PUBLIC RECORD

Australian Government
Department of Industry, Innovation and Science

Anti-Dumping Commission

CUSTOMS ACT 1901 - PART XVB

REPORT
NO. 301

ALLEGED DUMPING OF STEEL ROD IN COILS EXPORTED FROM THE PEOPLE'S REPUBLIC OF CHINA

29 March 2016

1 CONTENTS

2 ABBREVIATIONS

$	Australian dollars
ADN	Australian Dumping Notice
The Act	*Customs Act 1901*
ADN	Anti-Dumping Notice
The applicant	OneSteel Manufacturing Pty Ltd
CFR	Cost and freight
COGS	Cost of goods sold
Commission	Anti-Dumping Commission
CTM	Cost to make
the Commissioner	The Anti-Dumping Commissioner
CTMS	Cost to make and sell
CTS	Cost to sell
DIBP	Department of Immigration and Border Protection
EBIT	Earnings before interest and tax
EDITDA	Earnings before interest, tax, depreciation and amortisation
FOB	Free On Board
FIS	Free Into Store
GAAP	Generally accepted accounting principles
GoC	Government of China
NIP	Non-injurious Price
PAD	Preliminary Affirmative Determination
Regulation	Customs (International Obligations) 2015
SEF	Statement of Essential Facts
the goods	the goods the subject of the application (also referred to as the goods under consideration or GUC)
the Parliamentary Secretary	the Assistant Minister for Science and the Parliamentary Secretary to the Minister for Industry, Innovation and Science
USP	Unsuppressed Selling Price

1 SUMMARY AND RECOMMENDATIONS

1.1 Introduction

This Report Number 301 (REP 301) has been prepared in response to an application for a dumping duty notice by OneSteel Manufacturing Pty Ltd (OneSteel) in relation to its allegation that steel rod in coils (RIC) exported to Australia from the People's Republic of China (China) at dumped prices has caused material injury to the Australian industry producing like goods.

1.2 Authority to make decision

Division 2 of Part XVB of the *Customs Act 1901*[1] describes, among other matters, the procedures to be followed and the matters to be considered by the Commissioner in conducting investigations in relation to the goods covered by an application under subsection 269TB(1) for the purpose of making a report to the Assistant Minister for Science and Parliamentary Secretary to the Minister for Industry, Innovation and Science (Parliamentary Secretary).[2] Section 269 TDA describes the reasons upon which the Commissioner must terminate an investigation.

The decision by the Parliamentary Secretary is due by 28 April 2016 unless there are special circumstances.

1.3 Background

On 12 August 2015, the Commissioner initiated Investigation 301 following an application from OneSteel. The Commissioner published a Preliminary Affirmative Determination (PAD) on 27 November 2015 and a Statement of Essential Facts (SEF) on 15 February 2016.

There are two exporters of the goods to Australia who have cooperated with the investigation by submitting responses to the exporter questionnaire. These two exporters account for over 95 per cent of the RIC being exported from China to Australia. Both exporters were subject to on site verification of their responses in December 2015.

1.4 Particular Market Situation

The Commissioner has found that a particular market situation exists in the Chinese iron and steel market due to significant Government of China (GoC) influence. The Commissioner considers that this has led to the prices in individual product markets within the Chinese economy, such as RIC, to be significantly distorted. As such, because of the operation of subsection 2369TAC(2)(a)(ii), the Commissioner has not had regard to the domestic prices of RIC in China for the calculation of normal values. Discussion of the finding regarding the particular market situation is included at Appendix A of this report.

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[1] All legislative references in this report are to the *Customs Act 1901*, unless otherwise stated.

[2] On 23 December 2014, the then Minister for Industry and Science delegated his powers and functions under Part XVB of the *Customs Act* to the Parliamentary Secretary to the Minister for Industry and Science. On 20 September 2015, the Department of Industry and Science became the Department of Industry, Innovation and Science. The titles of the Minister and Parliamentary Secretary also changed to the Minister for Industry, Innovation and Science, and the Parliamentary Secretary to the Minister for Industry, Innovation, and Science. One 20 September 2015 the Prime Minister appointed the Parliamentary Secretary to the Minister for Industry, Innovation and Science as the Assistant Minister for Science.

1.5 Changes following the SEF

After the publication of the SEF, the Commission received several submissions from interested parties. The Commission has considered these submissions and the Commissioner has made the following changes to statements made in the SEF. These include the following:

- the benchmark for competitive costs which was previously utilised, being the SBB South East Asian billet benchmark, has been replaced with the SBB Latin American billet benchmark for several reasons as outlined further below. The methodology utilised, of converting a benchmark price to a benchmark cost by deducting an appropriate rate of profit has not changed; and
- the Commissioner has had specific focus on the economic condition of the industry from 1 January 2014 through to present, following the commencement of imports from China when considering any potential causation of injury

1.6 Dumping

The Commissioner has determined that the goods have been exported from China at dumped prices.

The rate of dumping for each of the cooperating exporters, and the uncooperative rate is disclosed at Table 1.

Company	Dumping Margin
Hunan Valin	44.1%
Jiangsu Shagang	37.4%
Uncooperative and All Other Exporters	53.1%

Table 1: Dumping margins

1.7 Injury and Causation

The Commissioner has found that the Australian industry has suffered injury, and the injury is material in nature. The Commissioner has also found that the material injury has been caused by the dumping of RIC from China.

1.8 Proposed Measures

A full discussion of the form of measures is included at Chapter 11 of this report.

1.9 Conclusion

The Commissioner considers that:

- RIC has been exported from China at dumped prices;
- there is an Australian industry producing like goods that has experienced injury; and
- the dumped goods have caused material injury to the Australian industry.

Under subsection 269TEA(1), the Commissioner recommends in this report that a dumping duty notice be published in respect of RIC exported to Australia from China because the Commissioner is satisfied that the RIC exported to Australia from China at dumped prices has caused material injury to the Australian industry.

2 BACKGROUND

2.1 Application

On 23 June 2015, OneSteel lodged an application requesting that the Parliamentary Secretary publish a dumping duty notice in respect of RIC exported to Australia from China. Additional information was provided by OneSteel on 6 July, 13 July, and 16 July 2015.

OneSteel alleges that the Australian industry has suffered material injury caused by exports of RIC to Australia from China at dumped prices. OneSteel alleges that the industry has suffered injury in the forms of:

- price depression;
- price suppression;
- price undercutting;
- lost sales volume;
- lost market share;
- loss of profits;
- loss of profitability;
- less than full capacity utilisation;
- loss of employment;
- reduction of assets employed in the production of the like goods; and
- reduction of capital investment in the production of the like goods.

2.2 Initiation

After consideration of the application, an investigation was initiated and public notification of the initiation of the investigation was published in *The Australian* newspaper on 12 August 2015. Details on the initiation decision made by the Commissioner are available in ADN 2015/95 and *Consideration Report 301* in the public record.[3]

In respect of the investigation:

- the investigation period[4] for the purpose of assessing dumping is 1 July 2014 to 30 June 2015; and
- the injury analysis period for the purpose of determining whether material injury to the Australian industry has been caused by exports of dumped RIC is from 1 July 2011.

2.3 Previous investigations and current measures

On 17 June 2015, anti-dumping measures were imposed on RIC exported to Australia from the Republic of Indonesia (Indonesia) for all exporters other than PT Ispat Indo, and for all exporters from Taiwan. This followed the Commissioner's dumping Investigation 240

[3] EPR 301.001 contains the ADN, while EPR 301.002 contains the consideration report. Both documents are available in the public record.

[4] Subsection 269T(1)

into RIC exported to Australia from Indonesia, Taiwan, and the Republic of Turkey (Turkey).

On 14 May 2015, the Commissioner terminated part of Investigation 240 in so far as it related to exports from Indonesia by PT Ispat Indo and all exports from Turkey.

Anti-dumping measures were imposed on RIC exported from Indonesia and Taiwan as it was found that during the investigation period, these goods were exported at dumped prices which caused material injury to the Australian industry producing like goods, and that continued dumping from Indonesia and Taiwan may cause further material injury to the Australian industry.

In addition to Investigation 240, other administrations' investigations have been referred to in this report.

2.4 Other investigation currently underway

On 17 February 2016, the Commissioner initiated an investigation following an application lodged by OneSteel for the publication of a countervailing duty notice in respect of rod in coils exported to Australia from China.

Details of this other investigation are available on the Commission's website under Public Record for Subsidisation Investigation – Investigation 331.

The Commissioner has received a submission requesting that the final decision for Investigation 301 is delayed pending the outcome of Investigation 331. The Commissioner has not agreed to this submission as the potential delay in finalisation this investigation may lead to the continuation of the identified injury. The Commissioner will have regard to the operation of the 'double counting' as outlined within Chapter 11 of the *Dumping and Subsidy Manual*[5] if any recommendation is made following investigation 331.

2.5 Preliminary affirmative determination (PAD)

On 1 December 2015 the Commissioner published a PAD regarding this investigation. The PAD resulted in the imposition of securities of between 9.5 per cent and 18.4 per cent for RIC exported to Australia from China. PAD No 301 is available on the public record.

2.6 Statement of Essential Facts

A Statement of Essential Facts (SEF) was published on 15 February 2016 and is available on the public record. The SEF indicated that the goods from China had been dumped, and that the dumping was causing material injury to the Australian Industry.

The SEF included a preliminary finding that there is a particular market situation in the domestic market for the goods in China. The SEF also led to an increase in the rate of securities taken from 16 February 2016 onwards to between 28.2 per cent and 32.1 per cent for cooperating exporters, and 53.9 per cent for all other exporters.

2.7 Submissions in response to the SEF

The Commissioner has received several submissions from interested parties during the course of the investigation. These submissions have been considered by the Commissioner in reaching the conclusions in this report. The submissions received are listed in **Attachment 1**.

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5 The *Dumping and Subsidy Manual* is available online here.

The Commissioner received four submissions in response to the SEF, each of which raised several issues. In summary, these issues are:

- the calculation of normal values utilising a process of substitution of costs at the billet level, rather than the raw material level is inappropriate;
- there is a lack of detailed reporting and substantiation of facts in SEF 301;
- the finalisation of dumping Investigation 301 prior to the finalisation of the countervailing investigation 331 is inappropriate;
- there are calculation errors to rectify in the normal value calculated for the purposes of the SEF, including the values utilised for adjustments;
- the Commission has identified a competitive market benchmark which is influenced by Chinese prices;
- the use of export prices as benchmark competitive costs is unsound;
- any benchmark selected will require adjustments to reflect the costs of alloys, and should not reflect profit generated for Chinese billet sales;
- any benchmark should be based on a daily rate current at the date of sale;
- the combination method of duty should be utilised to ensure that the measures are fully effective at preventing injury;
- a dumping duty notice should be issued retrospectively in accordance with subsection 269TN(3).

Each of these issues raised by the submissions has been considered and the responses are included within the body of this final report.

2.8 Public record

The public record contains non-confidential submissions by interested parties, the non-confidential versions of the Commission's visit reports and other publicly available documents. It is available in hard copy by request in Melbourne or online at http://www.adcommission.gov.au. Documents on the public record should be read in conjunction with this report.

3 THE GOODS AND LIKE GOODS

3.1 Findings

The Commissioner finds that:

- there is an Australian industry producing like goods in Australia, consisting of OneSteel;
- OneSteel is the sole manufacturer in Australia of like goods for the Australian market; and
- the like goods are wholly manufactured in Australia.

3.2 Legislative and policy framework

Subsection 269TC(1) provides that the Commissioner shall reject an application for a dumping duty notice if, *inter alia*, the Commissioner is not satisfied that there is, or is likely to be established, an Australian industry in respect of like goods.

In making this assessment, the Commissioner first determines whether the goods produced by the Australian industry are 'like' to the imported goods. Subsection 269T(1) defines like goods as:

> G*oods 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*.

An Australian industry can apply for relief from injury caused by dumped imports even if the goods it produces are not identical to those imported. However, the Australian industry must produce goods that are 'like' to the imported goods.

Where the locally produced goods and the imported goods are not alike in all respects, the Commissioner assesses whether they have characteristics closely resembling each other against the following considerations:

- physical likeness;
- commercial likeness;
- functional likeness; and
- production likeness.

3.3 The goods

The goods which are the subject of the application (the goods) are:

> *Hot rolled rods in coils of steel, whether or not containing alloys, that have maximum cross sections that are less than 14mm.*
>
> *The goods covered by this application include all steel rods meeting the above description regardless of the particular grade or alloy content.*
>
> *Goods excluded from this application include hot-rolled deformed steel reinforcing bar in coil form, commonly identified as rebar or debar, and stainless steel in coils.*

3.4 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 02); and
- 7227.90.90 (statistical code 42).

3.5 The Australian industry

Under subsection 269T(2), goods are not to be taken to have been manufactured in Australia unless the goods were wholly or partly manufactured in Australia. Under subsection 269T(3), goods shall not be taken to have been partly manufactured in Australia unless at least one process in the manufacture of the goods was carried out in Australia.

The Commission visited OneSteel to examine its manufacturing processes and to verify its claims. The Commission has found that OneSteel undertakes all processes of manufacture in producing RIC in Australia, and therefore that there is an Australian industry, being OneSteel, producing like goods. Further information on OneSteel, its production process and its product range is available on the public record.

3.6 Like goods assessment

Subsection 269T(1) defines like goods 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.*

As discussed in the relevant reports,[6] the Commission confirmed that the goods were exported to Australia from China, and that there is an Australian industry which manufacturers like goods.

In summary, the Commission considers that OneSteel produces goods that are 'like' to the goods under consideration for the following reasons:

- the primary physical characteristics of the goods and the locally produced goods are similar;
- the goods and the locally produced goods are commercially alike as they are sold to common users, and directly compete in the same market;
- the goods are produced using similar materials, primarily consisting of steel billet;
- the goods and the locally produced goods are functionally alike as they have a similar range of end-uses; and
- the goods and the locally produced goods are manufactured in a similar manner.

The Commissioner is satisfied that the Australian industry produces 'like' goods to the goods the subject of the application, as defined in subsection 269T(1).

The Commissioner is satisfied that there is an Australian industry in respect of 'like' goods in accordance with subsection 269TC(1).

3.7 Findings

The Commissioner finds that:

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[6] Consideration Report 301, Preliminary Affirmative Decision Report 301, Verification Report Australian Industry OneSteel, Verification Report Exporter Hunan Valin, and Verification Report Exporter Jiangsu Shagang, all of which are available on the public record.

- there is an Australian industry producing like goods in Australia, consisting of OneSteel;
- OneSteel is the sole manufacturer in Australia of like goods; and
- the like goods are wholly manufactured in Australia.

4 AUSTRALIAN MARKET

4.1 Background

The Commissioner published his analysis and views on the Australian market in SEF 301. No submissions were received regarding the Australian market. A summary of the findings is provided below.

4.2 Market structure

The Australian RIC market is supplied by locally produced goods and imported goods from a range of countries including China. The major supplier is OneSteel, which supplies over 80 per cent of RIC to the Australian market.

RIC is an intermediate good, and is purchased by fabricators to produce other products including reinforcing mesh and wire.

RIC is generally 'commodity' like in nature. Demand is driven by construction and infrastructure projects. Supply of RIC for construction and infrastructure projects is generally conducted through tender processes. This results in a high level of price competition.

OneSteel disclosed that the majority of its sales of RIC were to related parties over the investigation period, however stated to the Commission that sales to its related parties remain subject to market forces regarding price. The Commission has tested this assertion and confirmed that sales to both related and unrelated parties are based on market pricing.

The Commission has analysed information collected from the Australian industry and importers and found that the Australian RIC market shows significant price sensitivity and that price is the major criteria in customers' purchasing decisions. The price for RIC is set via price offers from suppliers which usually occur monthly; with up to eight weeks lead time for deliveries.

The Commission has also found that product and brand differentiation is minimal, and that while steel is graded, there is no specific certification which applies to RIC in Australia.

4.3 Market size

The market for RIC in Australia has varied between 550,000 tonnes and 630,000 tonnes per year over the injury analysis period.

The Commission has found that the market is currently growing and recovering from a relatively slow period at the start of the injury analysis period. This view is supported by independent research compiled by IBISWorld.[7] An IBISWorld report indicated that the market for iron and steel in Australia is expected to grow on average by 1.1 per cent per year until 2021 due to continuing infrastructure investment.[8]

[7] *IBISWorld Business Environment Report, F3325 - Domestic price of iron and steel, July 2015*

[8] Ibid, page 3

5 DUMPING INVESTIGATION

5.1 Introduction

Dumping occurs when a product from one country is exported to another country at a price less than its normal value. In order to determine whether dumping has occurred, the export price and normal value of the goods must be compared.[9] The export price and normal value of goods are determined under sections 269TAB and 269TAC respectively.

5.2 Findings

There are two cooperating exporters for the investigation, being Hunan Valin Xiangtan Iron & Steel Co., Ltd (Hunan Valin) and Jiangsu Shagang Group (Jiangsu Shagang). The Jiangsu Shagang Group includes twelve different limited liability companies which, for the purposes of this investigation, have been treated as a single entity.[10]

These two exporters accounted for over 95 per cent of the exports of RIC from China to Australia over the investigation period.

The Commission found during the investigation during the investigation period, both exporters:

- exported RIC to Australia at dumped prices; and
- the volume of dumped goods was not negligible.

Company	Dumping Margin
Hunan Valin	44.1%
Jiangsu Shagang	37.4%
Uncooperative and All other Exporters	53.1%

Table 2: Dumping margins

For each of the cooperating exporters, the Commission conducted onsite verification of costs, domestic sales, and exports to Australia during the investigation period.

The non-confidential verification reports for each of the exporters are available on the public record and provide additional detail to what is discussed below.

5.3 Uncooperative exporters

Subsection 269T(1) provides that an exporter is an 'uncooperative exporter' where the Commissioner is satisfied that an exporter of the goods did not give the Commissioner information that he considers to be relevant to the investigation within a period he considers to be reasonable, or where he is satisfied that an exporter significantly impeded the investigation.

At the initiation of this investigation, the Commission wrote to all known exporters of RIC from China and invited them to participate in the investigation by providing a response to the exporter questionnaire.

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[9] Subsection 269TACB(1)

[10] This is based on both the Commission's view that the group should be collapsed to prevent any potential distortions, the business operations of the group, and the response from Jiangsu Shagang which was made on behalf of the entire group.

Exporters of the goods from China that have not provided exporter questionnaire responses are considered to be uncooperative exporters.

5.4 Impacts of Market Situation Finding

The Commissioner has found that there is a particular market situation in the Chinese iron and steel industries which distorts the market and cost structure in these industries. As such, the Commissioner is satisfied that domestic sales of RIC in China are not suitable to be used for establishing normal value. The Commissioner has therefore constructed normal value for the purposes of this investigation under subsection 269TAC(2)(c).

