Protection import database to determine if OneSteel’s estimates were reasonable and considered that the information submitted by OneSteel is reliable, relevant and suitable for estimating the size of the Australian market for rod in coil.

OneSteel’s sales data was verified in the visit, the sales data used to estimate the size of the Australian market was updated to include all sales of rod in coils including those 14mm and greater.

Import data will be verified with importers and exporters to further update the size of the Australian market.

The size of the market for rod in coils, including 14mm and greater, from 2010 to 2013 by calendar years is shown in the following chart.

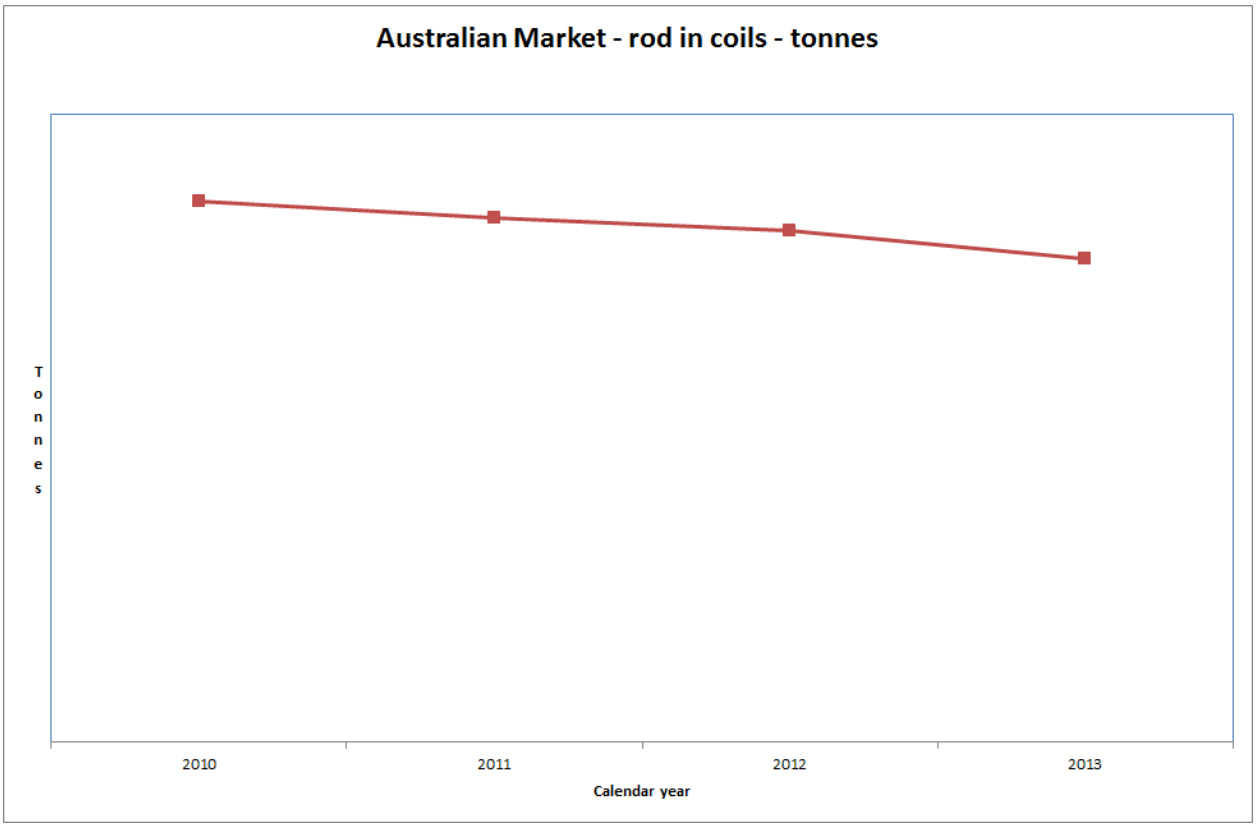


Figure 1– Australian market size and shares – rod in coils – 2010 to 2013

During the period 2010 to 2013 the size of the Australian market for rod in coils has declined each year. The Commission has estimated the market for in coils was over 600,000 tonnes per year in 2010, the available data shows the market has declined to between 500,000 to 550,000 tonnes per year in 2013.

4.6 Marketing and distribution

OneSteel explained that all rod in coil sales in Australia are [redacted]

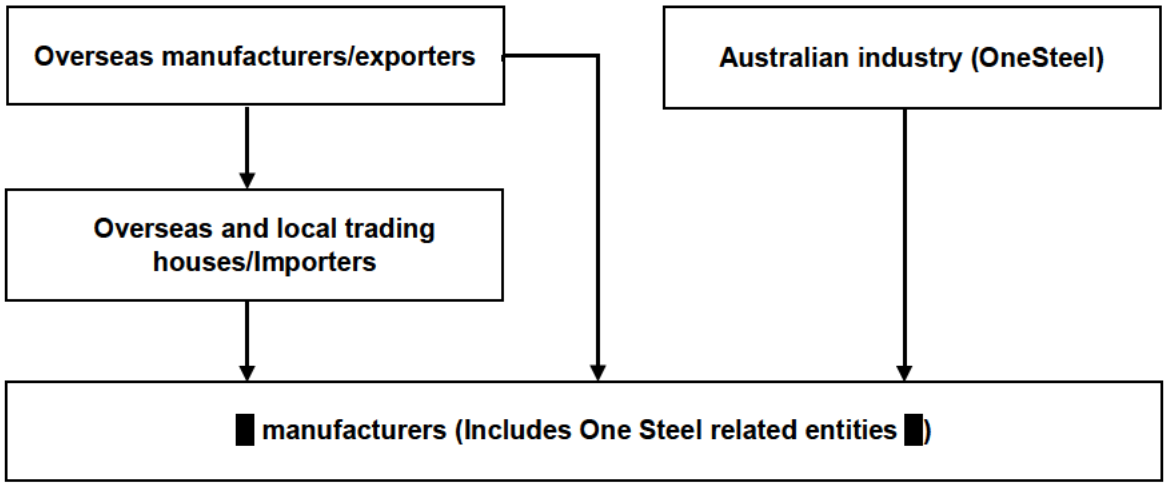
OneSteel explained that the [redacted] sales are to related OneSteel entities, [redacted], rod in coil sold to related entities encompass the full range of grades and sizes produced by OneSteel. The related entities process the rod in coils to end products including reinforcement mesh, general purpose wire, rope, springs and specialised fine wire applications.

The majority of OneSteel sales to independent [redacted] are to reinforcing mesh manufacturers who compete head to head with the OneSteel related entities in the reinforcing mesh market. Other types of rod in coils products sold to independent customers are for applications including springs, cold finished bar and chain.

Rod in coil is sold and priced [redacted] to all customers and delivered Australia wide. Prices [redacted]

[redacted] are supplied by OneSteel, direct imports from the exporter or overseas trader or direct imports through local steel trading houses.

The supply chain for rod in coil is shown below.



OneSteel explained that non-related [redacted] manufacturers purchase a combination of imported and locally-produced rod in coils. The related OneSteel entities [redacted].

Further discussion of OneSteel's distribution arrangements is contained in the section of this report dealing with sales.

5 SALES

5.1 General

OneSteel provided a detailed, line-by-line-sales listing of its domestic sales of rod in coils for the investigation period; that included details of:

- customer;
- product details – model code, diameter
- invoice details – date, invoice number; order number;
- gross and net invoice values
- quantity of goods (metric tonnes);
- rebates;
- destination of goods and ex-works location and
- transport costs.

We were able to verify the data within these listings, as discussed in Section 5.6 and 5.7.

From this data, we calculated that for the investigation period, OneSteel's sales value for rod in coils in all sizes in the domestic market was $[redacted] with a sales volume of [redacted] tonnes.

Analysis of OneSteel's domestic sales for the investigation period showed that rod in coils of less than 14mm in diameter accounted for the largest sales volume of like goods, representing [redacted]% of domestic sales volume.

5.1.1 Imports

OneSteel advised that [redacted].

5.2 Customer base

Within the Australian market for RIC, OneSteel sells [redacted] of goods to related OneSteel entities [redacted]. The following lists OneSteel's non-related domestic customers.

CONFIDENTIAL LISTING OF CUSTOMER

5.3 Ordering, invoicing and delivery arrangements

5.3.1 Stock ranges

OneSteel advised [redacted] rod in coil is ordered from stock. [redacted] meetings are held to discuss sales forecasts for the following months and estimate demand, sales and stock volumes required.

