11 May 2016

Director Operations 1
Anti-Dumping Commission
GPO Box 1632
Melbourne VIC 3001

Dumping and Subsidisation investigation into grinding balls imported from the Peoples Republic of China - Case 316.

PUBLIC RECORD VERSION

Dear Director

Boliver has been an independent supplier of grinding media and mining consumables into both the Australian and South East Asian markets for the last 24 years. We have extensive experience with grinding media in the Australian mining Industry and are well qualified to make comment on the recent SEF for grinding balls (case 316 document 33) that was recently published. We have been monitoring very closely five cases, dumping rods in coil (case 301), countervailing duties rods in coil (case 331), dumping reinforcing (case 300), countervailing duties steel reinforcing bar (case 322) and the grinding balls (case 316) as on the face of it they appear similar but in reality they are unrelated.

In summary, your investigation to reveal the facts appears accurate but your interpretation of these facts may not be correct. We also notice that due to your lack of experience in both the grinding market in general, the Australian mining Industry and the construction industry some incorrect conclusions may have been drawn which has resulted in an incorrect finding in the SEF for case 316.

These five cases began in 2015 by Arrium as a coordinated anti-dumping and countervailing campaign against China that involved Steel Reinforcing bar (case 300 and case 322), rod in coil (case 301 and case 331) and grinding media (case 316). Arrium cleverly bundled these five cases to give the impression that in fact these five cases were closely related which in fact could not be further from the truth. The first mistake that the ADC made was to fall for this guise. The grinding media and construction product steel are almost totally unrelated which I will address later. Although they both have very high amounts of iron, are produced from the same raw materials, are made into billet and then rolled in mills to form bars, they are not always made in the same factories as grinding media steel is made as a specialty steel, uniquely made for an individual customer, with unique chemistries, are not stock items but made to order and only the customer that orders this steel will use it. It is NOT a standard stock item that may be typical of construction steels. This is one of the reasons that Arrium had to bundle the grinding media with the construction steels. The grinding ball case would not have stood up on its own without support and implied assumptions that come with construction steel products.

Another important distinction between the five cases is that four of the cases involve only Arrium where the fifth has an Australian comparison, Donhad. This is very important as we now have a bench mark.
When one looks at the original combined application of case 316, grinding media, (paper 003) the conclusions drawn by the Anti-Dumping Commission was that the two Australian applicants were being negatively impacted by Chinese imports.

However as case 316 has evolved and placed on the public domain we have a better understanding of the facts for both applicants independently, and the interaction with the other four cases. We must conclude that the ADC has either drawn the wrong conclusion from the available facts due to the clever guise by Arrium to group different product types and then drawn a conclusion for the grinding balls that is similar to the conclusions drawn for the construction steels, or the ADC has intentionally disregarded the two applicants in isolation preferring to group the average which would more closely align to the verdict of the construction steels. A third plausible explanation is that the ADC has inadvertently drawn the wrong conclusion with the current facts. We must conclude that the ADC has drawn the wrong conclusion with the same facts.

The reason that Boliver was encouraged to partake in the grinding ball market by Australian mining companies was the perception that the Australian grinding media makers had it pretty cosy in a duopoly where Donhad would purchase all its raw steel from One Steel and the applicants shared the volume in Australia. This lead to the applicants becoming uncompetitive and over profitable and this lead to more imports being introduced into the Australian market. This was further compounded by a drop in commodity prices that led to Australian customers looking to the cheaper international market, not just China, to purchase their mining consumables, not just grinding balls. Donhad was quicker to respond to this new threat by reducing their cost to manufacture, dropping prices, technically innovating which resulted in a lower selling price but with the same profit. This is clearly evident in their site verification report. This is why it is so important to have a benchmark so that a comparison can be drawn.

In the combined application the applicants alleged loss of sales volume, price suppression, price depression, loss of profits, reduced profitability, reduced revenue, reduced ROI, reduced capital utilisation and reduced employment. If we look at each economic driver that makes up the conclusion that Chinese product has been dumped into Australia we will conclusively prove that none of this actually occurred and that the ADC has drawn the wrong conclusion with the available facts.

