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The Director
Operations 5
Anti-Dumping Commission
SAP House, Level 4
224 Bunda Street
Canberra ACT

INVESTIGATION INTO ALLEGED DUMPING OF ZINC COATED (GALVANISED) STEEL FROM INDIA, MALAYSIA AND VIETNAM

<u>SUBMISSION re MATERIAL INJURY</u>

In the Applicant's submission, "Industry" BlueScope, (hereafter referred to as BSL) argued dumping was occurring and it was resulting in material injury. BSL used the standard smorgasbord of definitions. We set out to demonstrate that this is not correct.

On 7 October 2016, the Commissioner, Dale Seymour, issued a notice ADN2016/105 initiating an investigation in respect of the above-reference product and countries.

Following that, Exporter Questionnaires were issued, assuming many were completed and returned, and presumably in some cases ADC effected visits for verification. In our case a very constructive visit between 12th – 16th December 2016 was effected, although we still do not have a visit report.

<u>Summary</u>

BSL's 2016 Annual Report and subsequent Executive Presentation showed strong EBIT and a promising outlook. This contrasts with the position taken by BSL's Anti-Dumping Department.

BSL's case revolves predominately around loss of volume and suppression in selling price. We will argue that there is little evidence of either and imports have little impact on those metrics.

We will talk about BSL's inability to service market leading them to push out offer lead time by 2 months, and supplementing capacity by importing from India though their subsidiary NZ Steel Pty Limited.

It is understood that for a number of the ASEAN countries, their exports have a zero dumping margin. That being the case we will review how the low volumes from the countries covered by this investigation, particularly Malaysia, cannot be causing material injury

BSL employ only a small percentage of people making steel and due to BSL pricing and route to market strategies, the remaining Australian industry requiring such products will suffer material injury without access to imports.

BlueScope Results

The following indicates the favourable experience BSL has had in recent times and raised the question how the small quantities of imported Galvanised product can be causing injury:

As provided in Annual Reports, BSL have experienced considerable and enviable results over the last 2 years. These results have primarily been driven by the Australian Steel Products division (ASP) that has delivered 50% of the underlying EBIT for the group in 2015 followed by a significant 141% increase in the division's profitability in 2016, 63% of the groups underlying EBIT in 2016. The ASP division has significantly outperformed all other divisions of BSL over this period.

Graphs provided in Figure 1 and Figure 7 of Consideration Report CON370 show that BSL market share has increased for each year over the period 2013 – 2016. Volumes in 2016 may remain below that of 2014 but this, as BSL themselves have reported in their 2016 Annual Report, is "due to the weakest macroeconomic conditions since 2002" and "lower distribution volumes due to restructure closure of unprofitable sites" coupled with the closure of some manufacturing end users supplied by BSL as they set up to offshore manufacture. Despite this, the BSL market share and volumes are still well in excess of the 2013 volumes before the application of measures on goods exported from China, Taiwan and Korea. It is also clear that there was a sudden increase in volumes from the countries currently under consideration in 2014. This was the result of end users, who are unable to obtain supply from BSL direct, being forced to seek alternative supply sources. However, since this initial surge, the market share of these countries has shown continual decline in both market share and volume.

With consideration to pricing BSL reported that revenue decreases of 7% were experienced during the Investigation period which was a result of lower domestic and export pricing driven by lower global prices and partially offset by the weaker Australian dollar.

As reported by BSL, sales volumes in 2016 strengthened in the domestic building sector driven by the boom in residential construction, strong investor demand and low interest rates. Sales volumes to their distribution customers also grew during the year however sales to manufacturing businesses declined due to customer closure and offshoring of production.

Production Capacity

Availability to make product locally is critical for a manufacturer for customer and price management. Short capacity should allow prices to be held firm and can be supplemented with imports. In this instance the small volume of imports cannot be causing injury.

Product supplied by CSCM in some ranges to a particular quality is not produced by BSL. The *"Real Zinc Enhance"* product produced by CSCM has superior qualities to normal galvanised steel that performs in a similar way to BSL's *Zincalume.* However as shown in **Confidential Attachment 7** the product range of "Real Zinc Enhance" is much wider than *Zincalume*

Mill capacities provided by BSL would give the clear impression that they had adequate capacity for the supply of the goods under consideration. However, BSL have and continue to import product disguising this through one of their other divisions New Zealand and Pacific Steel. This is the likely result of not being able to meet market demands and their lead-times increasing beyond acceptable levels of their distributors and stockists. A clear example of BSL's failure to meet supply commitments for customers is demonstrated in **Confidential Attachment 5** where BSL have not been able to meet their guaranteed leadtimes to the market highlighting capacity constraints and forcing the need to import product.

Confidential Attachments 1 & 2 demonstrate a sample steel import package. The orders for this material were placed on the mill by New Zealand & Pacific Steel a wholly owned division of BSL during the Period of Investigation with the goods arriving in Australia in August – a common shipment lead-time.

Average Selling Price

Pricing of imported goods is a consideration for the assessment of material injury to a local manufacturer. However there are a number of factors that affect pricing that must also be taken into account. BSL set their pricing based on international pricing based on import offers which reflect global steel pricing. During the last 5 years the Australian economy has suffered due to falling commodity prices, declining mining investment and high currency. In addition, international pricing fell throughout this period as a result of oversupply of steel in global markets. Setting new growth records and / or improved selling price performance was highly unlikely in this environment.

