



BlueScope Steel Limited
ABN 16 000 011 058
BANZ
Port Kembla
Post Office Box 1854
Wollongong NSW 2500
Telephone 02 4275 3859
Facsimile +02 4275 7810
www.bluescopesteel.com

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Ms Joanne Reid
Director, Operations 3
International Trade Remedies Branch
Australian Customs and Border Protection Service
Customs House
5 Constitution Avenue
CANBERRA ACT 2601

Dear Ms Reid

Public File

**Aluminium Zinc Coated Steel and Galvanized Steel exported from China, Korea and Taiwan –
Angan Steel Company Limited Exporter Visit Report**

Background

Customs and Border Protection has recently completed a verification visit with Angang Steel Company Limited ("Ansteel") in respect of its exports to Australia of aluminium zinc coated steel and galvanized steel.

Ansteel is owned by the Anshan Iron and Steel Group Complex, which is in turn owned by Angang Holding. Angang Holding is wholly-owned by the State-Owned Assets Supervision and Administration Commission ("SASAC").

The Anshan Iron and Steel Group is the second largest producer of iron and steel in China (behind the BaoSteel Iron and Steel Group). It is understood that the Anshan Iron and Steel group is a fully integrated Group of Iron and Steel companies, with some 30 subsidiaries, including three steel making and twelve steel-rolling plants. The Anshan Iron and Steel Group produces 16 million tonnes of steel per annum, with production including high-value end products such as electroplated, colour-coated and silicon flat steel products.

The Anshan Iron and Steel Group is also integrated to raw material iron ore production, where it operates mines that produce approximately 16 million tonnes per annum.

Anshan Iron and Steel merged with the Benxi Iron and Steel group in 2005.

BlueScope has examined the Ansteel Exporter Visit Report and would like to address a number of matters contained therein.

Adjustment for S,G&A expenses

Customs and Border Protection has made an upward adjustment to Ansteel's normal values to account for the roles of Angang International and Angang HK in the export sales to Australia. The adjustments are based upon selling and general administration expenses verified in each of Angang International and Angang HK's financial statements.

It is noted at Section 3.1 of the Ansteel report that Angang International acts as an agent in the sale of the goods to foreign markets including Australia. Angang International collects a commission for this role.

The Ansteel report does not indicate whether Customs and Border Protection compared the adjustment amount for selling and general administration (sourced from Angang International's financial statements) with the commission that Angang International charged on Ansteel for the sale of the exported goods. BlueScope submits that the adjustment to Ansteel's normal values for the role of Angang International should reflect the higher of the selling and general administration amount and the selling commission.

Price extras charged by Ansteel on domestic market

Customs and Border Protection has verified price extras charged by Ansteel for product sold on the Chinese domestic market. Price extras are levied in respect of the following:

- thickness;
- width;
- steel grade;
- zinc coating; and
- surface quality.

The Ansteel price extras are consistent with what BlueScope understands to be industry practice. As indicated above, the Anshan Iron and Steel Group is the second largest iron and steel conglomerate in China and therefore is a price leader on the Chinese market.

The comments verified by Customs and Border Protection in relation to price extras charged by Ansteel raise questions about the claims of certain other producers/exporters of aluminium zinc coated steel and galvanized steel (e.g. Yieh Phui (China) Technomaterial Co., Ltd) that claim no price extras are charged for "grade" or surface finish.

Customs and Border Protection is requested to review the claims of Yieh Phui (China) Technomaterial Co., Ltd that price extras are not charged on the Chinese domestic market for grade and surface finish, when it is clear from Ansteel that price differentials for these extras do exist.

Ansteel's raw materials and processing costs

BlueScope welcomes Customs and Border Protection's insistence that actual costs incurred (as distinct from weighted average unit costs) form the basis of the Ansteel verification.

It is noted that Customs and Border protection has verified the cost of HRC consumed by Ansteel, including verification of the raw materials used back to iron ore, coking coal and any purchases of coke.

The Ansteel raw material costs verified by Customs and Border Protection will assist in assessing the extent to which coke and coking coal are sold in China at less than adequate remuneration (i.e. countervailing investigation).

Ansteel indicated that processing costs are influenced by "*variations in raw materials and processing method, but can also be influenced by exceptional circumstances*". It is not clear from the Ansteel

report what circumstance(s) may be described as an “abnormal situation” or whether the cost ratios were consistently lower than the standard allocations on Ansteel’s Bill of Materials for the selected products galvanized steel, HRC and steel billet.

The impact of the “exceptional circumstances” on Ansteel’s processing costs is not clear from the report.

Level of profit

BlueScope notes that Customs and Border Protection has constructed normal values for Ansteel’s aluminium zinc coated steel and galvanized steel products as exported to Australia. A constructed methodology based upon the cost to make aluminium zinc coated steel and galvanized steel has been used, including a benchmark price for HRC. An amount for selling and general administration has also been applied.

The Ansteel report does not indicate the basis for the amount of profit to be applied to the constructed costs normal value.

It is BlueScope’s view that the amount of profit to be applied to Ansteel’s constructed normal value is the amount achieved on Ansteel’s domestic sales of like goods that are determined to be in the ordinary course of trade prior to the inclusion of a benchmark HRC price in the methodology.

It is noted that a significant proportion of Ansteel’s sales were not in the ordinary course of trade. It is not clear how Customs and Border protection determined the level of profit to be applied to Ansteel’s normal value(s). BlueScope contends that the weighted-average profit for sales of like goods sold in the ordinary course of trade, as a minimum, should be used in Ansteel’s constructed normal values.

Conclusions

The Ansteel report identifies some concerns that BlueScope has with the determination of dumping margins and normal values for Ansteel (and other Chinese exporters of the goods under consideration). Specifically, BlueScope requests Customs and Border protection to examine:

- the amount for commission charged by Angang international to Ansteel for export sales, and whether the commission exceeds the amount verified for selling and general administration expenses sourced from Angang International’s financial statements
- the variation in processing costs attributed to “exceptional circumstances” and whether this understates Ansteel’s production costs for aluminium zinc coated steel and galvanized steel;
- the basis for the amount of profit included in Ansteel’s normal value(s); and
- the claim of certain exporters/producers that price extras are not charged for steel grade and surface finish when Ansteel as a member of the second largest iron and steel group in China does levy for these price extras.

BlueScope requests Customs and Border Protection to review the above items and assess the impact on Ansteel's constructed normal values.

If you have any questions concerning this letter, please do not hesitate to contact me on (02) 4275 3858.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Alan Gibbs', is positioned above the printed name.

Alan Gibbs
Development Manager – International Trade