5.4.1 Benchmark for competitive market costs

The Commissioner considers that the influence of the GoC on the RIC market would similarly affect the selling prices of RIC by Chinese exporters to third countries. As such, the Commissioner considers that third country sales are not suitable for determining normal value. Consequently, normal values were constructed under subsection 269TAC(2)(c) and in accordance with the conditions of sections 43,44 and 45 of the *Customs (International Obligations) Regulation 2015* (the Regulation).

Subsection 43(2) of the Regulation requires that if an exporter keeps records in accordance with generally accepted accounting principles, and those records reasonably reflect competitive market costs associated with the production of like goods, then the cost of production must be worked out using the exporter's records.

As discussed in Appendix 1, the Commission considers that the significant influence of the GoC has distorted prices in the steel industry and RIC market in China. The Commission also considers that various plans, policies and taxation regimes have also distorted the prices of production inputs including, but not limited to, raw materials used to make steel in China, rendering them unsuitable for cost to make and sell (CTMS) calculations.

The Commission has formed the view that the GoC influence in the iron and steel industry is most pronounced in the parts of that industry that might be described as upstream from RIC production. In particular, GoC driven market distortions have resulted in artificially low prices for the key raw materials, and this includes other inputs associated with the production of steel billets from which RIC is made.

The Commission considers that direct and indirect influences of the GoC affect Chinese manufacturers' costs to produce steel billet and, because of that, Chinese manufacturers' records do not reasonably reflect competitive market costs. The Commission has found that steel billet costs comprise 80 to 85 per cent of RIC CTMS.

In the SEF, the Commission utilised the SBB Platts East Asian Billet benchmark with an adjustment for profit to substitute the billet costs recorded in the cooperating exporters' cost to make and sell information. Several submissions on this issue were received.

5.4.2 Submissions received in response to the SEF in relation to substitution of billet costs

1. Shagang submitted that the Commission has not been transparent in its discussion of production inputs that were found to not reflect competitive market cost. Shagang submits that this is inconsistent with SEFs of other investigations in which directly purchased inputs were found to not reflect competitive market costs. Shagang further submits that, unlike in those other SEFs, the Commission does not appear to have performed any analysis of the purchased raw materials used by Shagang in

the production of rod in coil to assess the reasonableness of those costs (for example, iron ore, being the largest cost input for rod in coil).

2. Shagang and Hunan Valin submitted that section 43 of the Regulation concerning the construction of normal values is incompatible with the *Anti-Dumping Agreement*. Specifically, according to Shagang and Hunan Valin, the *Anti-Dumping Agreement* requires that the exporter's records reasonably reflect the costs associated with the production and sales of the product under consideration, whereas the Regulation requires the records to reasonably reflect competitive market costs associated with the production or manufacture of like goods.
3. Shagang submitted that in calculating normal value, the Commission should have regard to exporters' billet production costs and should only make adjustments to those particular raw materials that the Commission deems not to reflect competitive market costs.
4. Shagang and Hunan Valin submitted that iron ore purchases are reflective of a competitive market cost associated with the production and sale of rod in coil as it is imported and purchased at arm's length at global spot prices. Shagang and Hunan Valin contest the Commission's view that it is appropriate to examine the influence of the GoC beyond the input of raw materials. Shagang provided an analysis of how its iron ore purchase prices are significantly higher than global spot prices published in the publicly available *Metal Bulletin Iron Ore Index*.

5.4.2.1 The Commission's consideration

Specific references were made in Appendix A of the SEF (*Market Situation Finding*) on the distortionary effects and influence of the GoC. The Commission has found that the distortionary effects are such that sales of RIC in China are not suitable for use in determining the normal value of RIC. In addition, for the purpose of constructing a normal value under subsection 269TAC(2)(c), the Commissioner considers that the market situation does not reflect competitive market conditions and, because of that, accounting records do not reasonably reflect competitive market costs. While it is recognised by the Commission that specific, single line items, such as iron ore, may be at competitive cost based on world spot purchase prices, the use of the billet index does not distort this position as the billet benchmark will also be based on the same raw materials which are subject to the same competitive world spot prices.

The Commission does not consider that it is it appropriate to limit GoC influence to input raw materials only because that would not accurately reflect the extent of the distortion. The Commission considers that to limit consideration of GoC influence to input raw materials only does not capture the influence of the GoC on other costs associated with the conversion of raw materials to steel billet.

In determining the most appropriate approach for selecting benchmarks for competitive market costs, the Commission had regard to the following facts:

- the influence of the GoC is wide ranging and reducing the influence of GoC to input raw materials only does not reflect the amount of distortion which includes GoC influence on the costs of converting raw materials to billet;
- the selected benchmark includes the cost of raw material sourced from international markets, including China, and, as such, does not require the Commission to arbitrarily, or otherwise, select raw material sources as the defining factor in allocating costs of production;

- the GoC was sent a comprehensive questionnaire in relation to its influence in iron and steel industry, but did not cooperate with the investigation; and
- a substitution at billet level is the most reasonable approach to capture the total impact of the influence of the GoC on the cost of producing RIC;

The methodology applied by the Commissioner is outlined in this Chapter (Chapter 5). The Commission considers that its approach complies with subsection 269TAC(2) as well as section 43 of the Regulation.

In respect of the submissions in relation to the Commission's decision to conduct an assessment of competitive market costs on steel billet levels, the Commission notes that:

- unlike some of the other products the subject of various SEF reports that the exporters refer to in their submissions, RIC manufacturing requires a number of direct input materials, most of which can be assessed to be material in relation to calculation of CTMS of billet.
    - Iron ore;
    - Coking coal and/or coke;
    - Coal;
    - Various alloys (chromium, vanadium, magnesium, boron etc.);
    - Pig iron;
    - Alloy;
    - Natural gas;
    - Electricity;
    - Water;
    - Oxygen;
    - Nitrogen;
    - Steam;
    - Lime;
    - Dolomite; and
    - Auxiliary materials
- neither exporters' CTMS and raw material purchase information is provided in sufficient detail for the Commission to be able to conduct a comprehensive analysis of all these inputs
- some raw materials are being sourced in various types and grades. For example, coal expenses in the exporters' CTMS data is only a one line item but may actually consist of:
    - Gas coal;
    - Gas-fat coal;
    - Fat coal;
    - High-sulphur fat coal;

- o Lean coal;
- o Coking coal;
- o High-sulphur coking coal;
- o Anthracite;
- o North Korea coal;
- o Soft coal and;
- o Meagre lean coal.

On the basis of the available information, it is not possible to ascertain whether each of these different sub-types or grades of coal were sourced at competitive market prices. Further, the price of 'iron ore' itself is subject to significant adjustments based on actual iron (Fe) content.

The Commission also notes that some raw materials are sourced in the Chinese domestic market in semi-finished or further processed form in the Chinese domestic market. For example, the Commission found that some domestically sourced iron ore in the exporters' records is actually further processed iron pellets. It is neither practical nor possible for the Commission to compare further refined pellet prices with iron ore prices based on the information provided.

The Commission is also mindful that the iron ore that the exporters repeatedly refer to in their submissions comprise only around 40 per cent of the total cost of RIC. However, steel billets comprise 80 to 85 per cent of total cost to make and sell of RIC and represent all of the costs apart from the cost of conversion from billet to RIC and the cost of selling. In addition, the Commission considers that the benchmark billets would reflect similar world prices for iron ore. The practical outcome of this position is that there will be no uplift at the raw material level beyond market competitive values.

As a result, the Commission conducted an assessment of steel billet costs of cooperating exporters.

5.4.3 Submissions received on in response to the SEF in relation to the selection of benchmarks for billet costs

1. Hunan Valin submitted that the benchmark price selected in the SEF is inappropriate given that it includes delivery costs to the main East Asian port (on CFR terms) rather than fairly reflecting solely the cost to make the semi-product. As such, Hunan Valin submits that downwards adjustments to the ex-works level should be made to the benchmark price
2. OneSteel submitted that the Commission's use of the East Asian billet benchmark is inappropriate as the Platts published East Asian steel billet import prices (Code: *Billet E Asia Imp CFR Wkly*) contains Chinese export price data. As a result, OneSteel submits, the Commission has inadvertently introduced Chinese steel prices, which is inconsistent with the aim of constructing a benchmark that reasonably reflects competitive market costs associated with the production or manufacture of like goods.
3. OneSteel submitted that in the past the Commission has based external benchmarks on other country's domestic price information to mitigate the issue of market distortions.

4. OneSteel submitted that the Commission should, in selecting an appropriate competitive domestic benchmark market, have regard to the degree of penetration of the domestic market by Chinese steel billet that is traded as alloyed square bar rather than as billet. OneSteel submits that the Commission should have regard to United States, European Union or African (particularly South African) domestic billet prices. OneSteel submits that the Commission's concerns around geographic comparative advantage should be secondary to the primary issue of selecting a competitive benchmark unaffected by Chinese prices.

5.4.3.1 The Commission's consideration

The Commission acknowledges that the benchmark includes overseas freight, which may therefore not reflect the most appropriate comparison or the best available data.

The East Asian benchmark captures overseas freight costs which are unable to be calculated within the overall benchmark value. As such, it is impossible for the Commission to remove the freight costs with a sufficient degree of certainty, making it less appropriate to use the East Asian benchmark.

The Commission has reviewed weekly price reports over the investigation period and has found that the East Asian Benchmark includes Chinese steel prices and as such, should not be used if there is more appropriate data.

The Commission recognises that in previous investigations it has used benchmarks based on other country's domestic price information. The Commission notes that over time, the steel industry faces significant variability in material costs and, as such, the choice of benchmark must be considered on a case by case basis. There are no readily available investigations which provide information on an appropriate external benchmark given that the steel industry faces significant variability in its raw material costs that potentially distort any historical benchmark.

In SEF 301, the Commissioner considered it was unlikely that the East Asian steel billet import index included Chinese steel billet sales due to the 25 per cent export tax on steel billets from China. The data available to the Commission at the time did not show any significant steel billet exports from China to the East Asian region. Moreover, available evidence suggested that Chinese exporters were not able to export steel billets profitability due to the extra burden caused by export tax.

Following OneSteel's submission in relation to East Asian steel billet import prices being subject to significant influence, the Commission assessed evidence provided by OneSteel and searched for further evidence regarding Chinese steel billet exports influence on East Asian steel billet import prices.

The Commission analysed the weekly *World Steel Reports* covering the whole investigation period as published by Platts, the publisher of the benchmark in question. The Commission noted that a substantial number of references were included within the billet section of commentary regarding the Chinese influence on the East Asian benchmark, and to a lesser but still significant extent, the Turkish benchmark.

As such, the Commission considers that both East Asian and Turkish benchmarks were influenced by Chinese billet exports, which in turn were subject to a market situation finding due to the influence of the GoC. This was further reiterated through correspondence with Platts (Confidential Attachment – Benchmark) which stated that the price assessment is heavily weighted by Chinese billet trades.

The evidence before the Commission strongly indicates that, despite the existence of export tax on steel billets in China, there are significant volumes of Chinese steel billets being traded in East Asia and Turkey. It is highly likely that Chinese billet prices have distorted steel billet prices in both the East Asia and Turkey steel billet indexes. Consequently, the Commission considers that East Asian steel billet prices do not constitute an appropriate benchmark for competitive market costs of steel billets in China. For the same reasons, the Commission does not consider Turkish import or export steel billet price indexes are appropriate benchmarks for competitive market costs of steel billets in China.

The Commission received a submission from OneSteel that the South African benchmark data would be appropriate based on the mix of production between blast furnace and electric arc furnace steel making as a proportion of overall production. The Commission considered this submission in relation to the use of domestic South African steel billet prices as a benchmark for competitive market costs. However, the Commission has significant concerns with South African domestic steel billet prices, such as the existence of import tariffs in South Africa. Further, the South African domestic steel market is relatively shallow and may not show the same competitive characteristics as a price index having a larger geographical base and more depth in terms of transaction volumes. As such, the Commission does not consider that the South African domestic steel billet prices published by MEPS would constitute an appropriate benchmark for competitive steel billet costs.

The Commission considers that Platts/SBB data is a reliable source of data, and has not found sufficient reasons to select a different data source for the purposes of this investigation. The Commission has noted research by Wood Mackenzie, and has discussed the concerns with the publishers of the South East Asian Benchmark and through the *World Steel Review Weekly Report*. The publisher confirmed that there is a heavy weighting of Chinese billet trades in the East Asian benchmark.

As such, the Commission has considered other benchmarks, with a focus on those which do not appear to be subject to Chinese price offers distorting the market.

5.4.4 Selection of benchmarks for billet costs

The Commission considers that the Latin American steel billet export prices at free on board (FOB) level that is published by Platts forms an independent and reliable basis for the competitive market costs.

The World Steel Association's statistics shows that in excess of 63 million tonnes of crude steel was produced in the Latin American region in 2014.[11] The Latin America region includes Brazil and Mexico which are two of the world's top steel producing countries based on crude steel production volumes. Consequently, the Commission considers that the Latin America region has sufficient volumes to reflect competitive market conditions. In addition, the Commission notes there are significant reserves of iron ore within the Latin America region which are mined and exported in large volumes. Of the iron ore exported from Central and Southern America, over half was directed to China, and the amount directed to China was greater than the amount consumed regionally. The Commission considers this reflects a consistent cost point for a significant raw material that is included in the cost of steel billet, thus improving comparability. The use of an FOB measure also mitigates the concerns raised by exporters regarding the inclusion of overseas freight costs within the benchmark which would unduly overstate the substituted amounts.

[11] https://www.worldsteel.org/dms/internetDocumentList/bookshop/2015/World-Steel-in-Figures-2015/document/World%20Steel%20in%20Figures%202015.pdf

Based on the size of the market and the geographic distance from China minimising the potential distortions of GoC influenced billet prices impacting on the Latin American billet export prices, the Commission considers that Latin American export billet prices in FOB terms represent the best available information on competitive market costs of steel billets.

The Commission considers that the Latin American benchmark is a competitive benchmark that has not been identified as being affected by Chinese prices due to the following factors:

- geographic distance from Asia limiting the distortionary effects of the GoC on the iron and steel industry;
- significant production levels generating a 'deep' trade market and a relatively high level of competition; and
- the existence of anti-dumping and trade remedy cases from Latin America on Chinese steel products.

Consequently, the Commission has adopted a new benchmark in this report. This benchmark is the Latin American Billet FOB export prices as supplied by Platts. This benchmark is calculated at the FOB basis and, as such, addresses the matter raised by Hunan Valin regarding the inclusion of freight costs, which are not captured by the Latin American Billet FOB benchmark.

5.4.5 Submissions relating to adjustments to the benchmark billet price for competitive costs.

The Commission received several submissions regarding the calculation of normal values.

- The utilisation of the South East Asian billet benchmark, which is recorded at the CFR level contains a value for freight, may be impacted by the market situation from China, and should be adjusted to reflect alloying costs for different grades of steel produced.
- The billet benchmark utilised does not represent an alloyed grade billet which is utilised in the production of like goods in China when they are exported to Australia.
- The downwards profit adjustment should be based on the verified profit of the non-Chinese seller of the billet the subject of the competitive benchmark. The Commission it should not rely on information from Chinese sellers of billet on the domestic market given that the verification report for Laiwu in Investigation 300 (rebar) expressed concerns about the reliability of the company's cost to make data.
- The Value Added Tax (VAT) rate should be based on the supplied residual VAT calculation as provided by Jiangsu Shagang.

5.4.5.1 The Commissioner's consideration

The Commission considered the above concerns, and notes that the new benchmark selected, being the Latin American billet FOB benchmark, removes any concerns regarding overseas freight being included.

The Commission notes that the alloy information is not readily available based on the selected benchmark, which is restricted to A36 grade steel. The Commission reviewed the standard in question, and found the standard does not require or restrict the use of certain alloys. As such, the Commissioner does not consider that it is appropriate to add an alloy adjustment to the benchmark value when it is possible that the benchmark billet sales are alloyed and comply with the steel grade required.

For the purposes of calculating the required VAT adjustment, the specific export grades were noted and an adjustment was made to ensure that only the appropriate grades of RIC were entitled to any VAT rebate following the 1 January 2015 changes.

The Commissioner considers it reasonable to deduct the verified average profit rate realised by Chinese exporters from sales of steel billets in order to calculate the competitive market costs for steel billets. This is consistent with the Commissioner's approach to utilising actual verified domestic profit rates in domestic sales of like goods when constructing normal values.

Jiangsu Shagang did not provide sufficient, verified or verifiable information for the Commission to test the accuracy of its residual VAT calculation as part of its submission in response to the SEF. As the information is unable to be tested, is in a highly summarised form, has no timeframe attached, and lacks the required detail to support an adjustment, the claim for further adjustment is not supported by the Commission.

5.5 Cooperating Exporters

5.5.1 Hunan Valin

5.5.1.1 Export Price

The export price for Hunan Valin was established under subsection 269TAB(1)(a) using its invoice prices for RIC sales to Australia less transport and other charges arising after exportation.

The goods were exported to Australia otherwise than by the importer, and were purchased by the importer from the exporter and the purchase was at arm's length. Section 269TAA establishes the guides for arm's length transactions, and as there was no identifiable consideration payable for the goods other than their price, the parties subject to the transaction appear independent, and there was no evidence of a reimbursement arrangement, these requirements are met.

Export prices were assessed at FOB level. Individual export prices were calculated for each of the models identified by the Commission.

5.5.1.2 Normal Value

The normal value for Hunan Valin was calculated under subsection 269TAC(2)(c). Model matching was based on the grade of steel exported. Hunan Valin's cost of production was calculated using the Latin American Billet benchmark, recognising the profit adjustment as described above to convert the price benchmark into a cost benchmark. The Commissioner considers that under section 43(2(ii)) of the Regulation, in line with the market situation finding, the costs to produce billet are unreliable and as such are disregarded in favour of the Latin American benchmark billet costs under section 43(8) of the Regulation.

The quarterly conversion costs for Hunan Valin to convert the billet into RIC are then added to calculate cost to make RIC.

The domestic selling, general, and administration costs in Hunan Valin's quarterly records were used to calculate normal value under section 44(3)(a).

A rate of profit based upon the production data and domestic arm's length sales of Hunan Valin's RIC in the ordinary course of trade was added.

The Commission calculated these amounts on a quarterly basis in line with the SEF. Where quarterly production of a specific grade was not completed in a quarter when sales were made, the Commission referred to the most recent completed production quarter. This ensured that when model matching was completed for the purposes of calculating dumping margins, the goods sold were matched against the cost of goods which had already been produced rather than the cost of goods that may be produced in the future. The Commission considers that this aligns the sale of the goods with the competitive production costs incurred in actually making that product, rather than potentially distorting the costs of production by creating a cost to make and sell amount for a quarter where there was no production.

