RECIEVED 14/02/2017

BlueScope Steel Limited
Sirius Building
Five Islands Road, Port Kembla NSW 2505
PO Box 1854, Wollongong NSW 2500
P +61 2 4275 4638 | **M** +61 412 377 603
E Chad.Uphill@bluescopesteel.com

10 February 2017

The Director
Operations 3
Anti-Dumping Commission
GPO Box 1632
Melbourne Victoria 3001

Public File

Dear Sir/Madam,

Re Investigation No. 370 – Galvanised steel exported from India, Malaysia and Vietnam – Particular Market Situation; Vietnam

I. Introduction

BlueScope Steel Limited's ("BlueScope") application alleged that a 'particular market situation' applied to galvanised steel sold in Vietnam. BlueScope's application contended that the key raw material input used in the manufacture of galvanised steel – hot rolled coil ("HRC") – is purchased at artificially low prices. As HRC accounts for a significant proportion of the cost of manufacturing galvanised steel (approximately 60 per cent of production cost), the impact of the low HRC input cost on the selling price of galvanised steel will be significant.

II. HRC at artificially low prices

BlueScope highlighted at Section B-4.1 of its application that Vietnam was a non-producing HRC country. All HRC consumed in Vietnam is imported, with [*XX*] tonnes imported during 2015 (of which [*XX*] tonnes were sourced from China)[1]. China therefore accounted for 52 per cent of total HRC imports into Vietnam in 2015.

BlueScope further demonstrated that the largest Vietnamese exporter of galvanised steel [*Exporter name*], imports [*XX*] per cent of its HRC requirements from China (refer Table B-4.1.2 of Application). The imported HRC is [*Confidential product type and pricing*].

The application detailed the decision in Report No. 190 that positively determined a market situation applied in respect of galvanised steel sold in China. This determination was based upon evidencing the Government of China's ("GoC") broad, overarching macroeconomic policies and plans for the domestic iron and steel industry, along with the various taxes, tariffs, and export and import quotas that have influenced the prices of raw materials (specifically HRC and domestic equivalents) and that have distorted the selling prices of the finished goods (i.e. galvanised steel) in China.

The BlueScope application provided insight into how the Government of Vietnam ("GoV") actively encourages the importation of HRC in the absence of domestic production. [*Confidential import tariff considerations*]. The GoV has willingly utilised the imposition of Safeguard Measures on both steel billet and steel long products (imposed in March 2016), on semi-finished steel products and bars and rods (imposed August 2016) and pre-painted flat steel (announced 6 July 2016).

[1] [*Confidential data source*].

BlueScope also highlighted with the Anti-Dumping Commission ("the Commission") that other countries in the ASEAN region – most notably Indonesia and Malaysia were "active in Safeguard investigations asserting material injury from excess Chinese supply".

The policies of the GoV encourage the importation of HRC at the lowest price so that value add rolling and coating activities may be undertaken by Vietnamese manufacturers. As China accounts for more than 50 per cent of global steel production and is a significant exporter of HRC used in the manufacture of galvanised steel, Vietnam, like steel producers in Indonesia and Malaysia, is adversely impacted by the high-volume, low-priced Chinese HRC exports.

III. China market position

Accounting for more than 50 per cent of global trade in steel products, China continues to grow its exports causing oversupply and suppression of global steel prices. The Chinese steel industry views increases in export volumes as the means for relieving "production stress".

According to a recent presentation by the Vice General Manager at Hangzhou CIEC International Co., Ltd – a trader in Chinese steel products – China produced almost 200 million tonnes of HRC in 2015 (Refer Non-Confidential Attachment 1). The top four export destinations for Chinese HRC were Vietnam, Korea, India and Pakistan. Vietnam is a growing market with surging demand for HRC, and Chinese exporters continue to see growth throughout 2016. The attractiveness of the market in Vietnam is enhanced by [*Confidential import tariff considerations*].

