PUBLIC VERSION

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Director Operations 2
Anti-Dumping Commission
GPO Box 1632
Melbourne VIC 3001

Dumping investigation into steel reinforcing bars exported from Taiwan

Dear Director

This submission is made on behalf of the Power Steel Co., Ltd (PSCO), in response to the Anti-Dumping Commission's (the Commission) findings outlined in Statement of Essential Facts Report No. 418 (SEF 418) on 14 December 2017.

PSCO wishes to first express its disappointment that the Commission chose not to have regard to its submission dated 8 November 2017, given that the issue of the specification adjustment was thoroughly considered by the Commission during the verification visit and the verification team recommended adjustment to ensure proper comparison between export prices and corresponding normal values. That submission referenced information and data that has been in the Commission's possession since the verification visit in August 2017 and did not present any new information which would have prevented the timely completion of the SEF report.

PSCO is also concerned with the Commission's reason for not making the specification adjustment in finalising its preliminary findings in SEF 418, due to the verification team being '*unable to identify the costs associated with the quenching and tempering process*'. Firstly, at no time during the verification visit was PSCO requested by the Commission's verification team to present or prepare information in respect of the costs associated with the quenching and tempering process. The visit report confirms the completeness and relevance of PSCO's costs, and that no other issues were identified in verifying costs to PSCO's audited financial statements and to relevant source documents.

Second, at no time since the completion of the PSCO verification visit has the Commission requested any supplementary information in relation to the quenching and tempering process and whether adjustment for differences in production processes between the export and domestic like goods are warranted. PSCO reminds the Commission of its obligations under Article 2.4 of the Anti-Dumping Agreement which requires that:

The authorities shall indicate to the parties in question what information is necessary to ensure a fair comparison and shall not impose an unreasonable burden of proof on those parties.

Notwithstanding the above concerns, PSCO presents the Commission with information addressing the quenching and tempering process relevant to the exported goods and the specific costs associated with this process.

Water quenching process

Exported goods manufactured to grade 500N are subject to a 'thermal mechanical treatment' stage used to convert the SD280 billet to 500N steel reinforcing bar. This involves running the hot bar through a water quenching runway, which contains a series of water jets on the inner surface of the runway, that sprays high pressure water on the surface of the hot bar to allow it to cool down instantly. This turns the rebar surface from Austenitic steel into Martensite steel.

In the meantime, the heat within the bar core gradually spreads outwards and further results in the rebar surface converting to tempered Martensite steel. The more intensive molecular structure of the tempering Martensite steel results in higher tensile/yield strength.

The water quenching runway operates on a [redacted] (refer to photo below), with PSCO having a total of [redacted] runways on this [redacted], with [redacted] dedicated to the water quenching process used for the export grade 500N and [redacted] for the air cooling process used for the domestic grades SD280 and SD420. Further details of these runways are outlined in the table below.

[Confidential table deleted]

[Confidential photo deleted]

Tools and equipment used in water quenching process

There are two discrete bits of equipment that are used exclusively in this water quenching process that are not used in the production of domestic products. These are the water quenching runways and the associated water pumps and motors.

i. Water quenching runways

As per PSCO's depreciation schedule, the acquisition cost for all [redacted] runways is NT$[redacted]. The annual depreciation expense for this equipment is NT$[redacted], so the total depreciation expense over the investigation period is NT$[redacted].

ii. Water pumps and motors (see photo below)

[Confidential photo deleted]

PSCO's mill operates [redacted] of water pumps and motors specifically used for the water quenching process, [redacted] of which are used in operations and the remaining [redacted] are standby replacements. All [redacted] pairs of water pumps and motors are more than [redacted] years old and the residual value of the equipment has been reduced to zero, so there are no depreciation expenses associated with this equipment.

However, repairs and maintenance are needed to keep them functioning normally. The total repairs and maintenance expense over the investigation period is NT$[redacted].

In addition, there are electricity expenses relating to the motors, with the relevant motors being [redacted]. PSCO has calculated the associated electricity expense as per below:

a) Power consumption: [redacted];
b) Weighted average electricity expense per degree: [redacted];
c) the electricity expense per hour for two motors: [redacted]
d) total running hours of two motors: [redacted]
e) total electricity expense specifically attributed to the water quenching process during the investigation period: [redacted].

Therefore, the total unit cost per metric tonne associated with the additional water quenching runways and water pumps/motors represents NT$[redacted]/mt or [redacted]% of the average unit cost to make and sell over the investigation period. This unit cost is calculated as per below:

Total production volume of water quenching rebar during the investigation period	Australia (500N) = [redacted] mt [redacted] ([redacted]) = [redacted] mt **Total =** [redacted] **mt**	
COST ITEM	**TOTAL ALLOCATED COST**	**UNIT ALLOCATED COST**
Water quenching runway depreciation expense	NT$[redacted]	NT$[redacted]
Repairs and maintenance — Water pumps and motors	NT$[redacted]	NT$[redacted]
Electricity expense — Motors	NT$[redacted]	NT$[redacted]
Total	NT$[redacted]	NT$[redacted]

<u>Materials used in water quenching process</u>

Please note that the only difference in terms of materials used in the water quenching process and the air cooling process is the requirement for additional water in the thermal mechanical treatment stage. Water is used during the production process for all rebar as it is used to cool down the rolling machines during the rolling process and to protect the machines from the heat of the billet and rebar as they pass along the rollers. Additional water is required when producing grade 500N rebar as it reaches the water quenching stage, as water is passed through the high-pressure jets inside the water quenching runway as described earlier.

However, there is no cost difference in water between the various rebar products as [redacted].

Finally, please also note that the ' reported in PSCO's submitted accounts shown below, relates to .

[Confidential table deleted]

Due allowance for water quenching process

As demonstrated above through the submitted calculations, the discrete cost of the water quenching process is considered immaterial as it represents a mere % of the total cost to make and sell of the exported goods. PSCO submits that this negligible amount does not affect price.

In considering whether to adjust for such an immaterial amount, PSCO also reminds the Commission that any adjustment should reflect the difference between the associated costs incurred in the water quenching process used to manufacture export grade 500N, and the associated costs incurred in the air-cooling process used to manufacture domestic grade SD420. Whilst the air-cooling runways have already been fully depreciated, the associated repair and maintenance expense for the air-cooling runways amounts to NT$ over the investigation period.

When reasonably considered, the difference in costs between the two production process is immaterial. Therefore, no adjustment is required to normal values for the difference in production process used between the exported goods and the corresponding like goods.

Instead, the primary and most significant difference in specifications between the exported and domestic goods is the grade of billet used in production. As clearly highlighted in PSCO's previous submission, PSCO and OneSteel agree that the differences in billet costs arising from the use of expensive high grade alloys in purchased billet grade SD420, warrants a downward adjustment to normal values that consume the higher cost billet compared to the normal billet grade SD280 consumed in the production of the exported goods.

Therefore, PSCO reiterates its request that the Commission apply the downward adjustment to normal values reflecting the % lower cost associated with the billet grade SD280 used in the exported goods.

Yours sincerely

John Bracic