Adjustments to inventory are calculated and a production schedule is set for the following months, this schedule is updated as required, due to changes in demand and sales.

[redacted]

5.3.2 Ordering process

Customers ordering off OneSteel will generally order product as required unless they have a standing order for a large project requirement.

Sales orders for external customers are submitted by phone or email, orders for related OneSteel customers are placed using an internal order system (SAMS). Upon receipt of the order, OneSteel enter the order into its Newproms production order system and issues an order acknowledgement, whether that is via the internal system or fax/email.

Common grades and sizes may be dispatched within [redacted] order being received, though there may be longer lead times for the specialist products such as [redacted]

There are specified minimum order quantities as detailed in OneSteel's Transport Delivery Guide for Steel in Concrete products application. The delivery guide also specifies the mode of transport and origin of the factory that the rod in coil is dispatched from. The delivery guide was provided with the confidential application, a copy of the guide is at **Confidential Attachment S1.**

5.3.3 Invoicing and delivery

OneSteel advised that the invoice date is recognised as the date of sale and is usually within [redacted] despatch of product date.

OneSteel's Transport Delivery Guide for Steel in Concrete products detail that rod in coils is transported by road, rail and sea or a combination of all three depending on which mill is supplying the rod in coils and the customer's location. Lead times range from between [redacted].

5.3.4 Payment and delivery terms

Products are delivered on a free-into-store (FIS) basis to major centres in all states [redacted]. Credit terms for sales of rod in coils to [redacted]. A copy of the credit terms for OneSteel customers is at **Confidential Attachment S2.**

5.4 Pricing

5.4.1 Current pricing system

OneSteel provides [redacted] to its customers applicable to the month of delivery and [redacted]. Price lists were provided with the confidential application, a copy of the price lists is at **Confidential Attachment S3**.

There is around a [redacted] for import orders for mesh grade rod in coils. Orders for late [redacted] would be placed at the end of [redacted].

OneSteel explained that its prices are based on an import parity price (IPP) plus a local premium, which is determined [redacted].

Determining import parity price:

OneSteel advised that importers generally [redacted]

OneSteel will compare the [redacted] base its price negotiations on the [redacted].

OneSteel explained that it [redacted].

OneSteel demonstrated how its IPP calculation worked, supplying a copy of its IPP calculation spread sheets for its customers. This information is available as an electronic attachment, a pivot table summarising [redacted] is at **Confidential Attachment S4**.

OneSteel provided [redacted] at **Confidential Attachment S5**. The [redacted] matched the details in the IPP calculation spread sheet.

OneSteel indicated that [redacted]

5.4.2 Discounts and rebates

OneSteel explained that customers receive [redacted]

OneSteel explained that [redacted]. OneSteel's customer pricing information includes the [redacted].

OneSteel explained that monthly pricing for its internal customers [redacted]. [commercially sensitive pricing details]

5.5 Level of trade, related and unrelated customers

OneSteel sales of rod in coils to related entities [redacted] accounted for over [redacted]% of all sales in 2013. In OneSteel accounts, these are listed as 'intercompany' sales, however as OneSteel explained these are not at a transfer price but are true 'sales' of the goods at an arm's length price.

OneSteel considered the [redacted] [commercially sensitive pricing details]

In verifying sales we verified the amount of the rebate to OneSteel related customers, we note that sales to related customers account for over [redacted]% of rod in coils sales by volume and value.

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

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

As noted previously all sales are [redacted] who process the rod in coils into a range of product.

OneSteel provided copies of [redacted] formal distributor agreements in its confidential application, which are in place with its existing customer base. The agreements include details on [redacted].

We noted that the agreements specified that the customers distributorships [redacted] [commercially sensitive selling arrangements]

5.6 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 its SRDM system and input on an aggregated, month-by-month basis into SAP. We selected April 2013 as the period to verify through SAP to the audited financial statements.

During the verification visit, OneSteel provided a *Reconciliation with Profit April 2013* spreadsheet (**Confidential Attachment S6**) which shows the sales figures that support OneSteel's SAP financial statement. The financial statement report in SAP shows the account balances for total external domestic and export sales, domestic external rebates and [redacted] intercompany sales accounts.

The sales figures in the SAP report are mostly derived from OneSteel's SRDM system with the exception of intercompany scrap sales. Extracts from SRDM were provided at the visit to illustrate the origin of the sales figures in the financial statement. It was noted that total SDRM postings differed from the SAP account balances. The *Reconciliation with Profit April 2013* spreadsheet provided additional information to show the reason for the differences. In most cases the difference was due to the application of [redacted] for April and the [redacted] in the previous month (March) reversed from the SRDM report.

A second file named *Rod in Coil Verification all Sales (April 2013)* (**Confidential Attachment S7**) was provided after the visit to assist with reconciling the figures contained in SRDM to the sales figures provided in the application. This file contained a complete listing of all sales extracted from SRDM for April 2013.

The April 2013 data was presented in two summary tables, total company sales of all products and total sales of all rod in coil. The figures in the total company sales table reconciled with those shown in SRDM during the visit. The total rod in coil sales table showed sales of all RIC was $[redacted]. This figure reconciles with the total net invoice value shown in the *Sales Data 2013* file (**Confidential Attachment S7**). This file is also the source data that constructs the sales and volume figures contained in Confidential Appendices A2 (Australian market), A3 (turnover), A4 (Australian sales), A5 (Other production) and A6 (CTMS).

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 S8**). OneSteel provided two consolidated EBIT reports, one for the Rod and Bar division and a second for the Arrium Steel business.

The reports show the composition of the EBIT figure for the Rod and Bar division which reported [redacted] which forms part of the EBIT for the Rod, Bar and Wire (RBW) division which [redacted]. The figure for the RBW division forms part of the overall EBIT Arrium Steel in the OneSteel segment report (**Confidential Attachment S8)** which shows the EBIT results for each entity within the Arrium Steel business.

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 and tax (EBIT) level.

OneSteel provided a copy of the consolidated segment P&L report which is contained in the 2013 annual report. We observed the EBIT figure of [redacted] for the Arrium Steel business reported in the segment report reconciled with the EBIT figure recorded in the audited accounts.

5.6.1 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 rod in coils during the period from 1 January 2013 to 31 December 2013.

5.7 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 sixteen (16) sales from the submitted Appendix A4 sales listing; these are outlined in the table below.

Item	Customer Name	Invoice Number	Invoice Date
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			

Table 2 -Sales sample

The selected transactions covered various quarters, products, 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 advice;
- SAP screen-shots, evidencing payment into the SAP account; and
- credit adjustment notes.

The above evidence was not requested 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 S9**.

5.7.1 Invoice/despatch details

We noted that the despatch advice contained sufficiently detailed information, by including the customer reference, supplier order number, invoice number, product diameter, despatch unit number and the number and weight of the individual coils of rod in coils that made up the order. 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.

5.7.2 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 customers which listed the individual invoices and payment amount. The invoices from the sample range were identified amongst the listing of invoices on the remittance advice and were found to correctly list the invoiced amounts. The remittance advice also included the total rebates that applied.

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.

5.7.3 Rebates and net price

We observed within the A4 sales listing that rebates were recorded as separate transactions. 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 adjustment note for each customer. Examples of credits adjustment notes for the customers included in the invoice sample range were provided at the visit (**Confidential Attachment S10)**

The credit adjustment note lists the various shipments of product specifying the product type, i.e. rod or bar, net tonnage of product relating to each rebate payment and the rebate amount per tonne. A total rebate amount is calculated and shown on the note.

[redacted].
[commercially sensitive payment arrangements]

For the month of February 2013, one customer was selected [redacted] to verify that the rebate values and volumes on the credit adjustment notes reconciled with the A4 sales data. Two credit adjustment notes [redacted] applied to February for the sample customer. The total volume and rebate amount for the rod sales covered by each credit adjustment note was found to reconcile with the A4 sales data.

5.7.4 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 rod in coils during the period from 1 January to 31 December 2013.

5.8 Export Sales

OneSteel exports rod in coils to [redacted]. OneSteel advised that it exports a grade of rod in coils which is [redacted] Exports are of a minor nature being less than [redacted]% of total sales of rod in coils.