IV. Vietnam Steel industry position

According to the Vietnam Steel Association ("VSA") in its recent presentation dated 4 November 2016 titled "*Review of Vietnam Steel industry in First Half of 2016 and Outlook for 2017*" (refer Non-Confidential Attachment 2) China continued to be the predominant supplier of HRC to the Vietnam market. Specifically, Slide 16 confirms that "*The influx of Chinese steel products export to Vietnam continues increased in 2016. There is a big amount of alloy steels (3,894,206 ton) which occupied 66% for the period Jan to June 2016. These products enjoy with 0% import taxes*." (sic).

It is further reported at Slide 11:

> "*The huge steel products imported to Vietnam in 2015 including HRC, construction steel products with non & Boron, Chromium added*" (sic).

confirms the ongoing strategy of Chinese exporters 'alloying' steel products to maximise the VAT rebate upon export from China. At Slide 17, the VSA has stated the following:

- "*Vietnam Steel industry has continued affected by fluctuated of global input material prices for steel industry.*
- *As the same as regional countries, Vietnam has been faced with huge steel imported with **unfair** trade from China*." (sic).

The VSA views the imports of steel from China as "unfair" which can only be interpreted as being at dumped (and subsidised) prices. The intent of the GoV as reflected in the VSA's comments to assist domestic producers – including those proponents with new investments that will see HRC produced in 2017 - is reflected in the following comment (Slide 21):

"*With the import tariff barrier trending to zero, Vietnam as well as other countries have to use trade measures & TBT*[2] *to prevent imported steel products for supporting domestic producers under WTO rules*."

BlueScope's application demonstrated that the Chinese HRC FOB price was the lowest US$FOB price for the major supplying countries to Vietnam (India, Japan and Taiwan). However, it should be noted that [*Confidential import tariff considerations*].

V. Role of the Government of Vietnam

The role of the GoV in influencing the environment for HRC imports from China in recent years and the fast-tracking of flat steel investments (including HRC by the Taiwanese steel manufacturer Formosa at Ha Tinh province) is significant.

[redacted] (refer Confidential Attachment [redacted] [*Confidential import tariff considerations*].

The GoV does not provide duty-free entry for goods not manufactured locally. Tariff rates apply – with some at significant levels, despite there being an absence of local production. China has been afforded duty free access into Vietnam via the ASEAN-China Free Trade Agreement (i.e. ACFTA) that came into force on 1 January 2017. The GoV's approach to reducing tariffs on goods not produced locally is tailored towards benefiting select countries (e.g. China, the world's largest exporting country of steel products).

The Vietnam steel industry has up until 2016 focused on up-stream value-adding steel projects reliant upon imported flat steel products e.g. re-rolling and galvanizing operations. A fully integrated steel mill has not been considered until the Formosa project at Ha Tinh province. In order to attract an integrated steel works investment, the GoV has needed to provide considerable 'incentives' for proponents to commit to such a project. According to Globalpost (dated 12 November 2014) concern has been voiced by domestic businesses in Vietnam about the "generous incentives given to foreign invested enterprises" ("FIEs") including the "incentives the government offers to Formosa" (refer article at Non-Confidential Attachment 4). It is further referenced that the incentives are only available to FIEs.

BlueScope understands that FIEs are afforded incentives including a 10 per cent tax rate for 15 years – particularly if the investment is in a sector designated as 'priority', or within economic zones or hi-tech zones, or in an area of socio-economic hardship (refer Non-Confidential Attachment 5). Additional tax exemptions and tax deductions are also available, as is import duty exemption on certain capital equipment consumed in the new investment.

Having attracted the new investment to Vietnam, the GoV is confronted with how to displace the cheap imports (including those *encouraged* from China) with the output from the new, local facility.