To ensure comparability between normal values and export prices, the Commission completed the following adjustments pursuant to subsection 269TAC(9):

Adjustment Type	Description
Export Inland Freight, handling, and port charges	**Add** weighted average actual export inland transport and handling costs
VAT amount	**Add** an amount equal to the non-refundable VAT portion on exports based on the chemical composition and date of export.

Table 3: Hunan Valin Normal Value Adjustments

VAT adjustments are recognised according to subsection 269TAC(9). As the VAT liability is incurred on export sales, the Commission treats this liability as having influenced the export price due to the high absorbed cost of the goods subject to VAT.

The Commission calculated the adjustment based on the difference in VAT rates for normal supply and the rate of VAT refund for export over the investigation period. Hunan Valin did not provide sufficient information to demonstrate that the residual export VAT was incorrect or required a lower adjustment.

Calculations relating to Hunan Valin's export price, normal value, and dumping margin are at **Confidential Appendix 1 – Hunan Valin Dumping Margin**

5.5.2 Jiangsu Shagang

5.5.2.1 Export Price

During the investigation period Jiangsu Shagang exported the goods to an unrelated company via a related trading entity. The Commission found that;

- the goods have been exported to Australia otherwise than by the importer; and
- the goods have been purchased by the importer from the exporter.

Due to a unit price mark-up made by a related party to cover the administration costs associated with issuing the export sale paper work, the export price of the goods was calculated under subsection 269TAB(1)(c), being a price that the Parliamentary Secretary determines having regard to all the circumstances of the exportation based on invoice prices for RIC sales.

Export prices were assessed at FOB level.

5.5.2.2 Normal Value

The normal value for Jiangsu Shagang was calculated under subsection 269TAC(2)(c) based on the quarterly cost of production data with substituted billet costs. Model matching was based on grade and recognised the profit adjustment as outlined above to convert the price benchmark into a cost benchmark. The Commissioner considers that under section 43(2(ii)) of the Regulation, in line with the market situation finding, the costs to produce billet are unreliable and as such are disregarded in favour of the substituted Latin American benchmark billet costs under section 43(8) of the Regulation.

The quarterly conversion costs for Jiangsu Shagang to convert the billet into RIC are then added to calculate the cost to make RIC.

The domestic selling, general, and administration costs in Jiangsu Shagang's records were used to calculate normal value under section 44(3)(a).

A rate of profit based upon the production data and domestic arm's length sales of Jiangsu Shagang's RIC during the ordinary course of trade was added.

To ensure the comparability of normal values to export prices the Commissioner considers that the following adjustments are required under subsection 269TAC(9):

Adjustment Type	Description
Export Inland Freight, handling, and port charges	**Add** weighted average actual export inland transport and handling costs
VAT amount	**Add** an amount equal to the non-refundable VAT portion on exports based on the chemical composition and date of export.

Table 4: Jiangsu Shagang Normal Value Adjustments

VAT adjustments are recognised according to subsection 269TAC(9). As the VAT liability is incurred on export sales, the Commission treats this liability as having influenced the export price due to the high absorbed cost of the goods subject to VAT.

The Commission calculated the adjustment based on the difference in VAT rates for normal supply and the rate of VAT refund for export over the investigation period. Jiangsu Shagang did not provide sufficient information to demonstrate that the residual export VAT was incorrect or required a lower adjustment.

Jiangsu Shagang's Australian and domestic CTMS, uplift calculations, domestic sales listing, ordinary course of trade test, normal value, and dumping margin calculations are at **Confidential Appendix 4 – Jiangsu Shagang Dumping Margin**

5.6 Dumping Margins

The Commission compared to weighted average of monthly export prices over the whole investigation period with the weighted average of monthly corresponding normal values over the whole of that period, in accordance with subsection 269TCB(2)(a). The weighted average product dumping margin for RIC exported to Australia from China for each exporter is in the following table:

Exporter / Manufacturer	Dumping Margin
Hunan Valin	44.1%

Jiangsu Shagang	37.4%

Table 5: Dumping Margins

5.6.1 Uncooperative and all other dumping margins

As the Commissioner was satisfied that all exporters (except for Hunan Valin and Jiangsu Shagang Group) did not provide the Commissioner with the information relevant to the investigation within a reasonable period of time, the Commissioner is treating all exporters of RIC from China in the investigation period other than Hunan Valin and Jiangsu Shagang, as uncooperative exporters as defined by subsection 269T(1).

Subsection 269TACAB(1) sets out the provisions for calculating export prices and normal values for uncooperative exporters. Subsection 269TACAB(1)(d) specifies that for uncooperative exporters, export prices are to be calculated under subsection 269TAB(3). Subsection 269TACAB(1)(e) specifies that normal values are to be calculated under subsection 269TAC(6).

The Commissioner has therefore determined an export price under subsection 269TAB(3) after having regard to all relevant information. Specifically, the Commission has used the lowest weighted average normal values of those established for the each of cooperating exporters over the entire investigation period. The Commission has determined normal value under subsection 269TAC(6) after having regard to all relevant information. Specifically, the Commission has used the highest weighted average normal values of those established for the cooperating exporters over the entire investigation period.

The dumping margin for uncooperative and all other exporters from China is 53.1 per cent.

These calculations are at **Confidential Appendix 8 – Uncooperative**.

5.7 Volume of dumped imports

Pursuant to subsection 269TDA(3), the Commissioner must terminate the investigation, in so far as it relates to a country, if satisfied that the total volume of goods that are dumped is a negligible volume. Subsection 269TDA(4) defines a negligible volume as less than 3 per cent of the total volume of goods imported into Australia over the investigation period if subsection 269TDA(5) does not apply. Subsection 269TDA(5) describes aggregation of volumes for the calculation of whether the dumped goods are negligible in volume if multiple countries are part of a dumping investigation.

Using the Department of Immigration and Border Protection's DIBP import database and having regard to the information collected and verified from the importers and exporters, the Commission determined the volume of imports in the Australian market. Based on this information, the Commissioner is satisfied that, when expressed as a percentage of the total imported volume of the goods, the volume of allegedly dumped goods from China was greater than three per cent of the total import volume and is therefore not negligible.

5.8 The Commissioner's assessment

The Commissioner has assessed that RIC exported to Australia from China by:

- Hunan Valin; and
- Jiangsu Shagang;

was at dumped prices during the investigation period. The Commissioner has also found that the volume of dumped goods was not negligible during the investigation period.

The Commissioner has also assessed that the dumping margin for uncooperative and all other exporters from China is 53.1 per cent.

A summary of the Commissioner's assessment of dumping margins is set out in Table 6.

Exporter / Manufacturer	**Dumping Margin**
Hunan Valin	44.1%
Jiangsu Shagang	37.4%
Uncooperative and all other exporters	53.1%

Table 6: Dumping Margins

6 ECONOMIC CONDITION OF THE INDUSTRY

6.1 Findings Summary

The Commissioner has found that there is an Australian Industry producing like goods, and that the Australian industry is suffering injury in the form of price depression, price suppression, reduced profits, reduced profitability, and decreased employment.

The Commissioner's assessment is that the injury suffered is material.

6.2 Approach to injury analysis

The Commission has verified and analysed the Australian industry's financial data. Additional data was sourced by the Commission from the DIBP import database, and submissions made by importers.

OneSteel provided production, cost and sales data for RIC. The data was provided on a quarterly basis for the injury analysis period. As noted in the Australian Industry visit report, the Commission was satisfied that the cost and sales data provide by the applicant is reasonably complete, relevant and accurate.

The injury analysis has been undertaken in recognition of several key factors which impact on the market:

- RIC is a commodity type product;
- RIC is an intermediate manufacturing input and is generally not sold without being subject to further processing;
- there is a high level of substitutability between suppliers for the product due to the commoditised nature of RIC;
- the production of billet using blast furnaces requires a minimum production level to be maintained by the Australian industry;
- the preponderance of blast furnaces in China also generates an effective minimum production level within China, and there is significant overcapacity in China;
- the market in Australia is price sensitive;
- any excess inventories of RIC can be stored but maintaining inventories can generate significant holding costs; and
- demand is driven by construction and infrastructure activity.

6.3 Price effects

The Commission's analysis of price effects was conducted using verified sales data. The Commission did not include OneSteel's export sales for the purposes of analysing price effects.

The volume of import sales included in the price effects analysis represents an estimated 95 per cent of the import volume of RIC from China included in the DIBP's import database. The Commission considers that, as this sales data represents a significant proportion of total imports for 2014/15, it allows a reasonably representative and accurate assessment of price effects on the Australian industry.

6.3.1 Price suppression

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 Commission had specific regard to the verified revenue generated and verified cost to make and sell for the entire investigation period as outlined in Figure 2, with the view that a normal business unaffected by dumping would look to increase prices to, at a minimum, cover its cost to make and attempt to maximise profits.

In determining whether price suppression has occurred the Commission may conduct[12]:

- a comparison of prices with costs to assess whether over time (e.g. the injury analysis period) or within a specified period (e.g. the investigation period), prices have not increased at the same rate as cost increases; or
- an assessment as to whether the prices for the Australian industry's product are lower than prices that may have been achieved in the absence of dumping.

Figure 1 demonstrates movements in OneSteel's combined domestic weighted average unit costs and prices for RIC during the injury analysis period.

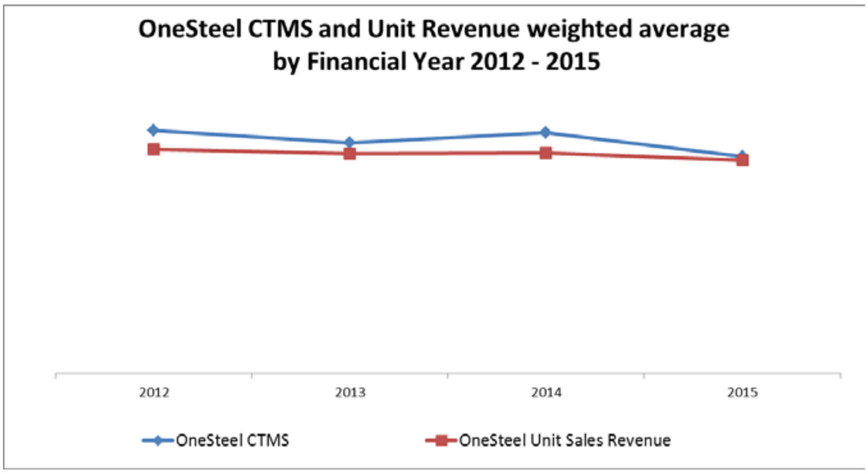

Figure 1 – OneSteel CTMS vs Unit Sales Revenue Annual over the injury period

Figure 1 indicates that OneSteel's weighted average unit costs exceeded its weighted average unit prices from the 2011/12 financial year to 2014/15 financial year.

The Commission considers that over the investigation period, OneSteel would have intended to set such prices as would have covered the fully absorbed cost to make and sell while making a reasonable rate of return.

OneSteel's ability to do so had previously been impacted by the presence in the Australian market of dumped goods from other jurisdictions.[13] It was anticipated that following measures being put in place against those countries prices would recover. Following the imposition of securities in Investigation 240 during Q3 2015, prices fell further.

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[12] Anti-Dumping Commission, *Dumping and Subsidy Manual* (November 2015), page 16

[13] See investigation 240 here.

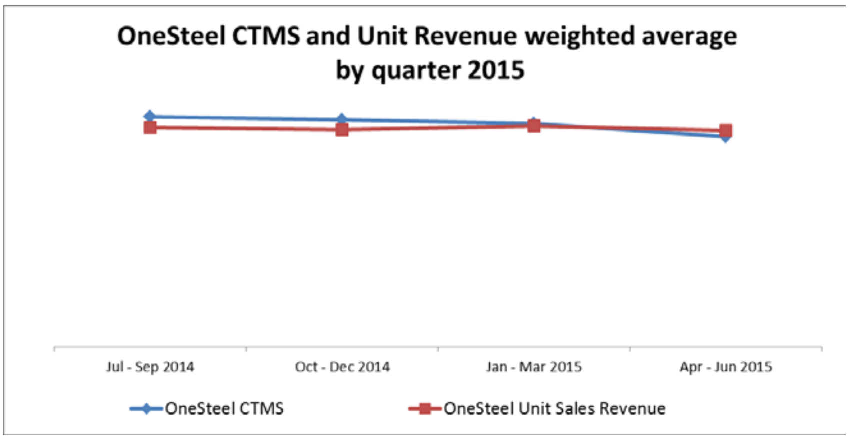

Figure 2 – OneSteel CTMS vs Unit Sales Revenue Quarterly over the Investigation Period

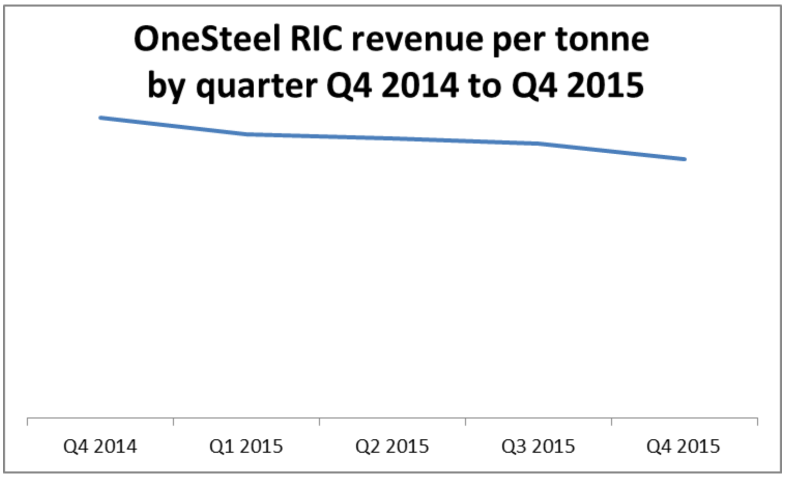

Figure 3 – OneSteel revenue per tonne RIC

Figure 2 and Figure 3 indicate that OneSteel's unit sales prices were only profitable in only quarter 4, 2014/15 and that per unit sales had trended downwards across the investigation period.

The Commission notes that OneSteel's margin for RIC improved in the final quarter of 2014/15. OneSteel has indicated to the Commission that the improvement was due to:

1. decreases in its costs as a result of falling input material prices, mainly iron ore and scrap steel, and cost cutting and efficiency programs; and
2. reduction in import volumes of RIC from countries nominated in Investigation 240.

The Commission has verified OneSteel's cost to make and sell RIC and has found that OneSteel has achieved decreases in costs. The Commission has also examined imports of RIC using the DIPB's import database and has found that there has been a reduction in import volumes of RIC from countries nominated in Investigation 240.

The Commission notes that the improvement in profitability is not due to an increase in prices but rather, a decrease in costs.

6.3.2 Price depression

The Commission analysed changes in OneSteel's prices on a quarterly basis. Figure 4 demonstrates that since the start of the Q2 2014 the market has shown indications of significant price pressure at several times. The most recent price fall trend aligns with the commencement of Chinese imports from Q4 2014 onwards. The Commission notes there has been a sustained reduction in price relative to prior years.

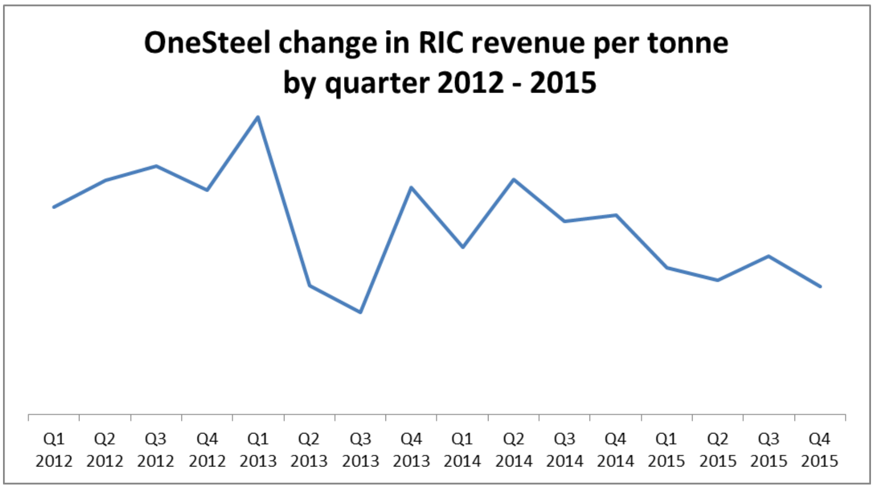

Figure 4 – Changes in OneSteel revenue per tonne since financial year Q1 2012

During the Australian industry verification visit to OneSteel, the Commission verified that OneSteel's pricing decisions are heavily influenced by import offers in the market. The Commission has analysed OneSteel's prices by comparing them with prices of RIC imported from multiple sources. This analysis indicates that Australian industry's prices were undercut and that it would have achieved higher prices in the absence of sales of RIC exported from China at dumped prices. This analysis is discussed further in chapter 7 of this report.

6.3.3 Price effects – the Commission's conclusion

The Commissioner considers that the Australian industry is suffering injury in the forms of price depression and price suppression. This is demonstrated by the inability of OneSteel to maintain prices that were sufficient to cover the fully absorbed CTMS the goods over the injury analysis period.

A full assessment and analysis of price suppression and depression is included in **Confidential Appendix 9 – Injury and Causation Analysis**.

6.4 Profits and profitability

OneSteel claimed injury in the form of reduced profit and profitability. Figure 5 indicates that OneSteel's profit and profitability for RIC increased during the investigation period.

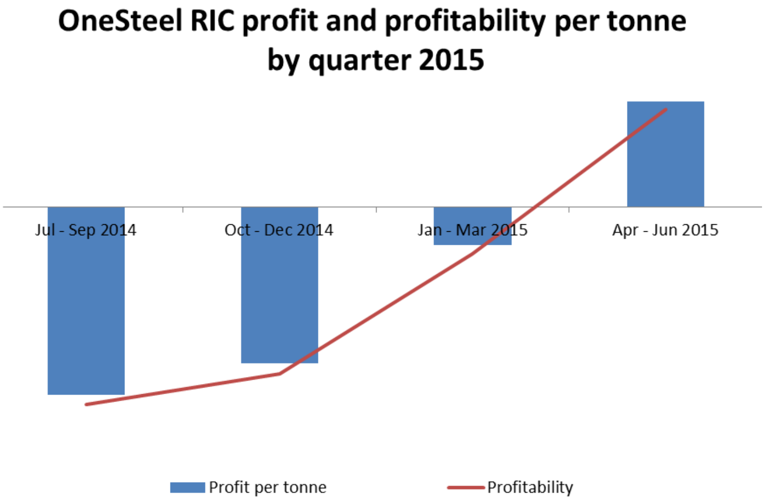

Figure 5: Profit and profitability for OneSteel RIC

OneSteel pointed to the cost improvement initiatives that it has implemented over the injury analysis period and said that without those initiatives, profits and profitability would have been significantly worse. OneSteel stated that it was not meeting the target benchmark return on profit within the Arrium group due to the price and volume injury effects.