We are able to readily identify export sales within the A4 sales listing by reference to the destination listings which showed city, [redacted].

One export sale, to [redacted] was selected amongst the 16 selected transactions (discussed above). The data within the A4 reconciled with the provided commercial documents.

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 rod in coils made during the period 1 January to 31 December 2013.

We note that the data in the Appendix A6.1 did not include sales of rod in coils 14mm and greater. We have adjusted the Appendix A6.1 data to include sales of 14mm and greater.

Accordingly, we consider the OneSteel sales data in the Appendix A6 is suitable for analysing the economic performance of its rod in coils operations from 1 January 2010.

6 COST TO MAKE AND SELL

6.1 General

OneSteel provided a completed Appendix A6 total costs, A6.1 domestic costs and A6.2 export costs in its application, reporting costs to make and sell (CTMS) on a quarterly and calendar year aggregate basis for the period 1 January 2010 to 31 December 2013.

OneSteel explained that its financial systems [redacted]
[detail on cost accounting within financial systems]

OneSteel costs for rod in coils are drawn from the four separate manufacturing facilities that manufacture the billet and the rod in coils, these are:

- Whyalla Steelworks which produces billet using an integrated Blast Furnace to basic oxygen steelmaking process [redacted];
- Laverton Steel Mill which produces billet in its Electric Arc Furnace. Laverton produces rod in coils (through it's Rod Mill) and [redacted] from the billets it makes in its EAF.
- Sydney Steel mill which produces billet in its [redacted] EAF, [redacted] sent to the Newcastle Rod Mill.
- Newcastle Rod Mill uses billet from [redacted] to manufacture rod in coils. [redacted] facility.

At the visit OneSteel provided workbooks to support the costs from each manufacturing facility that form the cost to make and sell in the A6. The main workbooks supporting the costs are set out below.

Cost allocation methodology

Provides the allocation of costs from the different facilities, all data from the A.6 appendices is linked to this workbook. Also includes sales, production and yield details with supporting extracts from the accounting systems.

Feed Costs Laverton, Sydney and Whyalla Billet

Separate workbooks for each facility detailing costs to make billet that are used to make rod in coils. Details include monthly manufacturing expenses, raw material costs for the billets and supporting extracts from the accounting systems.

Conversion costs Laverton and Newcastle Rod Mills

Separate workbooks for each facility detailing costs to make rod in coils. Details include monthly manufacturing expenses and supporting extracts from the accounting systems.

Overheads

Workbooks detailing the selling, administration and distribution costs and the allocation of corporate overheads for the Laverton, Newcastle and Sydney facilities. Details include monthly expenses and supporting extracts from the accounting systems.

All of the workbooks were provided as confidential electronic attachments. A copy of A.6 detailing links to the cost allocation is at **Confidential Attachment CTM1**. A copy of the cost allocation detailing links to the feed cost, conversion costs and overheads workbooks is at **Confidential Attachment CTM2**.

Costing process

We asked OneSteel what processes were in place to ensure that costs relevant to the rod in coils were reasonably accurate and did not include costs from other products.

OneSteel advised that materials were tracked all the way through the production and sales process and booked to the relevant cost centre for each stage of the process. A time and attendance system tracks hours for each area and contractors where used are booked to a specific job that references the relevant area.

Electricity is specific to a cost centre with separate metering and billing, buildings and equipment are likewise allocated to cost centres.

Each department has monthly reports which the managers are responsible for monitoring any changes against budget and the managers would highlight any costs that were not applicable to their area as it would affect the expected results.

6.2 Verification of cost to make

The cost to make data in A.6 comprises variable manufacturing costs and fixed manufacturing costs. Variable manufacturing costs consist of raw material costs, direct labour and variable overhead. Fixed manufacturing costs are depreciation and overheads.

Raw material costs relate solely to the cost of billet whilst the remaining costs relate to the conversion costs of producing rod in coils from billet.

We chose to concentrate our verification on the cost to make at the Laverton facility for the quarter ending March 2013. We chose the Laverton facility as it is a facility which shows the complete rod in coil manufacturing process comprising steelmaking through the EAF and rolling through the Rod Mill.

6.2.1 Production volumes

OneSteel provided extracts from its accounts systems to support the production figures in A.6. These extracts are included in the costs workbooks and in OneSteel's documents supporting capacity calculations.

6.2.2 Cost of billet

Raw materials account for approximately [redacted]% of the cost to make, the total raw material cost is comprised solely of the cost of the billet that the rod in coils is produced from.

The raw material cost for the March 2013 quarter of $[redacted] is derived from the Cost Allocation workbook and is the weighted average cost of the billet from the three billet production facilities of Laverton, Sydney and Whyalla.

The weighting for each facility is calculated from the Rod Dispatches workbook (available as an electronic attachment). The rod dispatches workbook provides line by line details on all rods in coils despatched for the 2013 financial year, included in the details are the dispatch month, heat grade, rod production facility, sales grade, mass and billet production facility for the rod in coil despatched. The weighting is assigned to each billet production facility based on its share of the total.

We asked OneSteel about imports of billet in the Rod Dispatches workbook. OneSteel said that [redacted]. OneSteel advised that the importing of billet was not a regular occurrence, we note that the imports of billet accounted for [redacted]% of the total volume for rod in coils in 2013.

We reviewed the calculations in the dispatches workbook which showed weightings for billet from Whyalla ([redacted]%), Laverton ([redacted]%) and Sydney ([redacted]%), these weightings matched

those applied in the Costs Allocation Workbook. We consider the weighted allocation of billet costs reasonably reflects the billet sourced from the different production facilities.

The cost per tonne of the billet from each facility is shown in the Cost Allocation workbook; these costs are Whyalla ($[redacted]/tonne), Sydney ($[redacted]/t) and Laverton ($[redacted]/t).

We asked OneSteel why [redacted]. OneSteel explained that for certain rod in coil grades the feed billet needed to be produced through a blast furnace-BOF route, this was related to the low levels of residual elements (impurities) required for that grade compared to what was achievable using a scrap metal input via the EAF. OneSteel also explained that it was required to source a proportion of its billet from Whyalla [redacted].

OneSteel said that [redacted], we noted that this is reflected in the dispatch worksheet. OneSteel said that the billet production for rod in coil from Sydney is low as the majority of the billet produced in the Sydney EAF is used in the Sydney Bar mill.

The individual costs of the billet are grossed up using the yield ratios from the Newcastle and Laverton mills. Details of calculation of the yield ratios are in worksheets in the Cost Allocation Workbook, yield is calculated on production tonnes over feed tonnes and is supported by extracts from the accounts systems.

We verified the billet cost of $[redacted] tonne for Laverton, which is sourced from the Laverton Feed Cost workbook. The Laverton Feed Cost workbook comprises the costs for the meltshop where the EAFs operate, included in the work book were monthly and quarterly cost centre reports and extracts from the accounting systems.

Meltshop expenses comprise:

- Fixed costs – direct wages, depreciation, electricity;
- Variable costs – alloys and fluxes (coke, lime, silicon, vanadium etc), electricity, contract labour, downgrades, maintenance and other; and
- Feed costs – cost of scrap metal, scrap mill returns, scrap processing fee and mill returns.

Purchase price variances (PPVs) and under over recoveries apply to the expenses.

The cost of the billet is calculated on the total cost to produce billet divided by tonnes produced. The tonnes produced figure comprises total tonnes produced less downgrade billet (unsuitable to use). The downgrade billet is costed at the cost of scrap value with the tonnes to mill returns.

The feed costs, scrap metal, comprises approximately [redacted]% of the cost to make billet at approximately $[redacted] per tonne of billet produced, with alloys and electricity the next major costs at approximately [redacted]% each.

The scrap metal costs include the purchase cost of scrap, scrap mill returns and scrap processing facility fee. OneSteel explained that Laverton [redacted] purchased from [redacted] by [redacted] and on sold to Laverton.

OneSteel said that [redacted] is an independent supplier which the [redacted] is based on. The [redacted] price is based on the [redacted]. OneSteel said that its Sydney mill buys scrap metal from a central pool, which all recyclers (including [redacted]) contribute to and purchase from.

OneSteel provided invoices between [redacted] and [redacted] and [redacted] to Laverton as well as documents evidencing the price negotiations for scrap metal. These documents are at **Confidential Attachment CTM3**.

OneSteel also provided extracts from its accounts system in support of the mill returns and PPV variances.