Loss of sales volume. — The applicants alleged that they have lost sales volume. If we look at each applicants verification reports independently it is confirmed that neither Donhad nor MolyCop had a reduction in actual tonnes produced during the investigation period. In verification report 14 for MolyCop page 31 the actual tonnes produced by MolyCop remains very similar to previous years yet the ADC incorrectly states that “the commission considers that MolyCop has suffered injury in the form of lost sales volumes”. However in the verification report 28 for Donhad on page 27 the ADC concludes “the visit team does not consider that Donhad to have suffered volume injury on a macro level”. The applicants have assumed that because the Chinese imports have increased and because their actual production has remained very similar to previous years that there must have had a loss of sales volume. The ADC then concludes in 033 on page 46 that because of the increased volumes of imported Chinese ball that the applicants have lost market share. The ADC states “given the decline in the market share of both Australian industry and ……… during the investigation period is attributed to dumped imports from China”. The ADC may have drawn the wrong conclusion. The actual reason why there was an increase in imported sales volume has very little to do with whether it was from China or any other foreign country but because the applicants failed to defend against a threat from a new market in a new geographical region. If the ADC had investigated the increased sales volume it would have concluded that the
increased sales volume went into a new region, the Pilbara. The cost to ship product from Perth to the Pilbara is around $230 - $240 per tonne (these are Boliver prices) and the price to ship product from Port Hedland into the Pilbara is around $XX-$XX (amount removed). A grinding media customer XXXXXXXXXXXX (company name removed) XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXX. (Method of transport removed). If either applicant had identified this risk they would have set up and imported their own product from anywhere in the world to take advantage of in excess of XXXXXXX (quantity removed) tonnes per annum of sales plus further sales in the future into XXXXXXX (company name removed). This is not the first time that an Australian customer has defended a geographical region by importing to reduce the cost of freight. A very good example is how XXXXXXXXXXXX (company name removed) set up a cement distribution hub in Port Hedland to defend sales in the Pilbara region. We must thus conclude that either loss of market share or loss of volume is totally incorrect but can rather be attributed to an alternate logistics solution as a result of a new geographical region opening up. Both applicants did not take the opportunity to participate in this market and thus it must be concluded that it is not part of the total market. Therefore there is no loss of market share nor loss of volume as the applicants decided not to partake in this region. Furthermore this is not a China issue as this opportunity may or may not have been filled by any other global ball manufacturer. What the ADC could have done better was to actually investigate why this increased volume and once identified not to have used a FOB price in China but a FIS price to mine site.

Price under-cutting – The Commission comments on page 47 of the SEF 033 that the one selected importer Karara etc. etc. and then in point 2 “the commission is in possession of two additional importers data, however the commission does not consider this data to be suitable for the purpose of undercutting analysis, for reasons contained in Appendix 9”. There were only three importers so the other two have to be Sino and ME ElecMetal. How can the ADC make a conclusion with one importer and paint the other two importers with the same brush?

Price suppression and price depression – the ADC may have once again drawn the wrong conclusion to justify dumping of grinding balls into Australia. The ADC states in the SEF 033, which is an average of both applicants that because there has “over the investigation period unit selling prices declined to a greater extent than unit CTMS”. The ADC then concludes both price depression and price suppression as a result of the gap between the unit selling price and the unit CTMS has narrowed. If one looks at the verification report 028 for Donhad on page 28 the gap between the selling price and the unit CTMS is almost identical to 2011/2012. By the ADC’s own conclusion, one would then assume that there has been no price suppression or price suppression as the gap between the selling price and CTMS has not narrowed. This is further highlighted when one looks at the Donhad profit and profitability for Donhad which has slightly improved. However if we look at the verification report for MolyCop 14 pg. 32 it shows a reduction in sales value but no information on CTMS. The ADC has then drawn a conclusion that because the unit selling price has “deteriorated” this concludes that MolyCop must have experienced price depression. When the average is taken of both Donhad and MolyCop, in the SEF report 33, it appears that the gap between the unit selling price and cost to manufacture has narrowed. This is only because the MolyCop unit cost to manufacture has not decreased like the rest of the world, (and like Donhad’s CTMS reduction), due to lower input costs. The ADC has incorrectly concluded that because MolyCop has not reduced its own manufacturing costs like Donhad (the other applicant has done), this constitutes both price depression and price suppression. What the ADC has not grasped is that with the world reduction in all commodities there is now going to be a
reduction in input costs which will almost certainly lead to deflation. XXXXXXXXXX (opinion removed). Thankfully in this case 316 we have a comparison, Donhad, which clearly shows that there is a reduction in selling price, a business can in fact have slightly increased profits and profitability. We can thus conclude that there has been no price suppression and price depression because one of the applicants, Donhad, was able to adjust to this change and increase profitability.