OneSteel has stated that it competes on price and must do so to maintain production volume. This position was verified through analysis of OneSteel's pricing mechanism and its effectiveness at maintaining market share.

The Commission has found that OneSteel's attempts to maintain volume have had an impact on profits and profitability as OneSteel has been forced to reduce prices to remain competitive. This has had a demonstrated impact through the price suppression, price depression, and undercutting (as identified in Chapter 7), and has resulted in the revenue for RIC being lower for the same level of production than it would be otherwise.

The Commission analysed OneSteel's financial reporting segments, which are separated into three divisions. OneSteel's RIC is produced and sold by, and the financial results are captured within, the steel division.

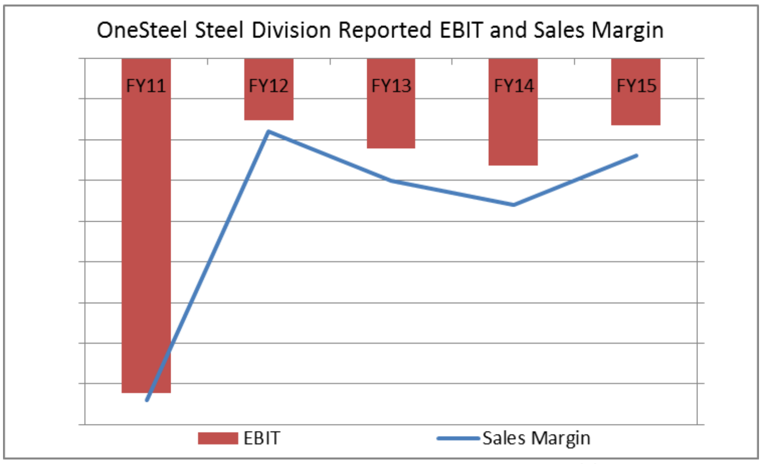

Figure 6: OneSteel Steel Division results[14]

As can be seen in Figure 6, for the injury period, the steel division has not reported a positive sales margin or positive earnings before interest and tax (EBIT) for the division. The price depression and suppression have directly impacted on the net revenue, and total profit generated. The impact of the price effects has directly led to continued reduction in profits for the division.

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[14] Sourced from *Arrium 2015 Financial Report*, page 31.

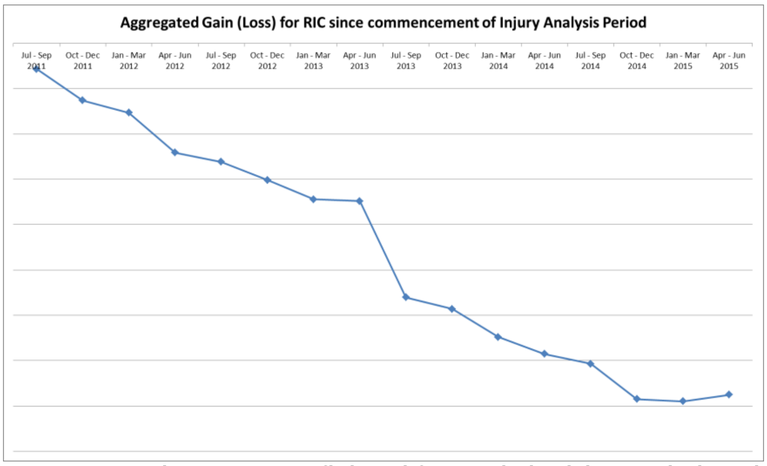

Figure 7: OneSteel Aggregate Profit (Loss) for RIC during injury analysis period

When profitability is restricted to the goods under consideration, in Figure 7, there are significant aggregated losses as demonstrated above. Despite the recent improvement in profitability, the losses are compounding, and over the financial year a net loss was recognised for RIC.

In the final quarter of financial year 2015 there has been a slight improvement in performance for RIC leading to a quarter were costs were covered. However, during that period, the profit generated was not sufficient to be sustainable.[15] As noted above, this improvement was primarily driven by cost saving measures undertaken by OneSteel.

The Commissioner has found that the Australian industry has suffered injury in the forms of less than achievable profits and profitability.

6.5 Volume effects

The Commission has found that imports of RIC made up less than 20 per cent of the Australian market over the injury inquiry period, and a total of less than 12 per cent during the investigation period.

In addition, for the investigation period, the Commission has found that:

- China's share of the market grew by 25 times, driven by an increase in Chinese exports for RIC (14 per cent) and a decrease in other imports of RIC; and
- China became the third largest exporter of RIC to Australia, behind New Zealand and Indonesia. These three countries together accounted for over 80 per cent of imports of RIC during the investigation period.

The Commission has analysed the volumes of imports over the injury inquiry period and has found that Chinese RIC did not appear in the Australian market in substantial quantities until 2014. Figure 8 demonstrates that while there has been a substantial increase in China's market share and the quantity of imports of RIC from China, the Commission notes that this still only represents a small proportion of the total market volume. Further, the information reviewed by the Commission indicates that while the Chinese imports have grown, they have done so by partially replacing other imports of RIC, rather than by replacing Australian produced RIC. This is demonstrated by the following graph showing that while China volume and market share increased, the

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[15] Sustainable profit levels for the Australian industry have been considered in line with recent borrowing activity which Onesteel's head company, Arrium Ltd has entered into. OneSteel should target the interest rate on the most recent debt as the minimum rate of return required. This rate has been calculated at 8.2245% based on the lowest rate disclosed (USD LIBOR + 7%, or 8.2245% at 17 March 2016), page 10 of the *Arrium Recapitalisation Plan* release 22 February 2016.

decrease in all other exports has generated a net increase to Australian volumes and market share increased over the period.

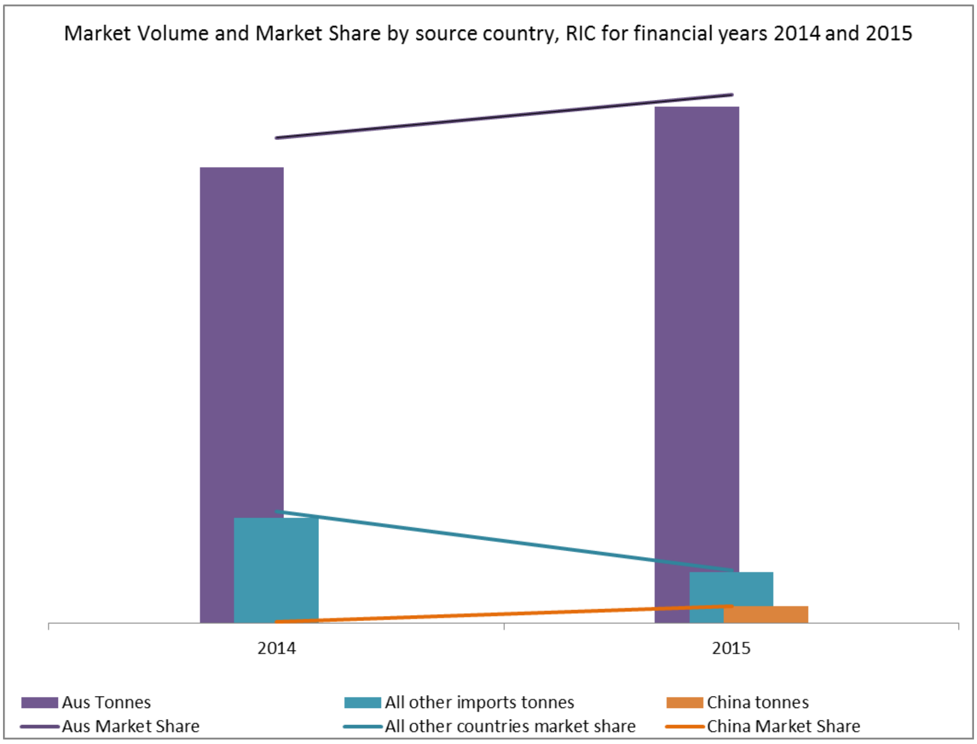

Figure 8: Market share and Volume by Country 2014-15 Financial Years

The Commission reviewed sales information provided by OneSteel during the verification process. Subsequent analysis has found improving volume trends for the Australian industry over the investigation period.

While RIC from China has captured market share, the market share has primarily been at the expense of other importers rather than OneSteel. OneSteel made representations that the substitution of goods found to be dumped in Investigation240[16] was replaced by goods dumped from China which would otherwise be supplied by OneSteel.

The Commission considered this view. However, the Commission has found no satisfactory evidence that proves that importers would have switched supply to OneSteel rather than to other exporters.

6.6 Other economic factors

The Commission considered the following economic indicators in addition to the injury factors above as part of SEF 301.

The Commission did not receive any submissions regarding the below factors and is consistent with the position taken by the Commission in the SEF.

<u>Assets</u>

Assets, measured at the depreciated value, declined from 2012 to 2015, beyond the amounts reinvested in asset sustainability and growth.

[16] More details on Investigation 240 are available here.

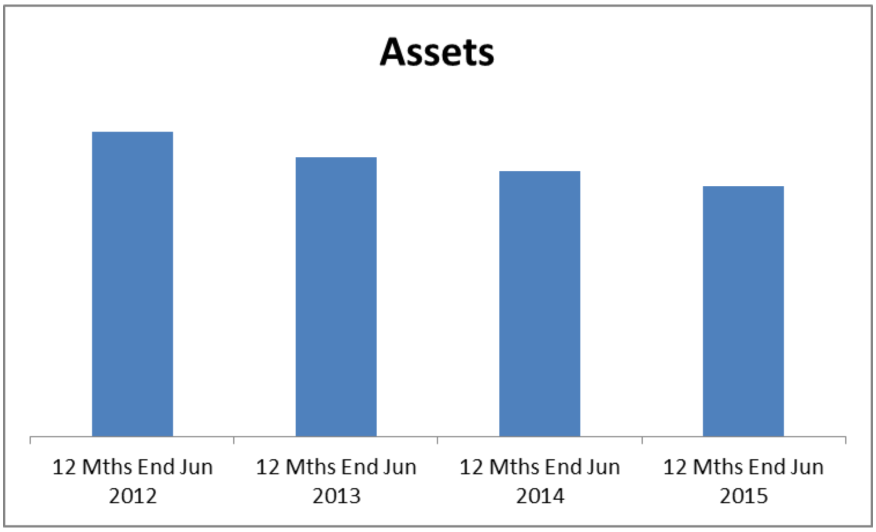

Figure 9: Asset values per year

Capital investment

Total Rod and Bar division capital spend has been focused on sustainability of current equipment, with limited funds utilised for growth expenditure due to the pressure on the business. There has been an increase in capital investment from 2012 to 2015 however the increased expenditure is offset by increased depreciation and impairment of assets within the Rod and Bar division. This increase in spending has been targeted at sustainability, rather than expansion in capital equipment.

Capacity and capacity utilisation

Capacity has fallen over the period due to a reduction in rostered shifts.

Capacity utilisation has stayed relatively stable over the period 2012 to 2015, with like goods accounting for between 30 per cent and 35 per cent of capacity and other goods taking total capacity utilisation to between 87 per cent and 92 per cent.

Employment

Employee numbers have reduced from 329 staff in 2014 to 294 staff in 2015 for the rod mills. This is reflected in the capacity utilisation rates described above. The reduction in staffing numbers has lowered production capacity.

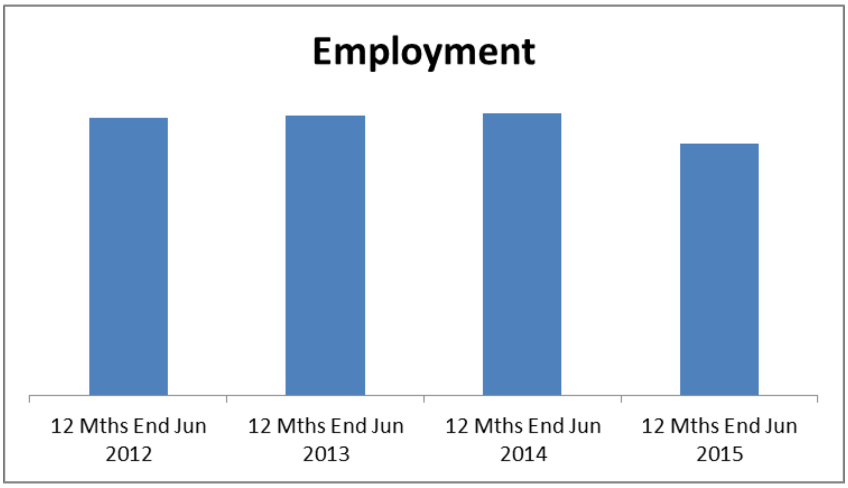

Figure 10: Employment levels per year

Productivity

Productivity, measured as tonnes per shift, has improved from 1,803 tonnes in 2012 to reach 1,923 tonnes in 2015.

Stock held

Stocks of RIC held have decreased over the period from financial year (FY) 2012 to FY 2015. This suggests a reduced level of holding costs for OneSteel as inventory and demand management has improved. The Commission does not consider this data reflects injury.

6.6.1 Other relevant economic factors - conclusion

Based on the analysis outlined above, the Commission has found that the Australian industry has experienced injury in the forms of reduced:

- employment; and
- value of assets.

The Commission notes that while capacity utilisation appears to have improved, this improvement is the result of the adjusted shift structure which operates at a level substantially below potential full capacity.

6.7 Submissions received in response to the SEF in respect of injury

The Commission received one submission in response to the SEF in respect of injury.

In its submission, Jiangsu Shagang, raised matters related to the injury analysis period, injury in the forms of price, profit and volume effects and how injury can be caused by imports of RIC from China.[17]

The matters raised in Jiangsu Shagang's submission are addressed in section 7 of this report.

6.8 Findings

The Commissioner has found that the Australian industry has suffered injury in the form of:

- price depression;
- price suppression;
- less than achievable profits and profitability;
- reduced employment; and
- reduced value of assets employed in the production of RIC.

The Commissioner considers that the number of factors in which the industry has suffered injury, when considered together, is not immaterial, insubstantial or insignificant and, as such, is material in degree and greater than that likely to occur in the normal ebb and flow of business.

[17] See document 35 available on the public record.

7 HAS DUMPING CAUSED MATERIAL INJURY?

7.1 The Commissioner's assessment

The Commission has found that:

- sales of RIC exported to Australia from China at dumped prices undercut OneSteel's prices;
- the price of RIC exported from China would not have undercut OneSteel's prices if that RIC was not dumped;
- throughout the investigation period, dumping duty exclusive prices of RIC imports from China either undercut, or were equivalent to, the lowest priced imports from other countries;
- but for sales of RIC exported from China at dumped prices, the weighted average delivered prices from other exporting countries would not have dropped as much;
- undercutting of OneSteel's prices by RIC exported from China at dumped prices prevented OneSteel from obtaining a greater price for its RIC if not for this price undercutting;
- OneSteel would have been able to increase prices in a market not affected by RIC exported from China at dumped prices. Such increases would have ultimately reflected positively on OneSteel's profits and profitability over the investigation period; and
- the link between RIC exported from China at dumped prices and injury suffered by OneSteel in the form of price, profit and volume effects has had a negative impact on OneSteel's decisions in respect of other economic factors.

The Commissioner has assessed that during the investigation period, exports of RIC from China were dumped and have caused the Australian industry to suffer material injury in the form of:

- price suppression;
- price depression;
- less than achievable profits and profitability;
- reduced employment; and
- reduced value of assets employed in the production of RIC.

The Commissioner considers that the number of factors from which the industry has suffered injury, when considered together, is not immaterial, insubstantial or insignificant and, as such, is material in degree and greater than that likely to occur in the normal ebb and flow of business.

The Commission notes that prior to the start of January 2014, limited volumes of RIC from China entered the Australian market. By the start of the investigation period six months later, China had captured almost 10 per cent of the import market for RIC, and accounted for over 25 per cent of the import market over the investigation period by volume.

7.2 Legislative framework

Under subsections 269TG(1) and (2), one of the matters the Parliamentary Secretary must be satisfied of in order to publish a dumping duty notice is that, because of the dumping, material injury has been, or is being caused, or has been threatened to the Australian industry producing like goods.

Subsection 269TAE(1) outlines the factors that the Parliamentary Secretary may take into account in determining whether material injury to an Australian industry has been, or is being, caused or threatened.

7.3 Size of the dumping margins

The Commissioner has found that RIC exported from China was dumped at dumping margins ranging between from 37.4 per cent to 41.5 per cent and are above negligible levels (two per cent). Dumping has enabled importers of RIC to have a competitive advantage over the Australian industry by being able to offer RIC at lower prices than would otherwise have been the case and has caused OneSteel to lower its prices[18].

7.4 Price undercutting

The Commissioner's position in this report is consistent with the position regarding price undercutting as described in PAD 301 and SEF 301.

Based on the verified exporter data, applicant information and CRE data, the Commission has found that over the investigation period:

- Chinese RIC has been imported at the lowest price point per month within the Australian market;
- Chinese RIC offers have been recorded at price points which are below other export country offers;
- Chinese RIC has taken a significant share of the import market, demonstrating the success of the price undercutting strategy;
- OneSteel revenue generated per tonne over the period has reduced;
- exporters of Chinese RIC have acknowledged that prices are set based on marginal costing domestically, and export prices are based upon the domestic prices received and
- since entering the market, Chinese RIC has gained significant market share at the expense of other exporting countries.

[18] Subsection 269TAE(1)(aa)

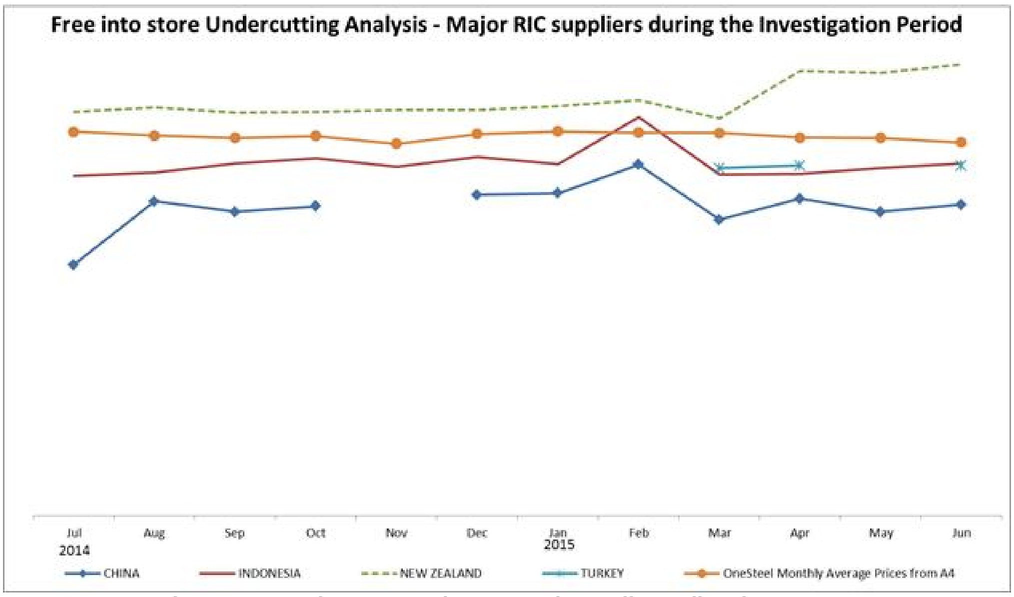

Figure 11: Free into store price comparison, all suppliers by Country

Figure 11 indicates that, despite the implementation of dumping duties after Investigation 240, prices of RIC exported from China at dumped prices undercut all suppliers of RIC in the investigation period.