OneSteel explained that the electricity is separately metered for each area with readings recorded every [redacted]. Laverton sources its electricity from the [redacted] power stations with the electricity from [redacted] feeding only the EAFs. The electricity charges for the meltshop comprise all the [redacted] charges plus charges for the Baghouse (fume extraction). OneSteel demonstrated at the visit the source documents and details that matched to the amount shown in the Meltshop.

We asked OneSteel to demonstrate where the depreciation amount of $[redacted] for April 2013 was sourced from. OneSteel provided documents showing this amount from the depreciation and asset listing.

We were satisfied that the cost of the billet is a reasonable account of the manufactured cost of the billet at Laverton.

OneSteel provided the Sydney Feed Costs workbook which details the costs to make billet at its Sydney EAF mill, included in the work book were monthly cost centre report.

We noted that the feed costs for [redacted] and that the alloy and electricity costs were also similarly comparable on a per tonne produced basis for the two facilities.

OneSteel provided the Whyalla Billet Costs workbook which details the costs to make billet at its Whyalla mill. Costs are shown on a monthly basis for the Billet Caster, which produces the billets, and include feed costs, conversion costs, depreciation and by-product credits.

Billet at Whyalla is produced in the billet caster from liquid steel which accounts for over [redacted]% of the cost to make billet. The cost of liquid steel for hot rolled structural sections (HRS) produced at Whyalla had recently been verified for the current investigation into HRS products. [redacted]. [commercially sensitive liquid steel costing information]

The cost of Whyalla billet also includes a freight cost from Whyalla to the Newcastle Rod Mill and general administration costs and a dispatch cost, the administration cost was similar to that verified for HRS.

We were satisfied that the cost of the billet is a reasonable account of the manufactured costs of the billet at Laverton, Sydney and Whyalla.

6.2.3 Conversion costs

Conversion costs are derived from the Conversion Cost workbooks for the Laverton and Newcastle Rod Mills, the conversion costs are weighted for production to give weighted average production costs for each quarter shown in the A.6. The Conversion Costs workbooks include monthly cost centre reports and extracts from the accounting systems.

OneSteel said that [redacted] as it had produced more which meant that the [redacted]. We noted in [redacted]. Conversion costs were weighted more to Newcastle than

Laverton, by a factor of [redacted], reflecting the production volumes, this weighting of costs is reflected in the A6.

Conversion costs account for approximately [redacted]% of the costs to make rod in coils. The variable conversion costs are shown as direct labour and variable overheads on the A.6 whilst the fixed conversion costs are shown as fixed overheads and depreciation. Included in the Conversion Cost workbooks were mapping of the cost to the categories in A.6.

Laverton conversion costs include the costs of the Rod Mill plus a [redacted] share of the cost of the roll shop (where rolls and stand repair and preparation is done). OneSteel said that the Roll shop is the cost centre for the workshop where roll and stand repair and preparation is done for the Rod and Bar Mills operating at Laverton. OneSteel further explained that [redacted].

Variable direct labour costs consist of wages, salaries and on-costs, variable overheads included utilities, fuel and cleaning. Fixed overheads are comprised mainly of maintenance and repair costs, depreciation is summarised by asset class and buildings.

Variable direct labour costs for the March 2013 quarter are shown on the A.6 as $[redacted]. We traced the source data for this figure to the respective monthly ledger reports included in the work books for Laverton and Newcastle. Included in the workbooks were also screen prints from the respective accounting systems to demonstrate the cost centre and amounts.

We similarly traced the source data for the amounts shown for variable overheads, fixed overheads and depreciation.

We noted that there was [redacted].

[redacted]

[commercially sensitive costing information]

We were satisfied that the conversion costs are a reasonable account of the costs of manufacturing rod in coils from billet at Laverton and Newcastle.

6.2.4 Verification of manufacturing costs data to audited financial statements

At Section 5.6 in the verification of sales to audited accounts reports showed the composition of the EBIT figure for the Rod and Bar division which reported a [redacted]. This figure of [redacted] was verified to the Arrium audited accounts. In the verification were documents demonstrating that the inclusion of the Laverton EBIT of $[redacted] and a non-operation profit after tax (NOPAT) amount of [redacted].

OneSteel provided a workbook Reconciliation of JDE accounts that demonstrated the links to the NOPAT figure of $[redacted]. This workbook is included as an electronic attachment and is also available at **Confidential Attachment CTM 4**.

Included in the workbook is the cumulative general ledger balances for the year ended June 2013, screen prints from JDE to evidence the amounts for selling administration and freight and cost centre report and trial balance for the meltshop.

We reconciled the amount of [redacted] in the meltshop trial balance and cost centre report to the amount showing for the meltshop in the Laverton Feed Cost workbook. We reconciled the amount of [redacted] showing for the Rod Mill to the amount showing in the Laverton Conversion Cost workbook and the amount of [redacted] for the Roll Shop. We identified from the account listing the amount of $[redacted] for usage of shredded scrap which shows in the Feed Cost work book and likewise the amounts for scrap mill returns and the scrap processing facility fee.

6.2.5 Completeness and relevance of cost to make data - conclusion

Having regard to the above, we consider that the cost to make data in Appendix A6 provided represents reasonably complete and relevant accounts of the fully absorbed costs to manufacture rod in coils during the period from 1 January 2010 to 31 December 2013.

6.3 Cost to sell

Distribution, administration and freight costs comprise the three cost items in the cost to sell in the A.6. These costs are derived from the Overheads workbooks for the Laverton, Newcastle and Sydney facilities, the distribution and administration costs are allocated based on the total tonnes sold. Freight costs have been separately calculated based on costs for freight only to external rod in coils customers. The Overheads workbooks include monthly cost centre reports and extracts from the accounting systems.

At the visit OneSteel discussed a funding cost applicable for rod in coils and provided information to substantiate this cost following the visit.

6.3.1 Verification of costs to sell to audited accounts

We verified OneSteel's cost to make data as noted in Section 6.2.5 to Arrium Limited's audited financial statements. Included in the Reconciliation to JDE accounts workbook were the selling administrative and freight costs for the financial year 2013.

The Overheads workbooks included detailed monthly general ledger report relating to selling, administrative and freight costs. Items in the listing included salaries, wages and on costs, corporate recharges and head office expenses and depreciation and occupancy expenses.

Selling, administration and freight expenses for the financial year 2013 in the Reconciliation to JDE accounts show $[redacted] whilst the total expenses shown in the Overheads workbook amounts to $[redacted]. The difference was minor and we were satisfied that the costs shown were relevant for allocating costs to sell for rod in coils.

6.3.2 Allocation

OneSteel advised that selling and administrative costs were allocated on the basis of sales volumes, as opposed to sales values. OneSteel explained that it sells based on tonnes and that there was minimal differentiation in the work required to produce and sell each of the products. We consider the allocation based on tonnes is reasonable.

Distribution costs include warehouse and dispatch costs and manufacturing related overheads (business development and improvement). OneSteel explained that the business development and improvement costs related to rod in coils included the cost of research and development of [redacted] led to cost and productivity savings.

Administration costs include human resources and head office expenses and corporate recharges.

Freight costs have been identified and separated from the calculations for the distribution and administration costs. Freight cost calculations are linked to the Appendix A.4 Sales spread sheet that lists freight costs for each rod in coil sale.

We asked OneSteel to provide support for the costs for the freight costs for six of the domestic sales selected for verification. The selected sales were to independent and related customers in New South Wales, Victoria, South Australia, Queensland and Western Australia. OneSteel provided a Freight Corridor Codes workbook to support the freight costs shown in the Appendix A.4. Included in the workbook were rate cards applying to the different freight companies depending on the mill the rod in coils were despatched from and the destination state and city. OneSteel also provided a schedule of freight charges and fixed terminal costs applying to the freight calculations. Copies of invoices and statements detailing the breakdown of the different freight components were provided for the selected sales.

We were satisfied after reviewing the documents that the freight costs shown in the Appendix A.4 sales were a reasonable reflection of the actual freight costs incurred.

The Freight Corridor Codes workbook, schedule of charges and costs are available as an electronic attachment. Copies of the invoices and statements for the freight charges are **Confidential Attachment CTS 1**.

We noted that generally freight costs [redacted].

Freight costs allocated in the Appendix A.6 have been based only on freight costs to independent customers, we consider that freight costs should be based on the average cost for all customers and have changed the Appendix A.6 to reflect this cost. We calculated an average freight cost for all customers in 2013 of $[redacted] a tonne.