**Profits and profitability** – The ADC concludes in 028 Donhad verification that the “profitability” has increased slightly over the injury analysis period. It also concludes that the profit and profitability may have been higher if the selling price had not been suppressed and depressed. This concludes that there could not have been price suppression or price depression as the gap between the selling price and cost to manufacture must have been similar or slightly better for there to have been an increase in profitability. The fact that the final SEF concludes that “this trend is consistent with the evidence relating to price and volume effect detailed above. Despite the Australian Industries increased sales volume and lower CTMS, profit and profitability have never the less declined due to the Australian Industry achieving a lower unit selling price in the investigation period”. The ADC has drawn another incorrect conclusion. The Australian Industry consists of both Donhad and MolyCop. Donhad had increased sales, and lower CTMS, yet profit and profitability increased so it cannot be due to lower selling price. One can only conclude with certainty that half the Australian Industry is NOT being adversely affected by international competition yet the other half is calling on the ADC for protection. Coming back to the ADC statement, “It also concludes that the profit and profitability may have been higher if the selling price had not been suppressed and depressed”. The grinding ball industry is one of repeat sales. If you do not pass on price reductions, in the form of reduced selling prices, if your input costs are reduced you will lose your customers. One of the applicants, Donhad did that and that is why there is no change of gap between selling price and cost to manufacture and that is why there was a slight increase in profitability and that is why the other applicant is seeking duty protection for their parent company which is now in administration.

**Revenue** – the ADC in an attempt to further shore up a very suspect anti-dumping case concludes that further proof of dumping is reduced revenue of the applicants. If your volumes remain the same, your selling price is reduced, resulting in reduced revenue yet your profitability slightly increases as was the case with Donhad, one cannot conclude, as the ADC has done, that reduced revenue further proves dumping of grinding balls into Australia. This is another driver that can be removed from the list.

**Capacity Utilisation** – if the volumes have remained the same for both applicants, how could the Industry have had reduced capacity utilisation unless they have had increased productivity improvements. This is not related at all to dumping so should not be used as a driver to substantiate dumping.

**Employment reductions** – Once again the ADC has drawn the wrong conclusion as the reduced employment numbers is a result of the productivity improvements that saw lower capacity utilisation with higher or similar volumes.

**Conclusion for financial drivers** – it is clear that the ADC has in fact drawn the wrong conclusions or is being influenced by political forces to protect Arrium’s steel business. It is also clear that the two applicants are completely separate entities with Donhad showing slightly increased profitability during the investigation period and MolyCop being substantially less profitability. If we consider Donhad alone during the investigation period as it is more representative of how a business should be run during times of change. Donhad did not have reduced volumes as it chose not to partake in the geographical growth region and incorrectly chose to defend its business using the more expensive and less competitive freight
from Perth to the Pilbara instead of setting up a depot in Port Hedland. The ADC has incorrectly concluded both loss of volume to the Australian Industry and loss of market share. The ADC again incorrectly concludes the price suppression and price depression reasons. Donhad clearly shows the same or a similar gap in 2011 to the investigation period which by default would have been concluded that the selling price has naturally reduced as a result of cheaper input costs. MolyCop on the other hand could not keep the same gap with time between the selling price and the cost to manufacture which then appears that it has had price suppression and price depression. The ADC has then incorrectly taken the MolyCop data to construct an anti-dumping case as this data gives a more plausible explanation to align with the Arrium trap that grinding balls are the same as construction steel. The correct conclusion was what has happened at Donhad where market forces have driven down input costs that have resulted in lower selling prices. This is confirmed when one looks at the Donhad profitability which actually increases during the investigation period. Once again an incorrect conclusion drawn by the ADC that the Australian Industry suffered both price suppression and price depression which resulted in both reduced profits and profitability. Donhad data proves that conclusion incorrect. This flows on to reduced revenue which is expected if selling prices naturally reduce. Both applicants had similar volumes during the investigation period to previous years yet both had reduced capacity utilisation. That can only occur with productivity improvements which had a subsequent flow on effect of reduced man power. In respect to causation factors all the wrong set of conclusions have been drawn by the ADC which actually confirms that none of the drivers actually were the result of Chinese dumping. As there is now no longer an anti-dumping case we need not consider the drivers in China but for completeness this will also be done.