The impact of the price undercutting is further demonstrated by the increase in the import market share which China has captured from other importers from the commencement of imports from China and the imposition of securities by the Commission through PAD 301 and SEF 301.

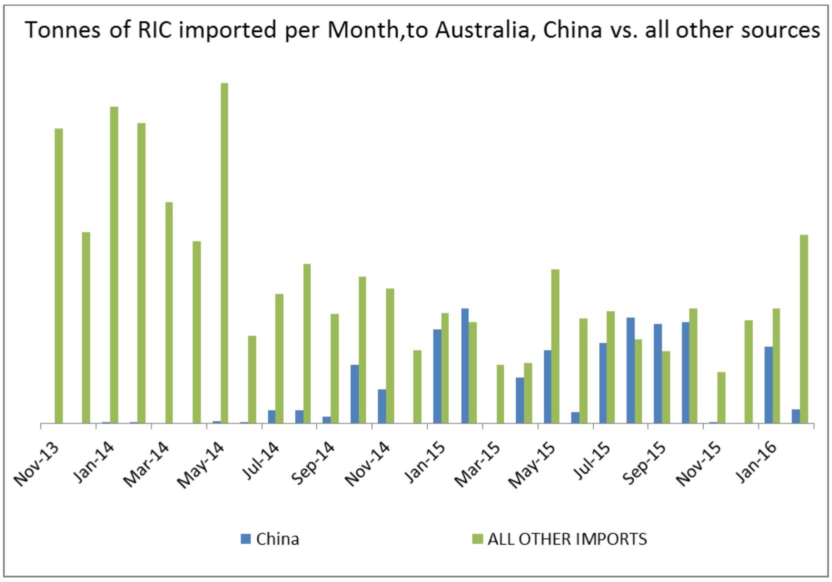

Figure 12: Tonnes of RIC imported by Australia by month

The Commission notes that the volume of all other imports includes RIC which was found to be dumped in Investigation 240.

This Commission considers that RIC exported from China at dumped prices is affect prices in the market as a whole because all others in the market must follow the lowest prices on offer. Further analysis of price undercutting is at **Confidential Appendix 10 - Price Undercutting.**

7.5 Price effects

OneSteel has provided comprehensive evidence to the Commission of its price setting practices. This evidence indicates that it constantly monitors price offerings in the market and that a key determinant for its prices to external customers was the price of imports.

The Commission has found that RIC prices are typically negotiated monthly. Evidence provided by OneSteel indicates that its customers compared OneSteel's offers with free into store price offers for the imported products in the month that the imports are due to arrive at the customer's facility.

The Commission has also found that import offers and movements in the price of imported RIC are leveraged by customers to negotiate prices with OneSteel. In order to remain competitive, OneSteel must respond to the price of imported products by reducing its price offers.

The Commissioner is satisfied that prices of RIC exported from China are the lowest in the market and in a price sensitive market, these imports are having depressing effect on prices in the overall market.

In order to assess what prices the Australian industry was likely to achieve in the absence of dumped imports from China, the Commission had regard to the weighted average import duty inclusive delivered into store prices of RIC from China as well as the countries that were subject to Investigation 240, and added the dumping margins calculated for the imports from China.

The Parliamentary Secretary agreed to the recommendations in the final report of Investigation 240 and the recommended measures were imposed on 17 June 2015.

Figure 11 indicates that in the investigation period, excluding the dumping margins calculated in this investigation, sales prices of RIC imports from China undercut all other RIC prices, including OneSteel[19].

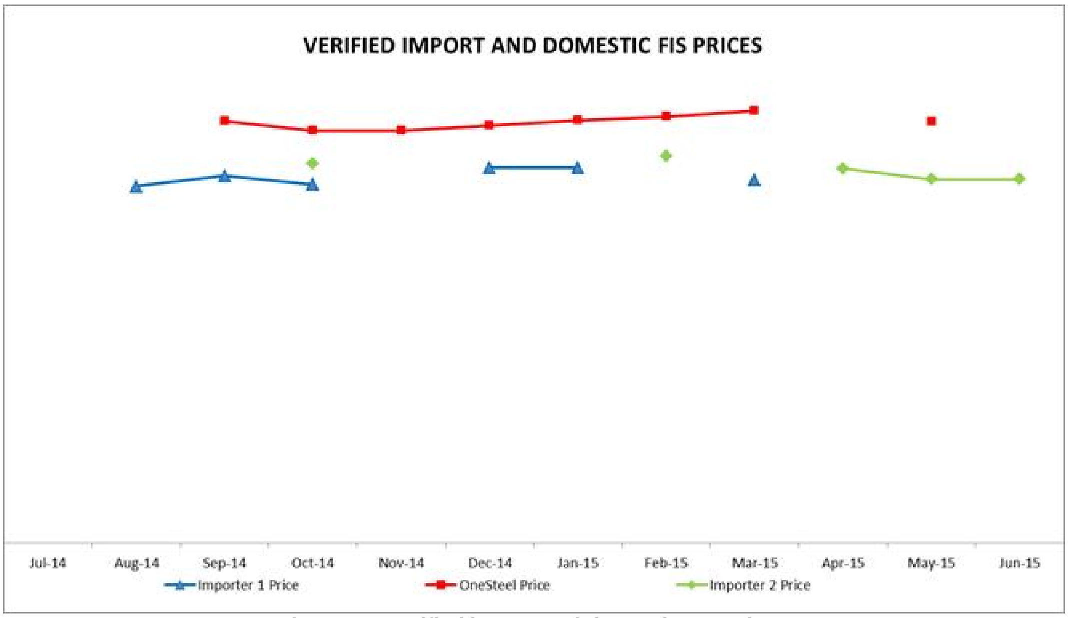

Figure 13: Verified import and domestic FIS prices

[19] See Figure 13

Figure 14 indicates that in the investigation period, if the value of the dumping margin was added to the prices of imported RIC, no undercutting of OneSteel's prices would have occurred.

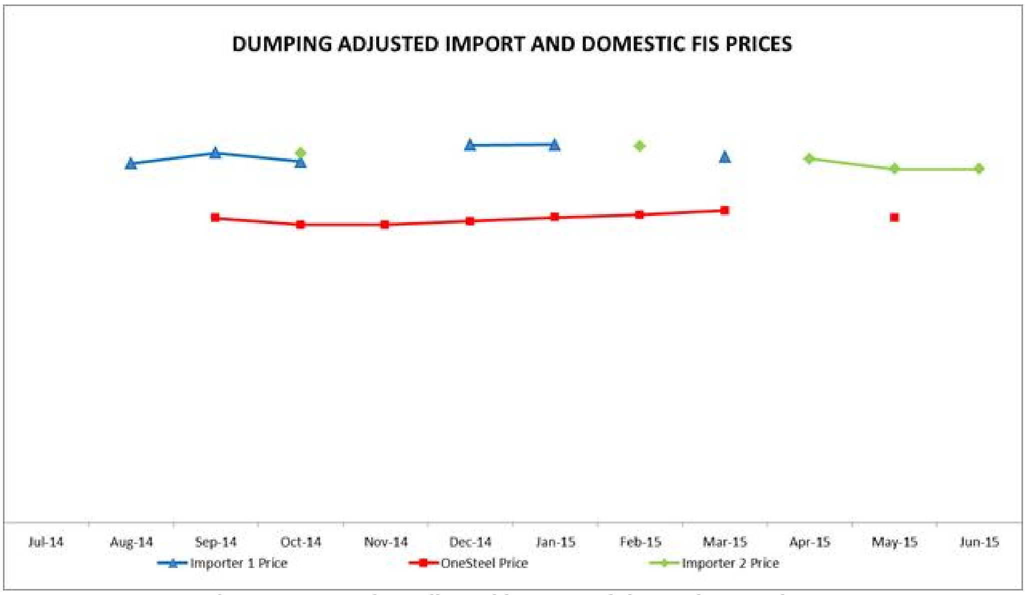

Figure 14: Dumping adjusted import and domestic FIS prices

Given the price sensitivity in the Australian RIC market, the Commission considers that OneSteel's RIC prices were affected by competition from exports from Investigation 240 countries, as well as competition from dumped exports from China. That is, dumped exports of RIC from China were a direct cause of price depression and price suppression suffered by OneSteel as well as an indirect cause due to the effect on the prices of RIC exported from Investigation 240 countries.

As demonstrated at Figure 13, if the RIC from China was at undumped prices, the Commissioner considers there would not be identified undercutting.

The Commissioner considers that the Australian industry suffered injury in the forms of price depression and price suppression and that injury was caused by sales of RIC exported from China at dumped prices.

The Commissioner considers that OneSteel would have been able to achieve better prices in a market not affected by RIC exported from China at dumped prices. Such increases would have ultimately reflected positively on OneSteel's profits and profitability over the investigation period.

7.6 Profit effects

As explained in section 7.5 of this report, the Commissioner has found that the Australian industry has suffered injury in the forms of price depression and price suppression and that injury was caused by sales of RIC exported from China at dumped prices.

OneSteel recorded losses over the investigation period on a weighted average basis, and improvement in profits in the form of reduced losses were driven by cost efficiencies as prices continued to fall.

This in turn has impacted negatively on OneSteel's profits and profitability over the investigation period, as the Commissioner considers that OneSteel's unit revenue would have improved if the price suppression and depression were not occurring. Therefore, the Commissioner considers that OneSteel has suffered injury in the forms of reduced profits and profitability and that injury was caused by sales of RIC exported from China at dumped prices.

7.7 Volume effects

As noted above, the Commission found that market share, and total quantity sold by OneSteel showed improving trends over the injury period, and that OneSteel remains the major supplier of RIC to the Australian market. As such, the Commissioner does not consider that RIC exported from China at dumped prices has caused injury to the Australian industry in the form of volume effects.

The Commission considers that based on the analysis, Chinese RIC has displaced other import sources of RIC as opposed to capturing market share from OneSteel.

7.8 Other relevant economic factors

As explained in section 6.6.1 of this report and based on the causation analysis outlined above, the Commission has found that in addition to the injury outlined above, the Australian industry has experienced injury forms of reduced:

- employment; and
- value of assets.

The Commissioner considers that this injury has been caused by RIC exported from China at dumped price. The injury suffered by OneSteel in the form of price and profit effects has had a negative impact on OneSteel's decisions in respect of other economic factors, including their willingness and ability to maintain staffing levels and invest in capital assets.

7.9 Submissions received regarding injury analysis

The Commission received one submission following the publication of the SEF on the injury analysis completed by the Commission covering the following five issues.

1. Jiangsu Shagang submits that prices in Graph 3 in the SEF (regarding price depression) commenced from quarter 1 of 2012, despite the Commission defining the injury analysis period as commencing on 1 July 2011.
2. Jiangsu Shagang submits that in the PAD, the Commission provided a graph (Figure 5) that indicates that OneSteel was suffering price suppression prior to subject imports entering the Australian market (i.e. in the first half of the investigation period) but not suffering price suppression in the March quarter of 2015.
3. In light of the Commission's finding that the market for rod in coil is price sensitive, Jiangsu Shagang questions how the applicant is able to increase its market share despite the Commission's finding that the prices of subject and non-subject imports are found to be significantly undercutting the applicant's net selling prices.
4. Jiangsu Shagang submits that in terms of the Commission's findings of material injury, the Commission should explain why the applicant's sales of rod in coil have historically and consistently been unprofitable, whereas its earnings and sales margin significantly improved during the investigation period.
5. Jiangsu Shagang submits that the SEF contains no assessment of the materiality of the applicant's injury that is attributable to the subject imports from China. Jiangsu Shagang submits that it appears that the Commission has assumed that the

applicant's sales would have replaced Chinese imports in their entirety, and that other import sources would not have replaced a major portion of Chinese imports.

6. A late submission was received on behalf of Vicmesh. The submission was not received with sufficient time to be considered prior to the finalisation of this report, and as such, the Commissioner has not had regard to the submission.

7.9.1.1 The Commission's consideration

1. The Commission has found that there was limited market penetration by Chinese products prior to January 2014, and as such, does not consider that attribution of injury to exports of RIC from China prior to this time is appropriate. However, the Commission considers that the context in which injury has occurred is relevant. In respect of whether injury has been caused by exports of RIC from China at dumped prices, in this report the Commission has paid particular regard to the period from January 2014 onwards.
2. Graph 5 in PAD 301 indicated that revenue has been lower than the cost to make and sell per tonne for the entire investigation period, excluding the last quarter of the investigation period. The Commission recognises that dumping duties were imposed on RIC imported from certain other countries following Investigation 240.[20] The Commission considers that when securities were in place on exports of RIC from Indonesia and Taiwan, it was reasonable to expect that OneSteel would have achieved prices that were sufficient to cover its costs to make and sell RIC. However, due to competition from exports of RIC from China, OneSteel was unable to do so despite achieving cost efficiencies. As such, OneSteel continued to suffer injury in the form of price suppression in the investigation period.
3. The Commission has found that OneSteel has been able to increase its market share by replacing sales of RIC exported from Indonesia and Taiwan that are subject to anti-dumping measures. It has been able to do so because the imposition of measures resulted in OneSteel being competitive in terms of price. Further, OneSteel is able to exploit other advantages including provision of RIC with shorter lead times, flexibility in terms of volumes supplied and local after sales service.

   The Commission has found that RIC from China has been offered in the Australian markets at prices that have undercut OneSteel. OneSteel has had to negotiate prices in this context in order to achieve sales.

   These factors, combined with a time lag between offers being made by importers of RIC from China and the time of delivery from China, have assisted OneSteel to maintain and increase its market share.
4. The Commission has found that OneSteel has been able to improve its earnings and sales margin during the investigation period despite the reducing in prices by reducing its cost to make and sell RIC. OneSteel's revenue from RIC over the investigation period was still less than CTMS.
5. In chapter 6 of this report, it is stated that the Commissioner considers that the number of factors in which the industry has suffered injury, when considered together, is not immaterial, insubstantial or insignificant and, as such, is material in degree and greater than that likely to occur in the normal ebb and flow of business.

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[20] See ADC 240, Rod in Coils, Indonesia, Taiwan and Turkey online here.

The Commission does not consider that it is necessary to assume that the Australian industry would have replaced the volume of RIC imports from China had these imports not been dumped. Instead, the Commission considers that the dumped imports from China undercut Australian industry's prices and the prices of the majority of imports from other sources causing a downwards pressure on the prices in the Australian RIC market. The Commission is of the view that, the rate of price undercutting would be removed, or significantly reduced, for RIC imported from China if these imports were not dumped. This would give scope for the Australian industry to increase its prices in a market not affected by RIC exported from China at dumped prices. Such increases would have ultimately reflected positively on the Australian industry's profits and profitability over the investigation period. In addition, the Commission considers that other exporting countries would likely sell into Australia at a higher price point if not for the significantly lower Chinese price offers available.

7.10 Findings

The Commissioner has found that during the investigation period, exports of RIC from China were dumped and have caused the Australian industry to suffer injury in the forms of:

- price suppression;
- price depression;
- less than achievable profits and profitability;
- reduced employment; and
- reduced value of assets employed in the production of RIC.

The Commissioner considers that the number of factors from which the industry has suffered injury as a result of RIC exported from China at dumped prices, when considered together, is not immaterial, insubstantial or insignificant and, as such, is material in degree and greater than that likely to occur in the normal ebb and flow of business.

8 INJURY CAUSED BY FACTORS OTHER THAN DUMPING

8.1 Introduction

During the investigation the Commission considered the following other possible causes of injury:

- the state of Australian domestic RIC market;
- the geographic size of the Australian market;
- the vertically integrated nature of Arrium Ltd;
- fluctuations in Australian dollar exchange rate; and
- the cost of billet production.

8.2 State of Australian domestic RIC market

Based on the analysis of OneSteel's sales data and DIBP import data, there were minor declines in the Australian market from 2010/11 to 2012/13. From 2012/13 to 2014/15 the market grew slowly (less than 5 per cent per annum) and has not yet recovered to the 2010/11 volumes.

The Commission considers that the RIC market has been stable over the investigation and injury period and there is no evidence suggesting that any other factor in the Australian RIC market would have caused material injury to Australian industry.

8.3 Geographic size of the Australian market

The costs generated by the size of Australia have been considered, and the analysis has demonstrated that the imported goods are not necessarily sold to customers who are a significant distance from OneSteel production facilities. The Commission has found that several customers operate close to OneSteel's facilities and that this demonstrates consistent trends with those found across the market, mitigating the concerns regarding the geographic size of the market. This comparison has been taken on a free-into-store basis to ensure that the potential distortions are recognised, however the Commission has not identified any injury based on costs incurred due to the size of Australia

8.4 Vertically integrated nature of Arrium Ltd

The Commission considers that the finance costs incurred provide a reasonable assessment of the major costs associated with the integrated nature of Arrium Ltd where debts of the broader business must be carried by OneSteel. The Commission found that finance costs accounted for less than 1 per cent of the total CTMS. The Commission also reviewed the internal transfer pricing process, and found that the cost methodology utilised by OneSteel reflected Australian accounting standards whereby transfer prices internally are recognised at the lower of cost or market price.

The Commission therefore considers that the assertion that the vertical integration of the Arrium business leads to inefficiency that has caused injury is not supported.