OneSteel provided a Funding Cost worksheet to support the cost of funding applicable to rod in coils. The funding cost is based on the average debt for Arrium for 2012 and 2013 as shown in the annual report. This debt is apportioned to the Steel segment based on the share of net assets. The amount apportioned to the Steel segment is then apportioned to the Rod and Bar division based on the share of net assets within the Steel segment. The finance cost is calculated based on the amount of debt by the finance rate of [redacted]% as noted in the annual report. The finance cost is then divided by the total production tonnes for a funding cost of $[redacted] per tonne.

We reviewed the calculations and consider that the funding cost is a reasonable cost of finance relating to the production of rod in coils. The Funding Cost worksheet is available as an electronic attachment, a copy of the worksheet is also at **Confidential Attachment CTS 2**.

6.3.3 Conclusion

We consider the cost to sell information provided, as amended for freight costs, is a reasonably complete, relevant and accurate account of the actual costs to sell rod in coils during the period 1 January 2010 to 31 December 2013.

6.4 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 CTMS for rod in coils during the period 1 January 2010 to 31 December 2013 and is suitable for analysing the economic performance of its rod in coils operations from 1 January 2010 to 31 December 2013.

The appendix A.6 data has been amended to show the lower freight costs to all customers rather than the higher freight cost to external customers.

The amended appendix A.6 is at **Confidential Appendix 1.**

7 ECONOMIC CONDITION OF THE INDUSTRY

7.1 Approach to injury analysis

The Commission has used the amended Appendix A.6 data in its analysis of the economic condition of the industry for the period 1 January 2010 to 31 December 2013. The analysis relates only to domestic sales of rod in coils unless noted otherwise.

The analysis of sales is of all sales of rod in coils, including coils 14mm and greater. The Commission has separately examined sales of the two product grades that dominate the market and appear to constitute the large majority of imports.

The Commission has also separately examined sales to external and internal customers as noted further in section 8.

The analysis is based on annual data (calendar year). Quarterly data is available should it be required.

7.2 OneSteels injury claims

OneSteel claimed that the alleged dumping of imports of rod in coil had caused injury through:

- loss of sales volumes;
- loss of market share;
- price undercutting;
- price depression;
- price suppression;
- reduced revenues;
- reduced profits;
- reduced profitability;
- reduced return on investment; and
- reduced employment.

7.3 Volume effects

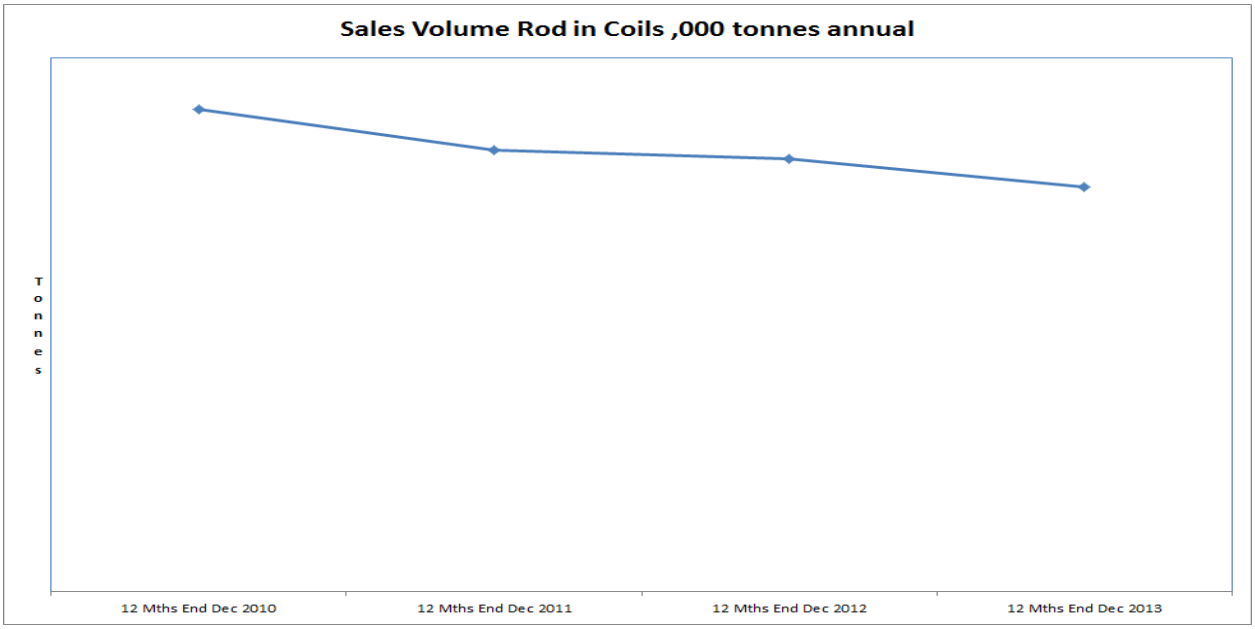
7.3.1 Sales volumes

In its application OneSteel submitted that its sales volumes declined around [redacted] per cent in 2011 and declined further in 2012 and 2013.

OneSteel said that its sales volumes of locally produced rod in coils in 2013 were [redacted]% per cent below the levels of 2010.

OneSteel said it had pursued a [redacted].

Changes in sales volumes are shown in the chart below.



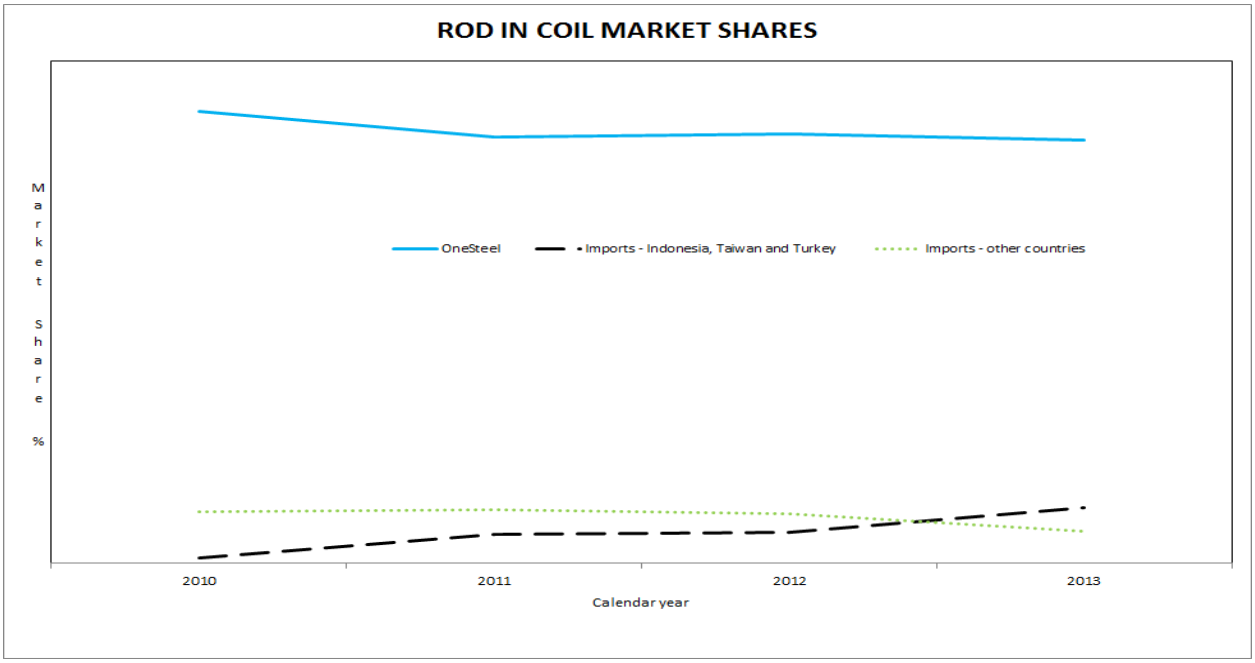
The data shows that sales volumes declined sharply in 2011 and 2013. Sales volumes in 2013 are significantly below volumes in 2010.

Sales volumes to external customers [redacted] from 2012 to 2013. Total sales volumes and sales to internal customers have declined by around [redacted] per cent respectively over the same period.