The GoV has recently announced the establishment of a 'trade defence department' that it will charge responsibility for the coordination of trade defence cases and secure anti-dumping, subsidy and safeguard

[2] Technical Barriers to Trade.

measures (refer Non-Confidential Attachment 5 – Vietnam News, 1 February 2017). The Vietnam Minister of Industry and Trade ("MoIT") announced:

> "*The department would undertake responsibilities in cooperating with relevant agencies to implement regulations on anti-dumping, anti-subsidies and to apply defence measures to imported goods into Vietnam.*
>
> *The department would also organise investigations on imports from countries into Vietnam to propose application of anti-dumping measures under the current laws and regulations*."

This announcement is indicative of the GoV's intentions to encourage those proponents involved in new production facilities to seek relief from the "unfair" trading prices of Chinese steel which the GoV acknowledges will be detrimental to the new HRC investments in Vietnam.

The GoV has, up until 2016, encouraged increasing volumes of Chinese HRC for re-rolling and value-add coated steel manufacture in the Vietnam steel industry. The GoV now recognises and acknowledges that the prices at which Chinese HRC is sold into Vietnam is at pricing levels that do not permit full cost recovery, as it proactively seeks out remedies to address the "unfair" Chinese HRC prices via the anti-dumping, subsidisation and Safeguard Measures mechanisms.

VI. Impact of Government of China policies on Vietnam steel pricing

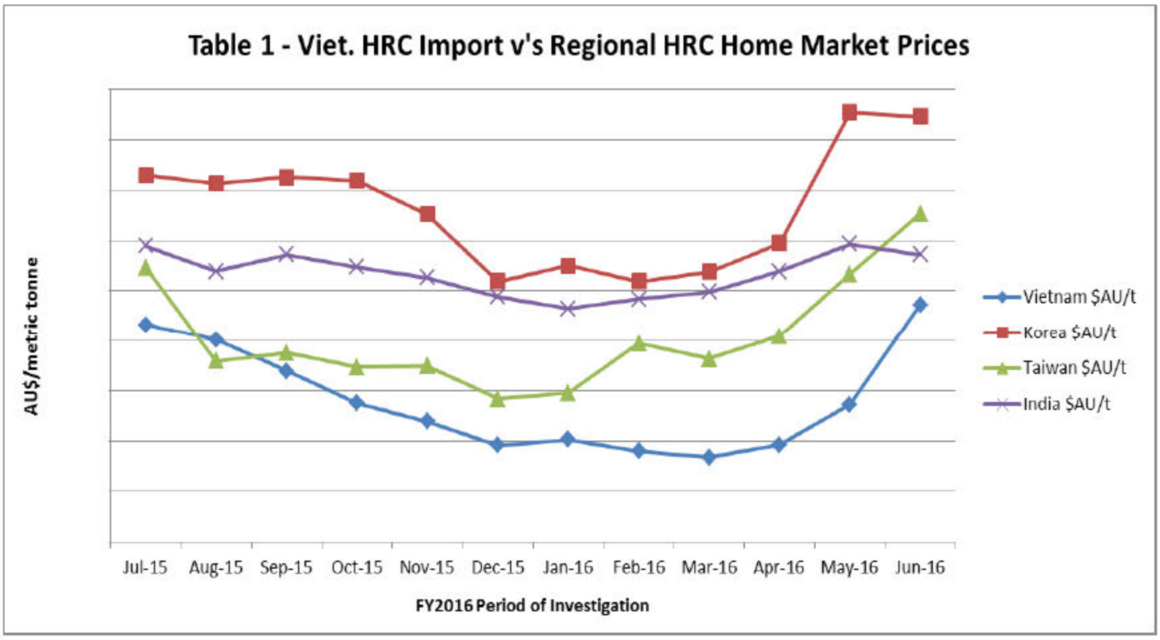
As indicated, Report No. 190 outlined the impact of the GOC's policies and plans on the domestic Chinese steel industry. The GOC's plans extend to the application of the VAT rebate on exports of alloyed HRC [*Confidential trade considerations*].