8.5 Fluctuations in the exchange rate

The Commission understands that exchange rate is a key factor that affects locally produced goods' competitiveness against imports. Figure 15 shows the exchange rates against the US dollar in the investigation period obtained from the Reserve Bank of Australia.[21]

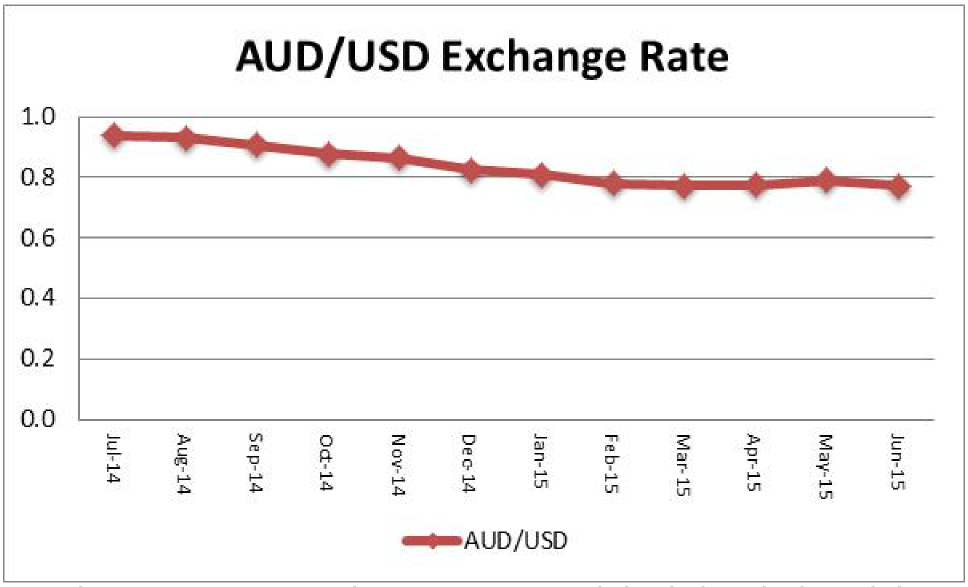

Figure 15 – AUD vs USD exchange rate movements during the investigation period

The Commission's analysis has found that the Australian dollar depreciated during the investigation period. Figure 15 shows that during the investigation period, the value of the Australian dollar fell approximately 17 per cent against the US dollar. The Commission is of the view that the decline in the Australia dollar during the investigation period is likely to have resulted in upward pressure on the price of imported RIC and caused prices of RIC in the Australian market to increase and thereby reduced any potential adverse impact of competition from imported RIC.

8.6 Cost of billet production

The Commission undertook an analysis of OneSteel's billet costs, including analysis of the source of the billet. This analysis indicated that billet, whilst fluctuating for operational reasons was predominately sourced via the EAF and that billet costs had reduced between 2013/14 and 2014/15 in a similar pattern with the international billet prices.

8.7 The Commissioner's assessment

The Commissioner considers that:

- the state of Australian domestic RIC market;
- the geographic size of the Australian market;
- the vertically integrated nature of Arrium Ltd;
- fluctuations in Australian dollar exchange rate; and
- the cost of billet production

have not caused material injury to the Australian industry producing like goods.

[21] All Chinese RIC exporters price their products in US dollars

9 WILL DUMPING AND MATERIAL INJURY CONTINUE?

9.1 Findings

The Commission is of the view that exports of RIC from China in future may be at dumped prices, and that continued dumping would continue to cause material injury to the Australian industry.

9.2 Introduction

Under subsection 269TG(2), where the Parliamentary Secretary is satisfied that material injury to an Australian industry producing like goods has been caused by dumping, anti-dumping measures may be imposed on future exports of like goods if the Parliamentary Secretary is satisfied that the dumping and material injury may continue.

9.3 Will Dumping Continue?

The Commission has considered the following factors in its analysis of whether dumping will continue:

- steel production capacity in China:
- GoC support for the steel industry;
- the propensity of Chinese exporters to supply steel at marginal prices;
- predicted growth in the Australian rebar market; and
- the establishment of marketing channels to supply steel to Australia.

The Commission has found that there is substantial excess capacity within the Chinese steel industry which can result in exports of RIC to Australia at dumped prices.

The Commission has found that support from national, regional, and local government China allows Chinese steel manufacturers to produce steel at costs not subject to market forces and to operate in a manner that allows them to sell steel at dumped prices.

The Commission has found that the Australian RIC market is predicted to grow and that prices are expected to recover.[22] However, the growth is expected to be exploited by Chinese producers of RIC. Further, the Commission notes that independent research indicates that there continues to be significant investment in steel production capacity China.[23]

The Commission has found that exporters of rebar from China have established marketing channels in Australia, both directly and through trading entities, that are well positioned to continue to sell rebar imported from China.

The Commissioner considers that exports of RIC exported to Australia from China at dumped prices will continue in the absence of measures.

9.4 Will material injury continue?

The Commission has reviewed the Australian industry's performance over the injury analysis period and has found that RIC exported at dumped prices from China has caused material injury to the Australian industry.

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[22] IBISWorld, *IBISWorld Business Environment Report, Domestic price of iron and steel*, July 2015.

[23] OECD (2015), *Excess Capacity in the Global Steel Industry and the Implications of New Investment Projects*, OECD *Science, Technology and Industry Policy Papers, No. 18*, OECD Publishing.

The Commission considers that the continuation of price competition from dumped imports from China is likely to have a continuing adverse impact on the Australian industry. The Commission considers that the willingness and ability of Chinese exporters to marginally cost goods when setting sales prices will lead to further undercutting, price suppression and price depression, resulting in continued reduction in profits and profitability.

The Commissioner considers that continued exports of RIC exported to Australia from China at dumped prices will continue to cause material injury to Australian industry.

10 NON-INJURIOUS PRICE

10.1 Discussion

The Commissioner notes that the Parliamentary Secretary is not required to have regard to the lesser duty rule for the purposes of this investigation because of the application of subsection 8(5BAA) of the *Customs Tariff (Anti-Dumping) Act 1975* (Dumping Duty Act).

10.2 Final assessment of NIP

<u>Lesser Duty Rule</u>

Where the Parliamentary Secretary is required to determine the interim dumping duty payable under subsection 8(5) of the Dumping Duty Act and the non-injurious price (NIP)[24] is less than the normal value ascertained, the Parliamentary Secretary must have regard to the lesser duty rule[25].

The Commissioner has considered the impact of the lesser duty rule by calculating the NIP. The Commissioner ordinarily derives the NIP from an unsuppressed selling price (USP). The USP is a selling price that the Australian industry could reasonably achieve in the market in the absence of dumped imports. In calculating the USP, the Australian industry's selling price will normally be used at a time unaffected by dumping.

Based on the existence of other dumped goods in the market for RIC, as identified by Investigation 240, the Commissioner considers that it was not possible to identify a relevant period when the Australian market, and therefore, Australian industry's prices were not affected by dumping.

The Commissioner therefore calculated the non-injurious price (NIP) based the on the July 2015 quarter CTMS[26], plus a profit. The July quarter was utilised as it reflects the most recent verified CTMS data. The Commission then added a sustainable rate of return for the Australian industry in line with recent borrowing activity which Onesteel's head company, Arrium Ltd has entered into. This rate has been calculated at 8.2245 per cent based on the lowest rate disclosed within the financing agreement.

The Commission then removed post exportation costs, including trading profits, ocean freight and marine insurance, and total into store costs. The NIP calculation is included at Confidential Appendix 11 – NIP.

In this case, the NIP is less than the normal value ascertained for the cooperating exporters. In the absence of any of the circumstances specified in subsection 8(5BAA) of the Dumping Duty Act, the Parliamentary Secretary is required to have regard to the lesser duty rule.

However the Parliamentary Secretary is not required to have regard to the lesser duty rule where the Parliamentary Secretary is satisfied that either or both of the following circumstances exist:[27]

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24 Non-injurious price is defined in section 269TACA(a) and is the minimum price necessary to prevent the injury, a recurrence of the injury, or to remove the hindrance to the Australian industry producing like goods.

25 The lesser duty rule is set out in subsection 8(5B) of the *Customs Tariff (Anti-Dumping) Act 1975* and refers to the desirability of specifying a method of calculating interim dumping duty such that the sum of the export price and interim dumping duty does not exceed the non-injurious price.

26 The Commissioner relied upon the July quarter costs information rather than an annual average cost as referenced in the Dumping and Subsidy manual (p130) due to the variation in costs to make and sell between quarters. The July 2015 quarter is the lowest cost over the period of input variability, and as such the NIP calculated represents a lower NIP than would otherwise be the case.

27 Subsection 8(5BAA) of the *Customs Tariff (Anti-Dumping) Act 1975.*

- the normal value of the goods was not ascertained under subsection 269TAC(1) because of the operation of subsection 269TAC(2)(a)(ii); or
- the Australian industry in respect of like goods consists of at least two small-medium enterprises;

For this investigation, the normal values have not been ascertained under subsection 269TAC(1) due to the operation of subsection 269TAC(2)(a)(ii). In particular, the Commissioner has found that normal values could not be ascertained under subsection 269TAC(1) because the situation in the market of China is such that sales of RIC in China are not suitable for use in determining a price under subsection 269TAC(1) and as such, the Commissioner constructed normal values under subsection 269TAC(2)(c).

As such, the Parliamentary Secretary is not required to have regard to the lesser duty rule. However if considered appropriate, the Parliamentary Secretary may still consider and apply the lesser duty rule.

The Commissioner has calculated the rates of duty at their full rates for the purposes of this report, without including the impact of the lesser duty rule and NIP on the basis that subsection 8(5BAA)(a) of the Dumping Duty Act applies.

11 ANTI-DUMPING MEASURES

11.1 Introduction

The methods that the Parliamentary Secretary may use to work out the amount of interim dumping duty apply are prescribed in the *Customs Tariff (Anti- Dumping) Regulation 2013*. They are:

- Combination of fixed and variable duty method;
- Floor price duty method;
- Fixed duty method ($X per tonne); and
- Ad valorem duty method (i.e. a percentage of the export price).[28]

11.2 Forms of duty

In considering which form of duty to recommend to the Parliamentary Secretary, the Commissioner has had regard to the published *Guidelines on the Application of Forms of Dumping Duty November 2013*[29] (the Guidelines) and relevant factors in the RIC market.

11.2.1 Fixed duty method

A fixed duty method operates to collect a fixed amount of duty regardless of the actual export price of the goods. The fixed duty is determined when the Parliamentary Secretary exercises powers to ascertain an amount for the export price and the normal value.

11.2.2 Floor price duty method

The floor price duty method sets a 'floor price'. For example, a normal value of $100 per tonne, and duty is collected when the actual export price is less than that normal value of $100 per tonne. The floor price is either the normal value or the non-injurious price, whichever becomes applicable under the duty collection system.

This duty method does not use an ascertained export price as a form of 'floor price' as occurs with the combination and fixed duty methods.

11.2.3 *Ad valorem* duty method

The *ad valorem* duty method is one of the simplest and easiest forms to administer when delivering the intended protective effect. It is duty applied as a proportion of the actual export price of the goods.

An *ad valorem* dumping duty is determined for the product as a whole, meaning that a single ascertained export price is required when determining the dumping margin.

11.2.4 Combination duty method

The combination duty comprises two elements: the 'fixed' element and the 'variable' duty element.

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28 Section 5 of the *Customs Tariff (Anti- Dumping) Regulation 2013*

29 Available at http://adcommission.gov.au/accessadsystem/Documents/Forms%20and%20Guidelines/Guidelineformsofdumpingduty-November2013.pdf

The fixed element is determined when the Parliamentary Secretary 'ascertains' an amount (i.e. set a value) for the export price. This may take the form of either a fixed duty amount or an *ad valorem* rate on the ascertained export price.

The variable component is an additional amount of duty that is the difference between the ascertained export price and the actual export price.

11.3 Submissions from interested parties

The Commission received the following submissions regarding the form of measure from interested parties.

Shagang [30]

Shagang has submitted that it would agree with the Commissioner's decision to impose an *ad valorem* duty rate in the event that interim dumping duties are imposed on RIC exported from China. This view, according to Shagang, is based upon:

- the clear trend of a decline in global pricing of rod in coil since 2011;
- prices since the end of the investigation period have continued to fall, and as such, export prices and normal values determined during the investigation are already outdated;
- the price trends are consistent with the Commission's view that fixed and variable duties are not appropriate given that price volatility for rod in coil is expected to continue; and
- the effect of imposing a fixed and variable duty in the circumstance of falling global prices, would be the introduction of an artificial uplift in market prices well above contemporary costs and contemporary normal values.

OneSteel[31]

OneSteel has submitted that the combination method should be used in preference to the *ad valorem* duty method for the following reasons.

- There is only one model or type of the goods.
- There are exceedingly complex company structures with related parties in the case of both verified exporters – with particular concerns relevant to the accuracy of the information of exporters' related trading entities.
- Another possible advantage of setting the interim dumping duty (IDD) by reference to a minimum price (the variable component) at the levels required to eliminate dumping and material injury to the Australian industry is that it tends to stabilise prices quickly following the publication of the Dumping Duty Notice. The fixed and variable method of IDD calculation provides certainty to market participants when making pricing decisions.
- The *ad valorem* duty method cannot guarantee the effectiveness of the implemented measures in a falling market.

[30] See document number 35 on the public record.

[31] See document number 33 on the public record.

- The combination method of calculating IDD ensures there is no short-fall in the effective rate of duty.
- Should the ascertained export price (AEP) become out of date due to a falling market, exporters or importers may apply for a review of variable factors.

OneSteel has also submitted that a potential disadvantage of the *ad valorem* duty method is that export prices might be lowered to avoid the effect of this duty. OneSteel submits that this risk is particularly amplified in the case of a particular market situation finding, where the producer's variable costs are not reflective of market conditions and the capacity to drive down price to maintain market share is not confined by the commercial realities of market prices for input costs.

11.4 Discussion

The Commission recommends a continuation of the *ad valorem* measures as used for the purposes of calculation of securities in both PAD 301 and SEF 301.

The Commission bases this recommendation with reference to the considerations outlined in ADN 2013/98 *Guidelines on the application of forms of dumping duty*.

The main reasons for recommending the *ad valorem* measure are:

- the high dumping margins reduces the likelihood for significant reduction in export prices to avoid the intended effect of the duties;
- the measures will better reflect changes in the market (raw material prices can fluctuate dramatically, reducing the effectiveness of floor prices);
- *ad valorem* measures remove significant variability in the effective rate of duty;
- the *ad valorem* method does not need to be reviewed as often as other duty methods; and
- the measures will be effective in mitigating the injury by preventing the continuation of significant price undercutting.

11.5 Recommended measures

EXPORTER / MANUFACTURER	***DUMPING MARGIN***	***DUTY METHOD***
Hunan Valin Xiangtan Iron & Steel Co., Ltd (Hunan Valin)	*44.1%*	*Ad Valorem*
Jiangsu Shagang Group	*37.4%*	*Ad Valorem*
Uncooperative and All Other Exporters	*53.1%*	*Ad Valorem*

Table 7: Recommended measures

12 RECOMMENDATIONS

The Commissioner is satisfied that:

- the dumping of RIC exported to Australia from China has caused material injury to the Australian industry producing like goods.

The Commissioner recommends the Parliamentary Secretary impose:

dumping duties on RIC exported to Australia from China as tabulated below:

EXPORTER / MANUFACTURER	*DUMPING MARGIN*
Hunan Valin Xiangtan Iron & Steel Co., Ltd (Hunan Valin)	*44.1%*
Jiangsu Shagang Group	*37.4%*
Uncooperative and All Other Exporters	*53.1%*

Table 8: Recommended measures

The Commissioner recommends the Parliamentary Secretary be satisfied:

- in accordance with subsection 269TAB(3), that sufficient information has not been furnished, and is not available, to enable the export price of RIC exported to Australia from China by ‘uncooperative’ and ‘all other’ exporters to be determined under subsections 269TAB(1)(a), (b), or (c);
- in accordance with subsection 269TAB(1)(a), that the export prices of RIC exported to Australia from China for Hunan Valin and Jiangsu Shagang Group are set out in Confidential Appendix Hunan Valin 1 and Confidential Appendix Shagang Group 1 correspondingly;
- in accordance with subsection 269TAC(2)(a)(ii), the normal value of RIC exported to Australia from China cannot be ascertained under subsection 269TAC(1) because the situation in the Chinese market is such that sales in that market are not suitable for use in determining a price under subsection 269TAC(1);
- in accordance with subsection 269TAC(6), sufficient information has not been furnished and is not available to enable the normal value of RIC exported to Australia from China to be ascertained under subsections 269TAC(2) for ‘uncooperative’ and ‘all other’ exporters;
- in accordance with subsection 269TACB(4), that RIC exported to Australian from China are taken to have been dumped, and the dumping margins for the RIC is the difference between the weighted average of export prices during the investigation period and the weighted average of normal values during that period;
- in accordance with subsection 269TG(1) the amount of the export price of RIC exported to Australia from China is less than the amount of the normal value of those goods and because of that, material injury to the Australian industry producing like goods would or might have been caused if the security had not been taken;
- in accordance with subsection 269TG(2) the amount of the export price of RIC exported to Australia from China is less than the amount of the normal value of those goods and the export price of the goods that may be exported to Australia from China in the future may be less than the normal value of the goods and

because of that, material injury to the Australian industry producing like goods has been, or is being caused.

The Commissioner recommends the Parliamentary Secretary determine:

- in accordance with subsection 269TAB(3), having regard to all the relevant information, that the export prices for the 'uncooperative' and 'all other' exporters of RIC exported to Australia from China are set out in Confidential Appendix – Uncooperative.
- in accordance with subsection 269TAC(2)(c), that, for the purposes of calculating the normal value of RIC exported from China, the cost of production or manufacture of the goods in the country of export are as set out in Confidential Appendix – Hunan Valin 2 and Confidential Appendix – Jiangsu Shagang Group 2, on the assumption that RIC, instead of being exported, had been sold for home consumption in the ordinary course of trade in China, the administrative, selling and general costs associated with the sale and the profit on that sale are as set out in Confidential Appendix – Hunan Valin 4, and Confidential Appendix – Jiangsu Shagang Group 4;
- in accordance with subsection 269TAC(6), having regard to all relevant information, that normal values for the 'uncooperative' and 'all other' exporters of RIC exported to Australia from China are as set out in Confidential Appendix - Uncooperative;
- in accordance with subsections 269TACB(1) and 269TACB(2)(a), by comparison of the weighted average of export prices over the whole of the investigation period and the weighted average of corresponding normal values over the whole of that period, that exports of RIC from China were dumped.

The Commissioner recommends the Parliamentary Secretary note:

- in accordance with subsection 269TAC(9), the normal value of RIC, as ascertained in accordance with subsection 269TAC(2)(c), has been adjusted as set out in Confidential Appendix – Hunan Valin 4, and Confidential Appendix – Jiangsu Shagang Group 4; those adjustments being necessary to ensure that the normal value so ascertained is properly comparable with the export price of those goods.

The Commissioner recommends the Parliamentary Secretary declare:

- in accordance with subsection 269TG(1), by public notice, that section 8 of the Dumping Duty Act applies to:
  - o RIC exported by all exporters from China to the extent permitted by section 269TN; and
  - o like goods that were exported to Australia by all exporters from China after the Commissioner made a PAD under subsection 269TD on 1 December 2015 but before publication of the notice, to the extent permitted by section 269TN[32]; and
- in accordance with subsection 269TG(2), by public notice, that section 8 of the Dumping Duty Act applies to like goods that are exported to Australia by all exporters from China after the date of publication of the notice.

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[32] Securities taken in relation to PAD 301 published on 1 December 2015 were amended on 15 February 2016 to reflect the findings contained in SEF 301 (ADN 2016/17 refers).