The Commission considers that OneSteel has suffered injury in the form of lost sales volumes.

7.3.2 Market share

Annual market shares of OneSteel, imports from Indonesia, Taiwan and Turkey and imports from other countries are shown in the chart below.



OneSteels market share declined sharply in 2011, increased slightly in 2012 and declined in 2013. OneSteels market share in 2013 is less than it was in 2010.

The Commission considers that OneSteel has suffered injury in the form of lost market share.

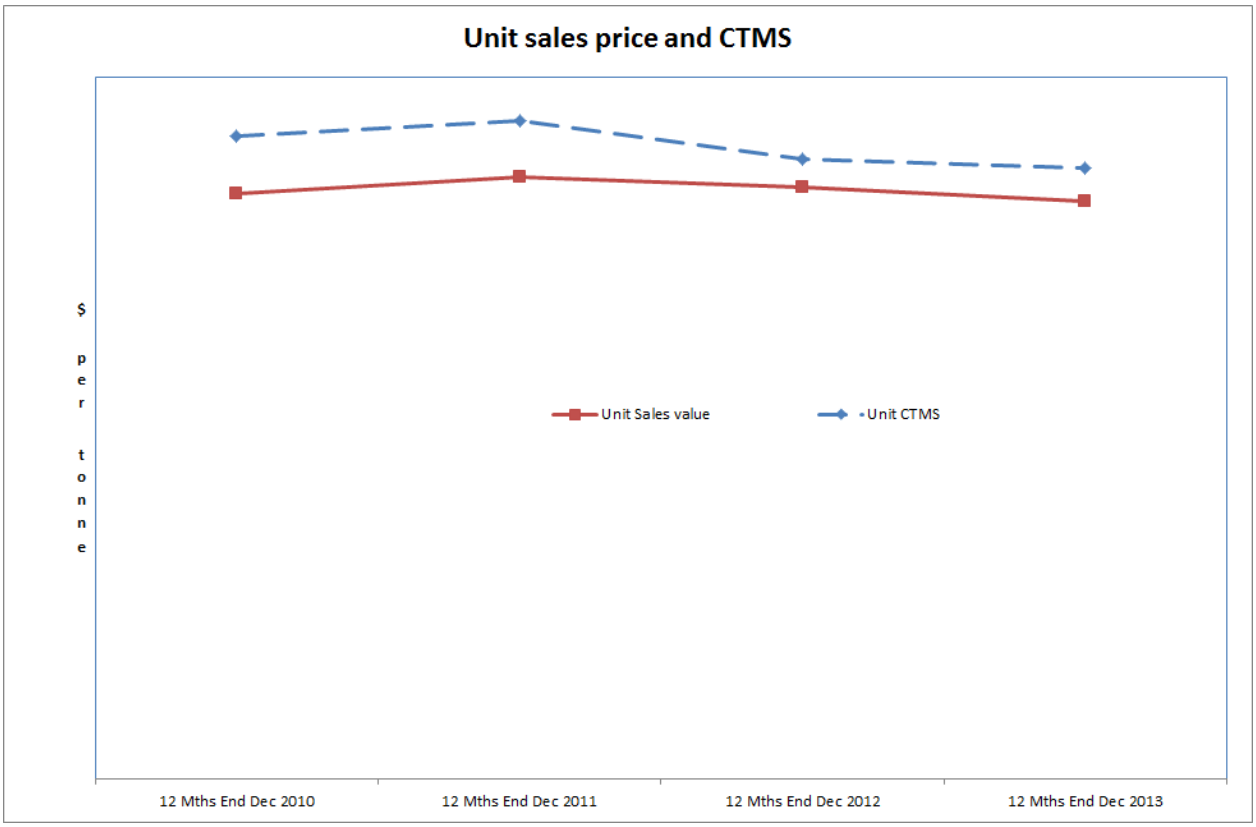
7.4 Price effects

7.4.1 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 graph below shows unit prices and unit cost to make and sell (CTMS) for all rod in coil over the injury period.



OneSteels unit prices increased in 2011 but decreased in 2012 and 2013. Unit prices in 2013 are lower than in 2010. The Commission considers that OneSteel has suffered injury in the form of price depression.

Unit CTMS and sell increased at a lesser rate than unit prices in 2011, unit CTMS fell at a greater rate than unit prices in 2012 and at a similar rate to unit prices in 2013.

OneSteel said that it introduced cost reduction initiatives that contributed to the reduction in costs in 2013. During the visit OneSteel explained that one of these initiatives was [redacted]. OneSteel also said without these cost initiatives the injury caused by the allegedly dumped goods would have been higher.

We note that the cost data shows that yield from billet has been showing slightly higher increases over the period and that productivity has increased. Raw material costs have shown a decrease over the period. Raw material costs have remained relatively steady as a percentage of total cost to make whilst the other costs have decreased pointing to reduced production costs.

OneSteel further said that acceptable returns on investment identified for companies within the Arrium group were not being met. OneSteel said this was due to it not being able to increase its prices in market due to the prices of the allegedly dumped imports in

the market. OneSteel also provided information on an achievable return of profit for a product similar to rod in coils in its submission for an unsuppressed selling price.

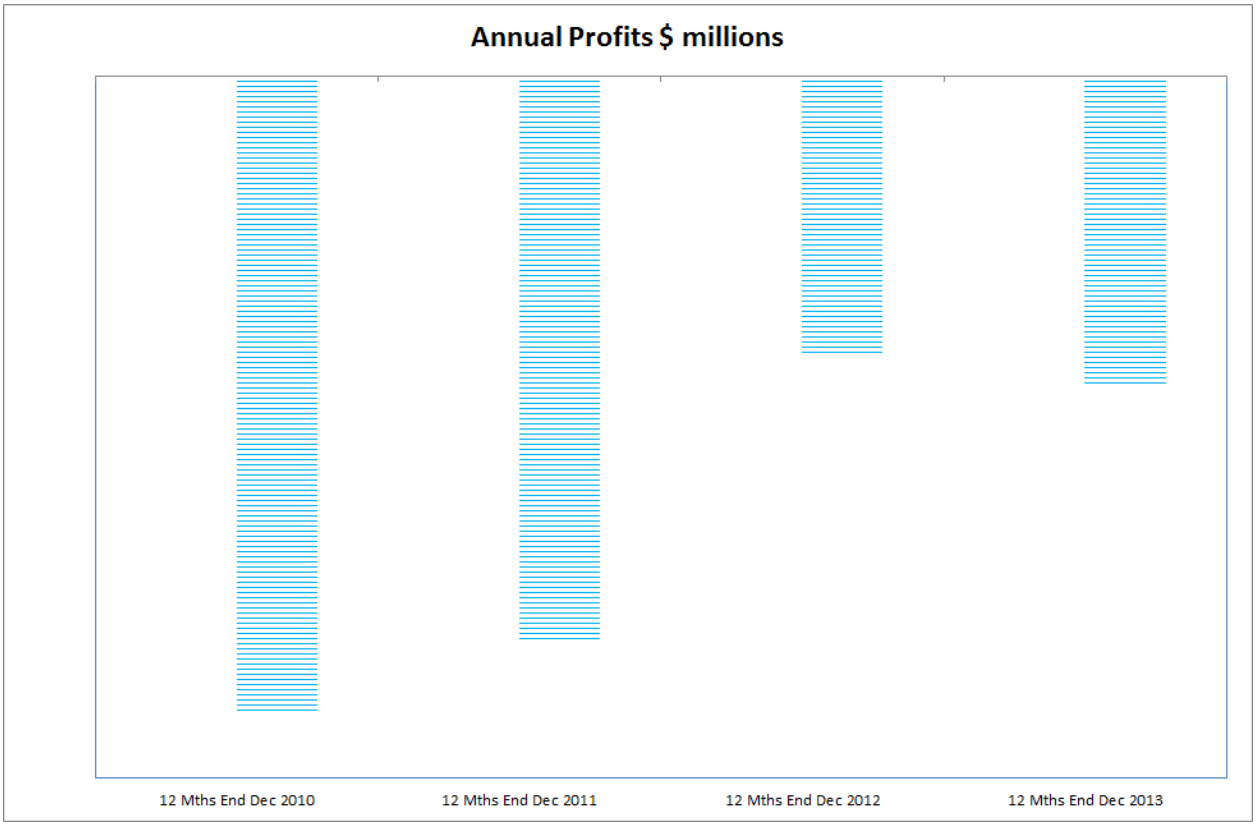
We consider that the aim of a business is to achieve a profit. Business can achieve this profit by reducing costs, increasing prices or a combination of the two. OneSteel has provided evidence of costs reduction and in the section of this report discussing causal link it provided evidence of it not being able to increase prices.