However, **Confidential Attachments 3 part 1 and part 2** provide tables summarising price offers that were made at various points in time during the investigation period, from various mills including many from countries that are not under consideration. The table shows a cross section from all countries as well as reflecting the pricing changes through the various gauges offered. It is clear from this that in the absence of product supplied from Malaysia over this period, market prices **would not** have been influenced. In no case shown does the offer from Malaysia form the lowest offer to the market, and in many cases the offer is above the average offers from other countries in the period. The offers from Malaysia are therefore not having any effect on BSL's ability to increase prices.

There is clear evidence where BSL distributors have failed to follow increases in international pricing and supplied at pricing significantly under import pricing. This is clearly identified in **Confidential Attachment 4.** This can only be attributed to supply by BSL to their distributors under import pricing or their distributor was intending to supply alternate import offer at well under the Malaysian offer.

Route to Market

BSL refuses to sell to smaller distributors and end users. This is because BSL do not have the administration for small picks, invoicing, cash collection and material processing which are services that are traditionally provided by their distributors and some stockists. This attracts additional cost to the product supply. BSL's principal channels are larger distributors and end users, BSL's downstream manufacturers and to a lesser degree exports.

There are however a number of small to medium end users that are directly affected by BSL's action. Their options are to purchase feed material from the local BSL distributor or stockist or look to import product from offshore mills. Purchasing from a local distributor has other issues. There is no guarantee of the product origin from "loyal" BSL distributors who also regularly import to remain price competitive. This can cause manufacturing and quality problems if the source is unknown. Product (ex BSL) supplied from a distributor is sold at an inflated price to allow them to gain suitable profit margins.

There are a number of small to medium manufacturers that compete directly with BSL downstream businesses and the added cost of purchasing through the distributor network has the potential of making these companies unable to compete in the market. Their only alternative is look at import options to secure regular and reliable supply.

By importing the product, they are guaranteed the source, have improved control over their supply chain and ensured they are purchasing at an internationally competitive price level.

All BSL customers and distributors have alternate supply strategies in place and often “shop” pricing overseas to force BSL to keep pricing down to retain the supply. This is not an uncommon practice and one that often sees BSL match pricing to retain the business lowering their overall ASP. In this regard BSL are causing themselves material injury by overreaction to market demands

As we have demonstrated, smaller stockists and end users (which we strongly argue are part of the Australian steel industry) are compelled to import their steel needs if they want to remain competitive and viable. We’d like to repeat the **invitation** for ADC to visit and discuss the key issues they face around BSL supply with some of these key Australian businesses so as to hear their point of view.

Causation

It is clear through many discussions with a variety of steel industry personnel that the significant recent changes in the BSL structure have contributed to an unstable and unclear steel environment in Australia. This alone has caused Australian steel industry participants to seek and secure alternate sources of supply so that they can have assurance with their steel supply, ensure the quality of the product they purchase and eliminate any pricing variations or surprises.

ASL had considerable change in its distribution, with name changes and branch closures. Changes of this magnitude combined with the chaos and disruption it causes can’t help but to create uncertainty in their sales force and a potential drop in sales and volumes.

Summary

In summary we contend that BSL has not suffered material injury as a result of material being imported from Malaysia. The application of this investigation has caused significant market uncertainty and disruption that has led end users to seek alternate sources of supply. These sources are not BSL and are countries that are not subjected to this investigation. Evidence of this disruption can be seen in **Confidential Attachment 6**. This provides an example of where an end user has sought alternative supply sources other than from the countries under consideration so that they can maintain supply throughout this period of uncertainty rather than organise supply through BSL. This alone highlights that BSL will not acquire these additional tonnes they claim are causing the material damage if measures were to be imposed.

The facts actually show that:

- BSL have reported that profitability and market share of the ASP division have increased through the investigation period
- The small volumes from Malaysia which represent less than 2% of the total GUC market in Australia are not influencing the market price and are comparable to other import offers from mills of countries that are not subject this investigation

- The volumes and market share of imported product from the Countries Under Consideration (CUI) have been decreasing over the last 3 years
- Limitations in BSL's ability to supply has seen them import significant volumes themselves from one of the countries under consideration
- End users that are refused direct supply from BSL will look to source product from other mills rather than through the BSL distributor network so that they can be assured of material origin and quality
- There are many end users who are forced to purchase off sources other than BSL as BSL will not supply them directly, yet will selectively supply others. Evidence of this is provided in **Confidential Attachment 8**. For these end users, many will be forced to look at the viability of their operations in Australia with the potential outlook to manufacture offshore and import finished product a consequence that no one wants to happen. In these circumstances, BSL would not gain the added volumes that they would like to think they could achieve. As BSL have noted on the public record, there has already been a trend in this direction.

Thank you for reviewing our submission

Yours Sincerely

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ATTACHMENTS

Confidential Attachment 1, 2 pages
Confidential Attachment 2, 2 pages
Confidential Attachment 3 part 1, 1 page
Confidential Attachment 3 part 2, 1 page
Confidential Attachment 4, 4 pages
Confidential Attachment 5, 3 pages
Confidential Attachment 6, 6 pages
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