13 APPENDICES AND ATTACHMENTS

Appendix 1	Market situation finding
Attachment 1	Submissions received - summary
Confidential Appendix 1 – Hunan Valin 1	Hunan Valin export price, normal value and dumping margin calculation
Confidential Appendix 2 – Hunan Valin 2	Cost of production and manufacture of goods in country of export
Confidential Appendix 3 – Hunan Valin 3	Administrative, selling and general costs and profit associated with sales for home consumption
Confidential Appendix 4 – Jiangsu Shagang Group 1	Jiangsu Shagang CTMS, uplift calculations, domestic sales listing, OCOT test, normal value and dumping margin calculations.
Confidential Appendix 5 – Jiangsu Shagang Group 2	Cost of production and manufacture of goods in country of export
Confidential Appendix 6 – Jiangsu Shagang Group 3	Administrative, selling and general costs and profit associated with sales for home consumption
Confidential Appendix 7 - Benchmark	Platts correspondence on benchmarks
Confidential Appendix 8 – Uncooperative	Uncooperative and 'all other' exporters' export prices and dumping margin calculations
Confidential Appendix 9 – Injury and Causation Analysis	Price injury assessment and analysis
Confidential Appendix 10 – Price Undercutting	Price undercutting analysis
Confidential Appendix 11 - NIP	Non-injurious price calculation

1 Non-Confidential Appendix 1: Market Situation Finding

1. Introduction

This appendix provides an assessment and determination of a 'particular market situation' (market situation) in relation to steel rod in coil ("RIC") in China during the investigation period. This appendix details the basis of assessment and the tests applied to determine the existence of a 'market situation' in relation to domestic price of RIC in China.

1.1 Allegation of market situation

In its application, OneSteel Manufacturing Pty Ltd (OneSteel) alleged that, during the investigation period, a market situation existed in the Chinese RIC market that rendered sales in that market unsuitable for determining normal value under subsection 269TAC(1) of the *Customs Act 1901* (the Act) due to interventions by the Government of China (Chinese Government) in the Chinese iron and steel industry. OneSteel alleged that this made the domestic price for RIC unsuitable for the determination of normal values.

OneSteel's claim of Chinese Government intervention in the Chinese steel industry identified the following measures:

- policies and plans that outline the Chinese Government's aims and objectives for the Chinese steel industry; and
- value added tax (VAT) arrangements.

1.2 Sources of information used in application

Sources of information used by OneSteel are listed below.

- National Steel Policy (2005).
- Blueprint for the Steel Industry Adjustment and Revitalisation (2009).
- National and regional Five-Year Plans and guidelines.
- The 12th Five-Year Plan: Iron and Steel (2011-2015 Development Plan for Steel Industry).

2. Background

The Act does not provide any definition of particular circumstances or factors which would satisfy the Minister that a 'market situation' exists. The WTO Anti-Dumping Agreement is similarly silent in relation to the definition of the concept of a 'market situation' referred to within Article 2.2.

In relation to determining whether a 'market situation' exists, the Anti-Dumping Commission's (the Commission's) Dumping and Subsidy Manual[33] states:

33 Anti-Dumping Commission, December 2013, Dumping and Subsidy Manual. http://www.adcommission.gov.au/accessadsystem/Documents/Dumping%20and%20Subsidy%20Manual%20-%20November%202015_20%20Nov%202015%20-%20final%20on%20website.pdf

In considering whether sales are not suitable for use in determining a normal values under subsection 269TAC(1) because of the situation in the market of the country of exporter the Commission may have regard to factors such as:

In considering whether sales are not suitable for use in determining a normal value under subsection 269TAC(1) because of the situation in the market of the country of export the Commission may have regard to factors such as:

- *whether the prices are artificially low; or*
- *whether there are other conditions in the market which render sales in that market not suitable for use in determining prices under subsection 269TAC(1).*

Government influence on prices or costs could be one cause of "artificially low pricing". Government influence means influence from any level of government.

In investigating whether a market situation exists due to government influence, the Commission will seek to determine whether the impact of the government's involvement in the domestic market has materially distorted competitive conditions. A finding that competitive conditions have been materially distorted may give rise to a finding that domestic prices are artificially low or not substantially the same as they would be if they were determined in a competitive market.[34]

The Commission considers that the analysis of a 'market situation' can involve the consideration of all relevant market variables in relation to the subject good in totality and that the term 'a situation' for the purposes of this report defies precise definition.

The Commission holds that 'a situation' refers to the presence of a factor or composite factors which collectively operate to cause a degree of distortion in the market that renders arm's-length transactions in the ordinary course of trade in that market unsuitable for use in determining normal values.

More specifically, the Commission considers that a 'market situation' assessment involves an examination of factors which may affect the interaction of supply and demand in a sector, industry or market, to the extent that prices and costs in that market can no longer be viewed as being established under normal market principles.

In assessing a 'market situation', the Commission considers that governments can directly or indirectly influence domestic prices through the imposition of restrictions on how prices are charged for a product. This influence can be through:

1. direct price regulation (floor or ceiling pricing mechanisms); or
2. indirect influence through polices that impact on the supply of the subject goods or the supply or price of major inputs used in the production of the subject goods.

The influence of a government does not, in itself, establish the existence of a 'market situation'. In assessing whether a 'market situation' exists, the Commission needs to examine both:

1. the effect such influence has on the market; and
2. the extent to which domestic prices are distorted and unsuitable for proper comparison with corresponding export prices.

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34 Dumping and Subsidy Manual, pp 35.

The Commission considers that, in the context of this analysis, evidence of government policies and programs that specifically or indirectly flow to the relevant market under consideration may have an effect on domestic commerce with respect to the goods. The Commission holds that this information is relevant to the analysis of whether factors exist which can be characterised as a 'market situation' for the purposes of subsection 269TAC(2)(a)(ii) of the Act.

Consideration of whether a situation exists in the relevant market is concerned with the operation of policies and regulations (whether overt or implied) and their potential impact on the suitability of domestic selling prices for normal value purposes. Accordingly, the question to be answered is whether the relevant policies operate in a manner which:

a) leads to a distortion of competitive market conditions in relation to the subject goods such that domestic sales are unsuitable for the purposes of determining normal value; and

b) affects the conditions of commerce related to the production or manufacture of like goods such that the records of exporters cannot be relied upon to reasonably reflect competitive market costs associated with production in accordance with the provisions of subsection 43(2) of the Regulations.

1.3 Evidentiary threshold

The Commission considers that the issue as to whether or not a 'market situation' exists in the domestic market of an exporting country is a matter for the Parliamentary Secretary to consider. In doing so, the Parliamentary Secretary ought to be satisfied on the basis of consideration of the totality of all relevant available evidence, that a 'market situation' exists for the purposes of subsection 269TAC(2)(a)(ii), in so far as the evidence provides a reliable understanding of the prevailing characteristics of the market for the goods in that country.

It is considered that the assessment as to whether a 'market situation' exists in a particular market constitutes a positive test. That is, before actual selling prices are rejected, the Commission needs to identify a 'market situation', and be satisfied that the 'market situation' renders the sales in that market not suitable for normal value purposes.

In undertaking this assessment, the Commission considers that the evidence does not have to be conclusive before a 'market situation' finding may be made.

Rather, it must be relevant and reasonably reliable. The Commission emphasises that consideration of the existence and operative effect of government administered programs upon a domestic market is distinctly different to the determination of any countervailable benefits in a countervailing investigation.

1.4 China as a market economy

Australia treats China as a market economy for anti-dumping purposes and the Commission conducts its investigation in the same manner for China as it does for other market economy members of the WTO.

Irrespective of the country subject of the investigation, the Australian anti-dumping framework allows for the rejection of domestic selling prices in market economies as the basis for normal value where there is a 'market situation' rendering the sales unsuitable. The Commission's investigation in this case concerning China is outlined below.

1.5 Information relied upon

The Commission provided the Chinese Government with a 'Government Questionnaire' in August 2015. The Chinese Government confirmed receipt of the questionnaire, however subsequently declined to submit a response to the questionnaire. Following the lack of response by the Chinese Government meant that the Commission's assessment of its impact on the market conditions during the investigation period was based on the best available information from other sources. Information sources relied upon by the Commission are listed below.

- OneSteel's application for the publication of dumping and/or countervailing duty notices concerning steel rod in coil exported from the People's Republic of China.
- Previous investigations undertaken by the Commission in relation to the Chinese steel industry, with a specific focus on the recent Market Situation finding made in Dumping Investigation 300, Steel Reinforcing Bar, China due to its timeliness, the similarity of the products and the market forces impacting on both product lines.
- An investigation into 'certain concrete reinforced bar' originating from the People's Republic of China undertaken by the Canada Border Services Agency (CBSA), December 2014.[35]
- Information obtained through the Commission's research and analysis.

1.6 Previous investigations undertaken by the Commission

The Commission has previously undertaken a significant amount of information, research, and analysis on the impact which the Government of China has had on the Chinese domestic steel markets. Investigations which specific relevance to the allegations made by OneSteel in respect to the Chinese steel industry include:

Anti-Dumping Commission, 2015, Dumping Investigation 300: Alleged Dumping of Steel Reinforcing Bar Exported from the People's Republic of China (INV 300)

Australian Customs and Border Protection Service, 2012, Report Number 177: Certain Hollow Structural Sections Exported from the People's Republic of China, The Republic of Korea, Malaysia, Taiwan and the Kingdom of Thailand (INV 177).

Australian Customs and Border Protection Service, 2013, Report Number 193: Alleged Subsidisation of Zinc Coated Steel and Aluminium Zinc Coated Steel Exported from the People's Republic of China (INV 193).

Anti-Dumping Commission, 2013, Report Number 198: Dumping of Hot Rolled Plate Steel Exported from the People's Republic of China, Republic of Indonesia, Japan, The Republic of Korea and Taiwan and Subsidisation of Hot Rolled Plate Steel Exported from the People's Republic of China (INV 198).

Australian Customs and Border Protection Service, 2013, Report Number 190: Alleged Dumping of Zinc Coated (galvanised) Steel and Aluminium Zinc Coated Steel Exported from the People's Republic of China, Korea and Taiwan (INV 190).

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[35] Canada Border Services Agency (CBSA), December 2014, Statement of Reasons: Concerning the final determinations with respect to the dumping of 'Certain concrete Reinforcing Bar Originating in or Exported From The People's Republic of China, The Republic of Korea and The Republic of Turkey; and the subsidising of 'Certain Concrete Reinforcing Bar Originating In Or Exported From the People's Republic of China'; and the terminations of the investigation with respect to the subsidising of 'Certain Concrete Reinforcing Bar Originating In Or Exported From The Republic of Korea and The Republic of Turkey.

3. Assessment of the influence of the Government of China on the Chinese steel industry

When undertaking this investigation, the Commission's assessment of the 'market situation' considered the Chinese Government's influence over the broader Chinese steel industry. The Commission sought information about the specific RIC market, and the iron and steel industries more broadly from the Chinese Government. As noted above, the Government of China did not respond to the questionnaire provided.

As the Government of China did not respond, the Commission adopted the approach as the Chinese Government's non-response to the Commission's 'Government Questionnaire' left the Commission with limited contemporaneous information upon which to make its assessment.

It is important to note that the inputs and process for manufacture of reinforcing bar in coil and RIC are very similar, and both form part of the steel 'long product' market, and with further manufacture RIC can be converted into a form of reinforcing bar.

The Commission notes that the Government of China has supported a significant increase in steelmaking capacity through support of increasing blast furnace capacity.

In addition the blast furnaces have become significant local employers and taxpayers for regional governments.

The Commission is reliant on the best available information for this assessment. As RIC is part of the boarder steel industry findings demonstrating Government influence in the Chinese steel industry are relevant to the RIC market.

1.7 Conditions within the Chinese RIC market

During the investigation period, the average monthly price for RIC in China (domestic price for Chinese RIC) fell from around USD$496.50 per tonne to USD$350.50 per tonne.[36] The weakness in the domestic price of Chinese RIC was the result of continued high levels of supply and a recent weakening in demand, particularly from within the construction sector.[37]

The decline in the domestic price for Chinese RIC during the investigation period was consistent with the broader downward trend in Chinese and world steel prices in recent years. For example, the average domestic price for Chinese RIC more than halved over the four years from July 2011 quarter (USD$767) in the July 2015 quarter (USD$326).[38] This position is supported by the increased price spread demonstrated for long products in China over the period January 2014 – August 2014 prior to a significant contraction from September 2014 through to February 2015.

While the spread has been maintained, there has been a significant reduction in revenue generated from both finished goods (RIC) and intermediate goods (Billet) produced. The monthly average market price for both have fallen by 60% since December 2011 to November 2015.[39]

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[36] Long Products / Wire Rod Q195 6.5mm / China domestic Shanghai (including 17% vat) RMB/t Average Domestic RIC Price (sourced from Platts).

[37] Global Market Outlook, April 2015, p3. World Steel Review, 01 July 2015, p6

[38] Average Domestic RIC Price (sourced from Platts).

[39] Steel First, July 2015, Can China's steel mills weather the storm?

The Commission holds that while weaker domestic demand for Chinese RIC contributed to declining prices during the investigation period, the primary factor was the high ongoing level of RIC production due to a historically high level of government support leading to an artificially high investment in blast furnace production assets resulting in excess supply.[40]

1.8 Conditions within the Chinese steel industry

The continued depression in prices (noted above) demonstrates that prevailing conditions within the Chinese RIC market during the investigation period were consistent with the conditions within the broader Chinese steel industry. These conditions included significant excess blast furnace production capacity leading to a supply glut, and weakened demand and producer profitability. For example, the Department of Industry, Innovation and Science estimates that in early 2015, the overcapacity in the broader Chinese steel industry was around 200 million tonnes[41] with capacity utilisation averaging around 70% over the past two years.[42] Furthermore, it is estimated that in early 2015 around 50% of the overcapacity in the global steel industry was located in China.[43]

In recent years the combination of excess capacity and declining prices has put many Chinese steel producers under significant financial pressure. Between 2011 and 2014, it is estimated that the proportion of Chinese steel mills making a loss increased from around 10% to 50%. While lower input cost resulted in a reduction in the number of loss making mills from the beginning of 2014, the proportion remained significant throughout the investigation period. For example, it is estimated that the number of loss making mills fell from around 44% in January 2014 to 15% in December 2014.[44]

The Commission holds that the price weakness in the domestic Chinese steel markets contributed to the significant increase in the level of Chinese steel exports in recent years as steel producers attempted to improve cash flow and profitability. For example, in 2014, China's steel exports increased by around 50% (year on year) to around 94 million tonnes. Similarly, in the first seven months of 2015, Chinese steel exports increased by a further 27% (year on year). The primary destinations for China's steel exports were South Korea, India and Vietnam.[45]

1.9 Chinese steel industry: Factors contributing to current conditions

Over the past decade the Chinese steel industry experienced significant investment in and expansion of production capacity. It is estimated that over the last decade, total Chinese crude steel production capacity increased by around 190%.[46] Similarly, it is estimated that between 2004 and 2014, total annual steel production in China increased from around 280 to 820 million tonnes. While the Commission notes that the growth in steel production has come from a combination of state owned and privately owned steel producers, the Commission holds that both types of producers have received significant assistance from the Chinese Government, particularly at the provincial and local government level.

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40 Dept. of Industry and Science, March 2015, Resources and Energy Quarterly, p24

41 Dept. of Industry and Science, June 2015, Resources and Energy Quarterly, June 2015, pp14- 15

42 Platts Insight 201, 27 March 201

43 Dept. of Industry, Resources and Energy Quarterly, March 2015, p25

44 SBB Steel Prices, Price Spreads / China Long Steel Spread (IODEX) / China RMB/t

45 Dept. of Industry, Internal Briefing Notes

46 Dept. of Industry, Resources and Energy Quarterly, March 2015, p24

The Commission recognises that in recent years the Chinese Government has taken significant steps to restructure and reorganise the domestic steel industry to better manage the level of excess production capacity, oversupply and environmental concerns.[47] For example, since July 2014, China's Ministry of Industry and Information Technology (MIIT) has released lists of steel makers that were to remove obsolete capacities. The MIIT also requested that provincial governments submit, by June 2015, their targets for dismantling outdated and excess capacity in 2015 and during the 13th Five Year economic development plan period (2016-2020).[48] During the investigation period the Chinese Government also announced plans to shut 47 mt of steel capacity[49] and a further 80 mt by 2017.[50]

Other regulatory interventions which demonstrate the Chinese Government's significant involvement within the Chinese steel industry include the revision of the 'Chinese Environmental Protection Law' (January 2015) and the 'Execution of Capacity Swap for Industries with Overcapacity' (April 2015).[51] The 'Chinese Environmental Protection Law' establishes pollution reduction targets for local authorities and toughens penalties for non-compliance to encourage older, higher polluting steel mills to exit the industry.[52] The 'Execution of Capacity Swap for Industries with Overcapacity' (April 2015) states that any addition to steel mill capacity must be offset by a one-for-one reduction in existing capacity. In regions with a high concentration of steel mills the reduction ratio is 1.25 to 1.

The Commission considers that for a number of reasons, the effectiveness of these measures on reorganising the Chinese steel industry or reducing the level of excess supply that existed during the investigation period was limited. The Commission considers that some of the key constraints on the effectiveness of these directives included the divergence in objectives between the different levels of the Chinese Government and the availability of financing to support the restructuring and reorganisation.[53]

With regard to the objectives of provincial and local governments, steel mills are typically major employers, sources of significant tax revenue and providers of health care and education services within their respective regions. As such, there are significant incentives for provisional and local governments to resist directives from the Central Government to remove excess capacity and to provide these producers with support to enable them to continue operating. With regard to financing, the Commission holds that the ability of Chinese steel producers to undertake capital investment required to restructure has been constrained by a combination of weak profitability and reduced support from traditional funding sources. [54]

For example, in August 2015 the China iron and steel association noted that during the first half of 2015 Chinese banks had cut loans to steel makers by around USD 15 billion or

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47 Platts Insight 198, 03 April 2014. World Steel Review, 22 April 2015, p6. World Steel Review, 01 July 2015, p1

48 OECD, 2015, Excess Capacity in the Global Steel Industry and the Implications of New Investment Projects. OECD Science, Technology and Industry Policy Papers, No. 18. OECD Publishing, p15

49 Dept. of Industry, Resources and Energy Quarterly, September 2014, p23

50 OECD, 2015, Excess Capacity in the Global Steel Industry and the Implications of New Investment Projects. OECD Science, Technology and Industry Policy Papers, No. 18. OECD Publishing, p15

51 Dept. of Industry, Innovation and Science, Internal Briefing Notes

52 Dept. of Industry and Science, March 2015, Resources and Energy Quarterly, p24

53 Platts Insight 201, 27 March 2015

54 Platts Insight 201, 15 May 2014

by 6% (on a year on year basis)[55] and that the provision of funding by Chinese banks to the Chinese steel industry was increasingly being directed at state owned steel producers.[56]

The central role of the Chinese Government in the current restructuring of the Chinese steel industry is consistent with its role throughout the development of the industry, including its significant expansion over the past decade which resulted in the excess supply and suppressed prices experienced during the investigation period.