The Commission considers OneSteel prices have been suppressed as it has not been able to increase its prices to achieve a profit that it could reasonably be expected to achieve.

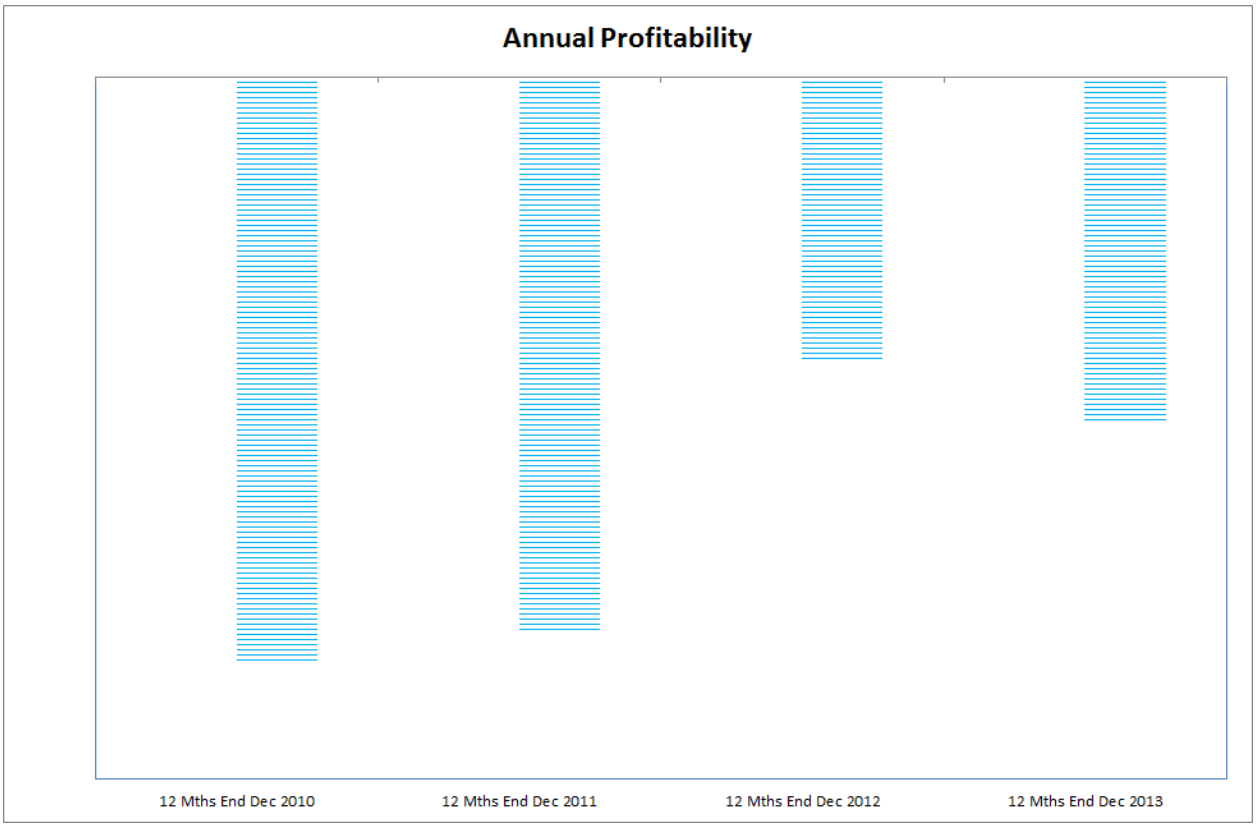
The Commission considers that OneSteel has suffered injury in the form of price suppression.

7.4.2 Profits and profitability

Movement in OneSteels profits is shown in the following chart.



Movement in OneSteel's profitability is show in the following chart.



Profits and profitability have shown improvement since 2010. Losses are shown for 2010 to 2013; the scale of the losses reduces from to 2012 before slightly worsening in 2013.

OneSteel pointed to the costs improvement that it had implemented and said that without those initiatives losses in profits and profitability would have been much higher. OneSteel said that it was not meeting the expected benchmark return on profit within the Arrium group. OneSteel said that the allegedly dumped imports in the market were the cause of it not meeting profit expectations.

OneSteel considered the following extract from the Ministerial Direction issued by the Minister for Home Affairs on 17 April 2012 to be relevant to the circumstances of its application for anti-dumping measures on rod in coils exported from Indonesia, Taiwan and Turkey, namely[5]:

> *"….In cases where it is asserted that the Australian industry would have been more prosperous if not for the presence of dumped or subsidized imports, I direct that you be mindful that a decline in an industry's rate of growth may be just as relevant as the movement of an industry from growth to decline. I direct that it is possible to find material injury where an industry suffers a loss of market share in a growing market without a decline in profits. As in all cases, a loss of market share cannot alone be decisive. I direct that a loss of market share should be considered with a range of relevant injury indicators before material injury may be established.*

The Commission considers OneSteel profits and profitability have been affected by the price suppression evidenced in the previous section and are evidence of injury suffered.

7.4.3 Other economic factors

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

[5] Ministerial Direction, ACDN No. 2012/24 of 1 June 2012.

Assets

Assets, measures at the depreciated value declined from 2010 to 2012 and increased in 2013. The value of assets in 2013 was lower than in 2010.

Capital investment

Capital investment declined from 2010 to 2012 and increased in 2013. Capital investment in 2013 was higher than in 2010.

Research and development (R&D)

R&D expenses have declined over the period from 2010 to 2013.

Revenue

Revenue has declined over the period with the largest decrease being in 2013. Revenue in 2013 was more than [redacted]% less than in 2010.

Return on investment (ROI)

ROI has declined over the period. OneSteel said that the inadequate ROI made it difficult to attract capital for reinvestment purposes.

Capacity and capacity utilisation

Capacity has increased over the period which OneSteel said was due to improvements in production process.

Capacity utilisation has decreased over the period, declining from approximately [redacted]% in 2010 to [redacted]% in 2013.

Employment

Employee numbers have reduced from [redacted] staff in 2010 to [redacted] staff in 2013.

Productivity

Productivity, measured as tonnes per hour, has increased over the period.

Stock held

Stocks of rod in coils held have decreased over the period.

Accounts receivable

Accounts receivable have decreased over the period.

7.5 Conclusion

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

- loss of sales volumes;
- loss of market share;
- price depression;
- price suppression;
- reduced profit and profitability;
- reduced revenue;
- reduced ROI;
- reduced employee numbers; and
- reduced capacity utilisation rates.

8 CAUSAL LINK

We discussed with OneSteel whether the alleged dumping of rod in coils could be demonstrated to be causing material injury to the Australian industry.

8.1 Price effects

As noted at Section 5.4 OneSteel said its prices to external customers are based [redacted]. Prices to internal customers are set at the [redacted]. Both internal and external prices are therefore affected by prices offered by importers in the market.

In its application OneSteel provided evidence of [redacted].

OneSteel also provided monthly summaries comparing the import prices with its prices to [redacted] customers.

As noted earlier in this report OneSteel provided a work book that provided further details on the [redacted] and OneSteels prices and its import parity pricing (IPP). The workbook includes details [redacted].

We noted the following details from the workbook.

[redacted]

[commercially sensitive pricing details for RIC negotiations]

We then compared the [redacted] to the price lists for external customers and the final price to the external customer to the information we had verified. We found the prices were as stated in most instances.

OneSteel also provided details of a price increase it had advised to customers for March 2013 which it said it had not been able to maintain due to [redacted]. A copy of the price advice is at **Confidential Attachment CL1**.

We compared prices in the workbook with verified prices from the visit and noted that whilst prices had increased in March 2103 there had been subsequent price decreases in the months following. We also noted that during this period the [redacted]. [market pricing relativities]

We noted that there was no information in regards to prices from Taiwan being offered in the market. OneSteel said that [redacted]. [source of market pricing]. We asked OneSteel

how it knew that import prices it was expected to compete against were genuine prices, [redacted] [contrast of offers from various sources]

We also asked OneSteel how much it was prepared to reduce its prices by in the negotiations, [redacted].