**Particular market situation in China**

"As discussed in Appendix 2, the commission considers that the government of China (GOC) has distorted prices in the grinding balls market in China". This statement in its entirety does not make sense. How can the ADC make findings of no subsidisation by the Chinese government yet make a statement that the GOC has distorted the prices? Is anti-dumping by definition a company’s choice to sell product cheaper off shore relative to their own domestic market irrespective of government help. If there is government intervention then it is subsidisation? The ADC makes a blanket statement that various plans policies and taxation regimes have distorted the prices of production yet it individually goes through every programme number and it appears that only the VAT for exports has any validity.

Of critical importance is the inability of the ADC to grasp the concept of “in the part of the industry that might be described as upstream from grinding ball production”. It appears that the ADC has fallen into the Arrium trap again by confusing construction steel (rebar) with specialty steel (grinding bar). In the rebar industry the billet can be used by a number of different customers to produce the same reinforcing bar. It is generally made to global steel standards and most billet can be substituted between customers as they all have a similar chemical composition. This means that construction steel billet is more likely to become a stock item. However in the grinding media industry, the billet is made from specialty steel and specifically made and uniquely made as per customer instruction to a customer recipe. It is not a stock item but a made to order item. It just does NOT occur for SAG billet to be used in rolled ball manufacture and vice versa. It just does not happen within customers for one customer to take another customers billet. Simply put, if a grinding media manufacturer e.g. Goldpro and Yute orders billet to be made into a specific size rod, Goldpro and Yute are obliged to take that rod produced. The ball manufacturer cannot change their mind and expect the steel mill to sell that steel to another customer. For this reason the ADC has to use the actual cost to manufacture for Yute and Goldpro and not the constructed normal value. This was the finding a ‘‘Longteng’’ and was subsequently used.
In conclusion, when we examine in particular the Papers 003, paper 014, paper 028 and the SEF 033 for investigation 316 we get completely different conclusions to the exact same data. We have shown that neither increased volume or drop in market share (the applicants chose NOT to participate in this market), price suppression and price depression (expected drop in selling price as a result of reduced input costs as demonstrated by Donhad), reduced profits and profitability (as demonstrated by increased profitability by Donhad), reduced revenue (as expected from a reduction in selling price with the same volume), reduced capacity utilisation (this can only occur as a result of productivity improvements with the same volume) and reduced manpower (this was because of productivity improvements) all did occur but they were not the result of Chinese dumping. They were the result of natural change in the market place and 50% of the Australian industry had no problem adjusting to these changes. We believe that as a result of the ADC falling into the “Arrium trap” of trying to get a square peg to fit into a round hole, they lost sight of the facts but instead focused on proving a pre-determined end goal. This pre-determined goal was that ALL Chinese steel that was made into billet, then rod and then a final product must have been dumped into Australia. What the ADC failed to comprehend was that the grinding ball industry is not part of the construction steel industry and cannot be put into the same basket. The ADC fell into the “Arrium” trap and was able to get the grinding balls to look like a reinforcing bar. Of more importance is that Arrium is just a very small fish in an incredible large pond. The mining Industry has seen commodity prices crash and have been forced to look at all aspects of their business to reduce costs and remain viable. Well known mining houses have and are still looking at all their costs which includes bringing in management consultants like McKinsey, looking at alternative consumable suppliers (like grinding media), looking at alternate logistics solutions (setting up transport hubs at remote destinations) to name but a few. They have begged their suppliers to help during these times of need and some have responded well. Arrium on the other hand finds itself in administration and is begging the Australian Government for help in the form of protectionism and subsidisation. MolyCop is the world’s largest supplier of grinding media and the Australian volumes are a small percentage of their total volumes. They will also be a lot better off without the weight of the rest of Arrium on their back and will almost certainly prosper better into the future. The mining Industry is a major contributor to the Australian economy in the form of taxes and royalties. They also contribute to the social fabric by supplying local employment and creating some of the finest mining engineers in the world. It is staggering to see the extent that the Australian Government will go to prop up a failed business at the expense of the mining Industry and Australia’s National interest.

Yours sincerely

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