The absence of flat steel production in Vietnam, where GDP in 2016 grew at approximately 6.7 per cent (refer Slide 3 – Non-Confidential Attachment 2) with growth in metallic and coated products increasing by 18 per cent in 2015 (Slide 11), has necessitated increased imports – again primarily from China. The GoV has encouraged the importation of artificially-low priced alloyed HRC from China and afforded Chinese exports [*Confidential trade considerations*] a stranglehold on the Vietnam market. The policies of the GoV have encouraged downstream re-rollers and galvanised steel producers to rely upon Chinese HRC imports, with artificially low prices flowing through to impact value-added galvanised steel prices (both for domestic supply and for export).

BlueScope notes that the GoV is now concerned – as the Formosa integrated steel investment commences production of HRC in Vietnam for the first time – that the artificially low HRC imports will impact the returns on new investments (including Formosa). The GoV's announcement to establish a trade defence department is recognition that the prices for HRC into Vietnam are "unfair" and must attract a remedy (whether it be anti-dumping, subsidy or a Safeguard remedy).

BlueScope is seeking the Commission to recognise that the GoV's policies have encouraged imports of Chinese HRC at artificially low prices by re-rollers and galvanisers in Vietnam. This has created a situation in the Vietnam galvanizing market where there is a "transfer" of the artificially low inputs (i.e. HRC) produced in China and exported to Vietnam at the same low prices. As a result, the prices for galvanised steel in Vietnam are lower than they otherwise would be (as confirmed by export prices from India, Japan and Taiwan). The encouraged and artificially low input prices for HRC into galvanizing manufacture in Vietnam has contributed to low domestic galvanised steel prices. These prices are lower than in comparable countries that do not attract high import volumes of Chinese HRC (or where there are effective trade remedies in place to address Chinese HRC exports).

The following chart (Table 1 - refer Confidential Attachment 6) provides a comparison between Chinese export HRC prices to Vietnam during the POI as compared to other regional domestic markets. This demonstrates the material price differentials evident between the benchmark countries and the Chinese influenced HRC supplied into Vietnam. Certain of these countries are also currently subject to anti-dumping measures on exports of HRC to Australia.



[Confidential data source]

VII. Conclusions on market situation for galvanised steel in Vietnam

BlueScope has demonstrated that the Vietnam galvanised steel industry is a beneficiary of artificially low Chinese alloyed HRC imports at reduced prices. Vietnam is an importer of Chinese alloy HRC that the former Customs and Border Protection ("C&BP") acknowledged were at artificially low prices in the Chinese galvanised steel market (Report No. 190 refers).

BlueScope's application confirms that the largest Vietnamese exporter of galvanised steel to Australia – [*Exporter name*] – had, in 2015, imported approximately [*XX*] of its HRC requirements for galvanizing end-uses, from China. The import prices for Chinese HRC are lower than if they were imported from another source country. The GoV's tariff policies have contributed to the high volume of Chinese alloyed HRC imports into Vietnam. BlueScope has submitted that the GoV's desire for upstream re-rollers and galvanisers to supply the country's expanding economy has encouraged increasing imports of Chinese HRC.

It is open for the Commission to find that the GoV's policies encourage imports of alloyed HRC from China in increasing volumes. The artificially low Chinese export prices provide a benefit to Vietnam's rollers and galvanisers such that the imported Chinese HRC prices provide lower input prices into re-rolling and/or galvanizing operations in Vietnam, than otherwise would be the case. The artificially low input prices for HRC in Vietnam translate (or flow through to) low selling prices for galvanised steel in Vietnam such that it may be considered by the Commission that a particular market situation for galvanised steel prevails in Vietnam.

BlueScope, therefore, urges the Commission to find that a particular market situation for galvanised steel in Vietnam applies and that normal values for galvanised steel exporters must be determined under s.269TAC(2)(c) with a benchmark domestic market price for HRC (ex Korea or Japan) to be substituted for the exporter's purchase price for HRC during the investigation period.

If you have any questions concerning this submission, please do not hesitate to contact me on (02) 4275 4638, or BlueScope's representative Mr John O'Connor on (07) 3342 1921.

Yours faithfully,

Chad Uphill
Leader – Trade Affairs