OneSteel said that it was expected to meet budgeted returns and that whilst its aim was to maintain sales [redacted].

[redacted]

We asked OneSteel how it knew it had lost sales volumes to imports. [redacted] [understanding of price offers versus lost volumes at customer]

OneSteel provided a workbook, SKU Level Rod Sales, detailing instances where it considered it had lost sales volumes to import offers. This workbook is at **Confidential Attachment CL2**.

The workbook details monthly sales volumes from January 2012 for X of OneSteel's external customers. The sales volumes are listed by the separate rod in coils products sold, by size, to each customer. The workbook shows [redacted].

We consider at this stage of the investigation that the evidence and information provided by OneSteel supports its claim of price undercutting from the allegedly dumped imports.

The Commission will during the course of the investigation gather information on prices from importers to further assess prices in the market.

8.2 Volume effects

OneSteel submitted in its application that imports from Indonesia increased almost five-fold in 2011 and that imports continued to increase in 2012 from Indonesia with imports from Taiwan and Turkey also increasing. OneSteel further submitted that in 2013, the allegedly dumped imports from Indonesia, Taiwan and Turkey continued to grow in aggregate – by approximately 70 per cent – displacing imports from other source countries (including New Zealand) and preventing OneSteel from increasing sales volumes.

We have noted in the previous sections that OneSteel has lost sales volumes and market share over the injury period whilst imports from the countries subject to the investigation have increased in both volume and market share.

OneSteel also provided evidence of lost sales volumes to individual customers as noted in the section above.

OneSteel submitted that the lost sales volumes contributed to injury through the loss of revenue, profits and efficiency gains achieved via reduced overhead costs due to high production output.

The evidence provided supports the claims of lost sales volumes and market share to the allegedly dumped imports.

8.3 Other possible causes of injury

8.3.1 Other imports in the market

As noted in previous section above imports from other countries have lost sales volumes and market share since 2010.

OneSteel said that imports from other countries had been affected by price undercutting from the allegedly dumped imports. OneSteel told us that it believed that Pacific Steel, the manufacturer exporter of rod in coils from New Zealand had lost large sales volumes to the exports from the subject countries.

The Commission considers at this stage the available evidence does not indicate other imports in the market as a cause of injury. The Commission will continue to examine imports from other countries during the course of the investigation.

8.3.2 Export sales by OneSteel

The Commission verified information in regards to export sales at the visit. Export sales have accounted for less than [redacted] of total sales of rod in coils over the injury period.

The Commission considers that the export performance of OneSteel is not a factor in the injury identified.

8.3.3 Prices and supply to external and internal customers

We verified information relating to OneSteels sales including sales to external and internal customers.

Over [redacted]% of sales to external customers are of rod in coils with an end use for the reinforcing market, the two grades that make up the sales are the [redacted]. The other sales to the external customers are [redacted] products including speciality rod in coils for [redacted]. These products are generally rod in coils 14mm and greater.

Approximately [redacted]% of OneSteels rod in coils sales are of the [redacted] grades. OneSteel said [redacted] speciality products with [redacted] price pressures being directed at the two grades used for reinforcing noted above.

We compared weighted average monthly prices for rod in coils sales from 2010 to 2013 for internal and external customers, rod in coils sales of 14mm and greater was not included in the comparison.

The average price difference between external and internal customers was [redacted]. We then compared the monthly prices for internal and external customers for 2013 on sales of the [redacted] grades. The price difference was around [redacted]% for the [redacted] grade and [redacted]% for the [redacted] grade.

We asked OneSteel if there were any restrictions on external customer that it would supply rod in coils to. [redacted]

[redacted]

[redacted]

[redacted]. [OneSteel sales strategy]

The sales information we verified supports the statement. We do not consider that the difference in pricing between internal and external customers is a factor in the injury identified.

8.3.4 Cost of billet

As noted in previous sections OneSteel sources billet from its Whyalla steel works and from the EAFs in Sydney and Laverton. The cost of the Whyalla billet was approximately [redacted] the cost of the EAF billet during the injury period. This percentage will vary based on the relative differences between the key raw materials, ie scrap (EAF) versus iron ore and coking coal (blast furnace).

OneSteel advised the Commission that there [redacted] [detail on production arrangements]

OneSteel also advised the Commission that the [redacted].

The Commission notes from the verified data the usage of billet from Whyalla OneSteel [redacted] over the injury period.

OneSteel explained that it considered that the normal usage of Whyalla billet feed for the production of Rod in Coil was in the order of X%, the share of billet from Whyalla [redacted]. These details are at **Confidential Attachment CL3**.

We reviewed the information relating to the usage of Whyalla billet [redacted]. The information included the Cost Allocation workbook and rod dispatches workbook. Our review of the information supported OneSteel's statements in regards to change in use of billet and its normal usage of Whyalla billet for Rod in Coil.

8.3.5 Market trends

The available information shows that the market for rod in coils has shown a gradual decline each year since 2010.

The Commission notes that whilst the market has been declining OneSteels market share has been reduced which indicates that it has also lost sales volumes at a greater rate than the decline in the market.

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 provided a submission on the USP after the visit, a non-confidential copy of the submission was placed on the public record.

OneSteel submitted that Indonesian exports of rod in coils have held a substantial market share in the market since 2010 and that prior to this, the market was impacted by the global economic downturn.

OneSteel proposed a USP at an ex-factory level based on its verified CTMS for 2013 plus an amount for profit.

OneSteel provided details on profit achieved by another -division in the Arrium group that manufactured and sold [redacted]. OneSteel submitted that the cost structure was similar to rod in coils and that [redacted] use a similar raw material to rod in coils, being billet.

OneSteel further submitted that the Australian rail market was supplied by industry and imports and that the profit achieved on rail products was therefore a profit that could be achieved for rod in coils.

Included in the submission were CTMS and profit details relating to [redacted], the level of profit was [redacted]%.

Documents relating to the OneSteel submission on the USP are at **Confidential Attachment USP**.

The Commission will consider the USP proposed by OneSteel during the course of the investigation.

10 GENERAL COMMENTS AND OTHER MATTERS

10.1 Ongoing injury

OneSteel provided details on offers in the market from January 2014 to July 2014 and said this was evidence of continuing injury. This information was included in the information provided on prices in the market at Section 8.

OneSteel also said it had evidence of importers encouraging customers to place orders before any PAD was in place; OneSteel said that this highlighted a need for an early PAD.

10.2 Country hopping – imports from other countries

OneSteel said that rod in coils was a commodity product and that importers and end users could change sources and countries of supply very quickly. OneSteel further said that since the initiation of the investigation it had noticed an increase in offers and imports from [redacted].

OneSteel asked whether there was an option to fast track or combine an investigation and provide only information on dumping on any new application given that it had provided evidence of injury and causal link for imports from the countries subject to this investigation.

We advised OneSteel that an application would be treated as a new separate application as it would involve a different investigation period for the assessment of dumping and material injury caused by dumping. An assessment of any new application would also need to be made on volume of imports from that country not being negligible.

11 APPENDICES AND ATTACHMENTS

Appendix 1	Amended A.6 data, sales and costs
Confidential Attachment GEN 1	OneSteel presentation on supply, production, processing and distribution
Confidential Attachment P1	Rod in Coil grades, applications, sales volumes and values.
Confidential Attachment S1	Delivery pricing and guide
Confidential Attachment S2	Credit terms for customers
Confidential Attachment S3	Price lists
Confidential Attachment S4	[redacted]
Confidential Attachment S5	[redacted]
Confidential Attachment S6	Profit Reconciliation
Confidential Attachment S7	Verification all sales
Confidential Attachment S8	Profit and Loss and Segment reports to audit
Confidential Attachment S9	Selected sales documentation
Confidential Attachment S10	Rebates, credit adjustments
Confidential Attachment CTM 1	Appendix A.6 CTMS workbook
Confidential Attachment CTM 2	Cost Allocation workbook
Confidential Attachment CTM 3	Scrap Metal invoices
Confidential Attachment CTM 4	Manufacturing costs to audit
Confidential Attachment CTS 1	Freight charges
Confidential Attachment CTS 2	Funding cost
Confidential Attachment CL1	Price increase advice
Confidential Attachment CL2	Lost sales volumes evidence
Confidential Attachment CL3	Billet usage
Confidential Attachment USP	OneSteel proposed USP