1.10 Chinese steel industry: Chinese Government influence

The Commission holds that the Chinese Government (including central, provincial and local governments) materially contributed to the excess supply of RIC in the domestic Chinese market and hence significantly influenced domestic price for Chinese RIC during the investigation period. This influence has occurred through the following mechanisms.

- Chinese Government directives, subsidy programs and involvement in strategic enterprises.
- Taxation arrangements, including value add taxes and export rebates.

1.11 Chinese Government directives

The Commission holds that the Chinese Government maintained a central role in the development of the Chinese steel industry and by virtue, materially contributed to its rapid expansion and the chronic oversupply during the investigation period.

The significance of this role was articulated by a recent CBSA investigation into the dumping and countervailing of 'certain concrete reinforced bar' originating from the People's Republic of China.[57] The CBSA's '*Statement of Reasons'* report released in December 2014 notes that the Chinese Government classifies the 'Iron and Steel Industry' as a 'fundamental or pillar' industry. The CBSA's report also noted that as a 'fundamental or pillar' industry the Chinese Government maintains a degree of control over the industry, through a minimum of 50% equity in the principle enterprises. The significance of the Chinese Government's role in the Chinese steel industry is also reflected in the National Development Reform Commission's (NDRC's) responsibility for approving all large steel projects.[58]

The Commission holds that the central role of the Chinese Government in the Chinese steel industry is also reflected through the numerous planning documents and directives issued by the Chinese Government regarding the structure and composition of Chinese steel industry. As such, in assessing the existence of a 'market situation' in the Chinese steel industry and consequently the Chinese RIC market, the Commission reviewed a number of Chinese Government planning documents and directives. These documents and directives are listed below.

- *National Steel Industry Development Policy (2005).*
- *Blueprint for the Adjustment and Revitalisation of the Steel Industry (2009).*
- *2011-2015 Development Plan for the Steel Industry (2011).*

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55 Metals Insight, 13 August 2015, p3.
56 Metals Insight, 13 August 2015, p3.
57 CBSA, 2014, p 14.
58 CBSA, 2014, p 17

- *Steel Industry Adjustment Policy (2015 Revision).*

In addition to the Chinese Government planning documents and directives listed above, the need for restructuring and reorganisation of the Chinese steel industry, including the elimination of backward capacity, was also addressed in the documents listed below. While these planning directives cover a broad range of industries, the inclusion of the steel industry reinforces its central role within the Chinese economy and hence high levels of Chinese Government intervention.

- *Notice of Several Opinions on Curbing Overcapacities and Redundant Constructions in Certain Industries and Guiding the Healthy Development of Industries (2009).*
- *Guiding Opinions on Pushing Forward Enterprise M&A and Reorganisation in Key Industries (2013).*
- *Directory Catalogue on Readjustment of Industrial Structure (Version 11) (2013 Amendment).*

1.12 Chinese Government directives: Summary of themes and objectives

The Commission holds that the extent of the Chinese Government's influence within the Chinese steel industry is reflected in the major themes and objectives of its plans and directives toward the industry. These themes and objectives are listed below.

National Steel Industry Development Policy (2005)[59]

- Structural adjustment of the Chinese steel industry.
- Industry consolidations through mergers and acquisitions.
- Regulation of technological upgrading to new standards.
- Government supervision and management.

Blueprint for the Adjustment and Revitalisation of the Steel Industry (2009)[60]

- Maintaining stability within the domestic market.
- Controlling total steel production output and eliminating of backward capacity.
- Enterprise reorganisation and industrial concentration.
- Technical transformation and technical progress.
- Steel industry layout and development.
- Steel product mix and product quality.
- Maintain stable import of iron ore resources and rectify the market order.
- Development of domestic and overseas resources and guarantee the safety of the industry.

2011-2015 Development Plan for the Steel Industry (2011)[61]

- Increased mergers and acquisitions to create larger, more efficient steel

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59 CBSA, 2014, p 17.

60 CBSA, 2014, p 17

61 CBSA, 2014, p18

companies.

- Chinese Government restrictions of steel capacity expansions.
- Upgrading steel industry technology.
- Greater emphasis on high-end steel products.
- Relocation of iron and steel companies to coastal areas.
- Minimum capacity requirements to reduce the number of small steel producers.
- Increased controls on the expansion of steel production capacity.
- Accelerating the development of higher value steel products.

Guiding Opinions on Pushing Forward Enterprise M&A and Reorganisation in Key Industries (2013)[62]

- Top ten companies accounting for 60% of production.
- Three to five major steel corporations with core competency and international impact.
- Six to seven steel corporations with regional influence.
- Encouraging steel corporations to participate in foreign steel companies' M&A.

Steel Industry Adjustment Policy (2015 Revision)[63]

- Upgrading product mix.
- Rationalising steel production capacity.
- Adjustments to improving organisational structures.
- Energy conservation, emission reductions, environmental protection.
- Production Distribution.
- Supervision and administration.
- Guiding market exit.
- Methods of, orientation and oversight of mergers and reorganisations.
- Consolidate number of steel companies.[64]
- Lift capacity utilisation rates to 80% by 2017.[65]

1.13 Chinese Government directives: Summary of Chinese Government influence

The Commission notes that the emphasis of these individual planning documents and directives is on promoting the orderly restructuring and reorganisation of the Chinese steel industry to better manage the issue of chronic oversupply. However, these planning documents and directives also demonstrate the extent of the Chinese Government's interventions within the Chinese steel industry.

The degree to which plans and directives issued at the central government level are integrated at the provincial level is reflected by the Shandong Province Development and Reform Commission's '*The opinions on the implementation of the structural adjustment of*

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62 http://rhg.com/notes/beijings-2015-industry-consolidation-targets-problem-or-solution

63 http://www.eurofer.eu/Issues%26Positions/Trade/ws.res/Steel Industry Adjustment Policy Comments Appendix.fhtml/Steel Industry Adjustment Policy Appendix.pdf

64 Dept. of Industry and Science, 2015, China Resources Quarterly, Southern Autumn – Northern Spring, p15.

65 ibid.

the steel industry in Shandong Province pilot program' (2012). The 'Opinions' notes that since 2006, the Shandong Provincial Government had issued a number of plans and measures to control the development of the iron and steel industry, eliminate backward production capacity, and accelerate the pace of mergers and restructuring work in the province's steel industry. Examples of these plans included the 'Guiding Opinions on accelerating the restructuring of the steel industry within the Shandong Province' and the 'Shandong Province Iron and Steel Industry Revitalisation Plan'.

The '*Shandong Provincial People's Government Notice of Revitalisation Plan*' (2009) also demonstrates the linkages between plans issued by the Central Chinese Government and those issued at the provincial government level. The Commission holds that the consistency between planning documents and directives at the central and provincial government level further reinforce the high level of government intervention in the Chinese steel industry. For example, following from the Chinese Government's '*Blueprint for the Adjustment and Revitalisation of the Steel Industry*' (2009), the '*Shandong Province Iron and Steel Industry Revitalisation Plan'* identified the following areas where policy measures were to be applied:

- implementation of the national steel industry adjustment and revitalisation plan;
- acceleration of corporate mergers and acquisitions;
- technological transformation and technological innovation;
- development of domestic markets and stabilisation of position in export markets;
- improving resource security through 'going out' strategy;
- broaden financing channels for enterprises;
- increase the fiscal tax policy support; and
- give full play to the role of industry associations in planning, standards and policies.

1.14 Chinese Government subsidy programs

The nature of support provided by the Chinese Government to the Chinese steel industry is also documented through previous investigations undertaken by the Commission. While these investigations don't correspond with the investigation period, these programs directly contributed to the state of the Chinese steel industry and RIC market during the investigation period. Examples of the types of subsidies provided to the Chinese steel industry are set out below.[66]

- Steel inputs provided by the government at less than adequate remuneration.
- Coking coal and coke provided at less than adequate remuneration.
- Preferential Tax Policies for Enterprises with Foreign Investment.
- Preferential Tax policies for Specific Regions.
- Preferential Tax Policies for Foreign Invested Enterprises.
- Land Use Tax Deductions.
- Preferential Tax Policies for High and New Technology Enterprises.
- Tariff and value-added tax (VAT) Exemptions on Imported Materials and Equipment.
- Research and Development (R&D) Assistance Grants.

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[66] Anti-Dumping Commission, 2013, Report Number 198: Dumping of Hot Rolled Plate Steel Exported from the People's Republic of China, Republic of Indonesia, Japan, The Republic of Korea and Taiwan and Subsidisation of Hot Rolled Plate Steel Exported from the People's Republic of China, pp41-43. Australian Customs Service, 2013, Report Number 193: Alleged Subsidisation of Zinc Coated Steel And Aluminium Zinc Coated Steel, pp40-41

- Special Support Funds for Non State-Owned Enterprises.

1.15 Chinese Government involvement in strategic enterprises

The Commission holds that the Chinese Government also maintains significant interests in a number of major Chinese steel producers including some that produce RIC. Through its involvement in these companies, the Chinese Government is able to exert significant influence over the Chinese steel industry.

In supporting this view, the CBSA's investigation in 'Certain Concrete Reinforced Bar' notes that the Chinese Government classifies the 'iron and steel industry' as a 'fundamental or pillar' industry and as such retains a minimum of 50% equity in the principle enterprises. The CBSA report also noted that state owned steel producers constituted a majority of the top ten steel producers in China and accounted for a significant share of total steel production and capacity.[67]

The importance of these state owned steel producers is also reflected in the Chinese Government's *Guiding Opinions on Pushing Forward Enterprise M&A and Reorganisation in Key Industries (2013)* which calls for the top ten steel producers to further consolidate control over Chinese steel production and hence influence over domestic steel markets. Out of the 10 largest Chinese steel produces, eight have a significant degree of government ownership.[68] These companies includes: Hebei Steel Group; Baosteel Group; Ansteel Group; Wuhan Steel Group; Shougang Group; Maanshan Steel; Tianjin Bohai Steel; and Benxi Steel Group.

Several of these companies are identified as having the ability to produce and sell RIC including BaoSteel[69], Ansteel[70], Wuhan[71], and Maanshan[72].

The central role of Chinese steel producers, with a significant degree of state ownership, within the Chinese steel industry is also reflected through their implementation of the underlying objectives of the Chinese Government's planning directives. Examples of these activities include the involvement of Chinese state owned steel companies in projects which have either been recently commissioned or are under development. These projects include: Anshan Iron & Steel's Bayuquan Steelworks (6.5 million tonnes per annum (mtpa)) (Liaoning Province) (commissioned 2008); the Shougang Jingtang United Iron & Steel's Steelworks (Hebei Province) (commissioned 2010); and the Fangchenggang Steel Company Limited (Wuhan Iron & Steel Group) Steelworks (9.2 mtpa) (Guangxi Province) (commissioned September 2014).[73] Significant Chinese steelworks with a focus on flat products currently being developed or planned include Baosteel's Zhanjiang steelworks (Guangdong Province) (expected commissioning in 2016); the Baotou Iron & Steel steelworks (5 mtpa) (Inner Mongolia); and the Chongqing

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[67] In 2010, eight of the largest ten Chinese steel producers where state owned and that that in 2013 the top steel companies accounted for 45% of total Chinese crude steel production., CBSA, 2014, p14

[68] Based on 2014 production. World Steel Association

[69] http://www.baosteel.com/group_en/contents/2908/40085.html

[70] http://en.ansteelgroup.com/cpzs/zdcp/2009-08-27/170.html

[71] http://english.wisco.com.cn/Pexport1/index.jhtml

[72] http://www.magang.com.hk/eng/companypofile.asp

[73] OECD, 2015, Excess Capacity in the Global Steel Industry and the Implications of New Investment Projects. OECD Science, technology and Industry Policy Papers, No. 18. OECD Publishing, p15

Iron & Steel (Chongang) and POSCO signed Investment MOU (USD 3.3 bn) (signed July 2014).[74]

1.16 Taxation arrangements

The Chinese Government has traditionally operated, amongst other taxation arrangements, a Value Added Tax (VAT). Under the Chinese VAT system, a 17% tax is paid on consumption of goods, including the inputs used in the production of steel. For goods produced and sold within China, the tax is ultimately paid by the final consumers of the particular good. Because it is difficult for exporters to pass these taxes on, some steel exporters have traditionally been compensated for VAT paid during the production process through VAT rebates.

Through altering the VAT rebates or export taxes applied to steel exports, the Chinese Government is able to alter the relative profitability of different types of steel exports and of exports compared to domestic sales which will in turn influence the volume of steel directed to both markets. For example, by either reducing VAT rebates or increasing export taxes on steel exporters, the Chinese Government is able to reduce the relative profitability of exports to domestic sales and hence provide significant incentives for exporters to redirect their product into the domestic Chinese market. By using these mechanisms to alter the relative supply of particular steel products in the domestic market, the Chinese Government is also able to influence the domestic price for those products.

A recent example of the Chinese Government altering VAT rebates on steel products occurred in January 2015. The Chinese Government reduced the VAT rebate on steel products containing boron, which accounts for around 40% of exports.[75] While VAT rebates for boron have been recently reduced, they remain in place for other additives such as chromium.[76]

At present (and during the investigation period) the Chinese Government does not apply VAT export rebates to non-alloy RIC but it does apply an export tax of around 15%. The Commission considers, however, that the absence of VAT rebates and application of export taxes creates significant incentives for Chinese exporters to redirect their product from the export to domestic Chinese market. The Chinese Government also distorts the domestic price for RIC through the application of export taxes on Chinese billets, which accounts for between 80 to 85% of the total RIC production cost.[77] Both these policies lead to an increase in the availability of non-alloy RIC in the Chinese domestic market.

Previous investigations by the Commission identified the use of export taxes and export quotas on a number of key inputs in the steel making process including coking coal, coke, iron ore and scrap steel.[78] Due to the lack of response by the Chinese Government, the Commission has relied on the best available information, including previously completed investigations. As in the case of RIC and steel billets, these measures would create significant incentives for exporters to redirect these products into the domestic market,

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74 ibid.

75 Dept. of Industry and Science, March 2015, Resources and Energy Quarterly, p24

76 Metals Insight, 14 May 2015, p4

77 Anti-Dumping Commission calculations

78 Anti-Dumping Commission, 2013, Report Number 198: Dumping of Hot Rolled Plate Steel Exported from the People's Republic of China, Republic of Indonesia, Japan, The Republic of Korea and Taiwan and Subsidisation of Hot Rolled Plate Steel Exported from the People's Republic of China, pp41-43.

increasing the relative supply and reducing the respective prices to a level below what would have prevailed under normal market conditions.

The Commission holds that lower raw material prices would have a depressing effect on the domestic prices of Chinese RIC through both direct and indirect channels. The relative importance of these two channels would depend on the degree to which lower raw material costs flow through to lower billet and RIC prices and the degree to which billet and RIC producers are able to retain the lower raw material costs in the form of increased profit. Where a majority of the lower raw material costs flow through to lower billet and RIC prices, the depressing effect on RIC prices would be direct. Where lower raw material prices are able to be retained by billet and RIC producers as increased profit, this would create incentives for these producers to expand production and hence have a depressing effect on domestic Chinese RIC prices, by further increasing the level of domestic supply relative to demand.

The Commission considers that the export taxes and export quotas on key inputs for steel continue to have a distortionary impact on the steel market by reducing input costs by increasing the supply quantities of raw materials available for steel production.

4. Chinese RIC market: Assessment of particular market situation

Based on the proceeding analysis, the Commission has concluded that the Chinese Government materially influenced conditions within the Chinese RIC market during the investigation period. The mechanisms through which the Chinese Government exerted this influence include government directives and oversight, subsidy programs, taxation arrangements and the significant number of state owned steel companies.

The Commission also concludes that because of the significance of this influence over the Chinese RIC market, the domestic price for Chinese RIC was substantially different to what it would have been in the absence of these interventions by the Chinese Government. Based on this analysis, the Commission has determined that during the investigation period the domestic price for Chinese RIC was influenced by the Chinese Government to a degree which makes domestic sales of RIC unsuitable for use in determining normal values under subsection 269TAC(1) of the Act.

Attachment 1

Date Received	Submission from	Subject of Submission	EPR No.
15 October 2015	Stauntons on behalf of Vicmesh	Response to original application for the publication of dumping duty notices on steel RIC exported from China	13
21 October 2015	Stauntons on behalf of Vicmesh	Further response to original application and submission of Arrium Ltd presentation to ASX.	14
23 October 2015	OneSteel Manufacturing Pty Ltd	Submission requesting that the Commissioner publish a PAD	15
30 October 2015	OneSteel Manufacturing Pty Ltd	Submission requesting that the Commission undertake on site verification of exporters.	16
11 December 2015	OneSteel Manufacturing Pty Ltd	Submission regarding circumvention of securities	20
11 December 2015	J. Bracic and Associates on behalf of Jiangsu Shagang Group Co,. Ltd	Submission regarding market situation claim, determination of profit	21
21 December 2015	J. Bracic and Associates on behalf of Jiangsu Shagang Group Co,. Ltd	Response to PAD by exporter	22
18 January 2016	Dowway and Partners on behalf of Hunan Valin Xiangtan Iron and Steel Co,. Ltd.	Response to PAD by exporter	23
20 January 2016	OneSteel Manufacturing Pty Ltd	Submission on form of measure	24
5 February 2016	J. Bracic and Associates on behalf of Stemcor Australia Pty Ltd.	Response to submission on circumvention of securities (EPR 20)	27
11 February 2016	Sanwa Pty Ltd	Response to submission on circumvention of securities (EPR 20) and form of measures	29
7 March 2016	Dowway Legal on behalf of Hunan Valin Xiangtan Iron and Steel Co,. Ltd.	Response to the publication of the SEF	32
3 March 2016	OneSteel Manufacturing Pty Ltd	Response to the publication of the SEF	33
7 March 2016	J. Bracic and Associates on behalf of Jiangsu Shagang Group Co,. Ltd	Response to the publication of the SEF	34
10 March 2016	J. Bracic and Associates on behalf of Jiangsu Shagang Group Co,. Ltd	Further response to the publication of the SEF	35

Date Received	Submission from	Subject of Submission	EPR No.
29 March 2016	Stauntons on behalf of Vicmesh	The submission covered the topics of Injury and Causation and the Commissioner considers these issues have been appropriately considered previously. This submission was received after the date when the Commissioner was not obliged to regard it if it would delay the timely preparation of this report. As the submission was received on the date the report was due to the Parliamentary Secretary, the Commissioner did not pay regard to this submission.	36[79]

[79] Anticipated to be EPR 36 pending upload of the document.