Australian Government
Australian Customs and Border Protection Service

R E P O R T

INVESTIGATION INTO THE ALLEGED DUMPING OF HOT ROLLED PLATE STEEL

EXPORTED FROM

THE PEOPLE'S REPUBLIC OF CHINA, THE REPUBLIC OF KOREA, THE REPUBLIC OF INDONESIA, JAPAN AND TAIWAN

PUBLIC FILE

VISIT REPORT – AUSTRALIAN INDUSTRY

BLUESCOPE STEEL LIMITED

THIS REPORT AND THE VIEWS OR RECOMMENDATIONS CONTAINED THEREIN WILL BE REVIEWED BY THE CASE MANAGEMENT TEAM AND MAY NOT REFLECT THE FINAL POSITION OF CUSTOMS AND BORDER PROTECTION

March 2013

PUBLIC FILE

1 TABLE OF CONTENTS

2 BACKGROUND

On 21 December 2012, an application was lodged on behalf of BlueScope Steel Limited (BlueScope) requesting that the Minister for Home Affairs (the Minister) publish:

- dumping duty notices in respect of hot rolled plate steel (plate steel) exported to Australia from the People's Republic of China (China), the Republic of Korea (Korea), the Republic of Indonesia (Indonesia), Japan and Taiwan; and
- a countervailing duty notice in respect of plate steel exported to Australia from China.

BlueScope provided further information and data in support of its application, the last of which was received on 29 January 2013. As a result, Customs and Border Protection restarted the 20 day period for considering the application.

BlueScope alleges that the Australian industry has suffered material injury caused by plate steel exported to Australia from the nominated countries at dumped and, in the case of China, subsidised prices.

BlueScope claimed that material injury in respect of plate steel commenced to impact profit and profitability in 2009/10. The application identified the injurious effects as:

- loss of sales volume;
- reduced market share;
- reduced revenues;
- price depression;
- price suppression;
- reduced profits;
- reduced profitability;
- reduced return on investment;
- reduced attractiveness for reinvestment in the plate steel business; and
- reduced employment.

Public notification of initiation of the investigation was made on 12 February 2013 in *The Australian* newspaper and Australian Customs Dumping Notice No. 2013/18.

2.1 Purpose of visit

We explained to BlueScope that the purpose of our visit was to:

- obtain general information about the Australian market for plate steel;
- gain a greater understanding of BlueScope's manufacturing, marketing, sales and distribution processes;
- verify information provided in the application;
- obtain additional financial data to assist in the analysis of the claimed injury to the Australian industry;

- give the company the opportunity to provide any further comments or raise any further issues it believes relevant to the investigation; and
- discuss and gather data relevant to establishing an unsuppressed selling price.

2.2 Contact details

The applicant provided the following contact details.

Company	BlueScope Steel Limited Five Islands Road Port Kembla NSW 2505
Company representative	Mr Alan Gibbs, Development Manager – International Trade
Telephone	02 4275 3859
Fax	02 4275 7810
Email	Alan.Gibbs@bluescopesteel.com
Nominated representative	Mr John O'Connor, John O'Connor & Associates Pty Ltd
Telephone	07 3342 1921
Fax	07 3342 1931
Email	jmoconnor@optusnet.com.au
Date of visits	5 - 7 March 2013

The following were present at various stages of the interview.

BlueScope	Mr Alan Gibbs, Development Manager – International Trade Mr Chad Uphill, Senior Finance Analyst Mr Todd Bryers, Sales Operations Manager - Distribution Mr Matthew Hennessy, Manager - Distribution Mr John Dryden, National Technical Manager (uncoated products) Mr Troy Gent, National Sales Manager - Distribution Mr Anthony Palermo, Pricing & Service Offer Manager Mr Steve Weine, Manager Finance & Administration, Sales & Marketing Mr Paul Daly, Finance Manager, Accounting Services Mr Scott Waters (manages COGNOS data)
John O'Connor & Associates Pty Ltd	John O'Connor
Customs and Border Protection	Geoff Gleeson – Director, Operations 3 Michael Kenna – Manager, Operations 3 Michelle Gibson – Manager, Operations 3 Rebecca Oliver – Supervisor, Operations 3

2.3 Investigation process and timeframes

We advised BlueScope of the investigation process and timeframes as follows:

- the investigation period is 1 January to 31 December 2012;

- Customs and Border Protection will examine the Australian market from January 2008 for the purpose of analysing the condition of the Australian industry;
- a preliminary affirmative determination may be made no earlier than 60 days after the date of initiation (15 April 2013) - provisional measures may be imposed at the time of the preliminary affirmative determination or at any time after the preliminary affirmative determination has been made, but Customs and Border Protection would not make such a determination until it was satisfied that there appears to be, or that it appears there will be, sufficient grounds for the publication of a dumping duty notice and/or countervailing duty notice;
- statement of essential facts will be placed on the public record by 3 June 2013 or such later date as the Minister allows - the statement of essential facts will set out the material findings of fact on which Customs and Border Protection intends to base its recommendations to the Minister and will invite interested parties to respond, within 20 days, to the issues raised (submissions received in response to the statement of essential facts will be considered when compiling the report and recommendations to the Minister);
- Customs and Border Protection's report to the Minister is due no later than 17 July 2013 - should the Minister approve an extension to the statement of essential facts this would mean that the due date of the final report would also be extended - all interested parties would be notified and an Australian Customs Dumping Notice would be issued should an extension be requested and approved.

We explained to BlueScope that we would prepare a report of our visit. The report would be provided to the company to review its factual accuracy and to identify those parts of the report it considered confidential. Following consultation about confidentiality, we would prepare a non-confidential version of the report for placement on the public record.

3 COMPANY BACKGROUND

3.1 General

BlueScope Steel Limited is a publicly listed company with many subsidiary and associated companies throughout the world. A summary of it global interests can be found at **confidential attachment GEN 1**. Details of these affiliates were provided in the public versions of the applications and are also available in BlueScope's 2011-12 financial report.

BlueScope produces hot rolled plate steel from slab steel in either of two processes:

1) Via a Plate Mill (used to manufacture XLERPLATE®); or

2) Via a Hot Strip Mill and cut to length (used to manufacture XLERPLATE ® LITE).

Plate steel manufactured via the Plate Mill is manufactured at BlueScope's Port Kembla plant, from slab steel that is also manufactured at Port Kembla.

The Port Kembla plant has one Plate Mill, which can be used to manufacture plate up to 3200mm wide.

Plate steel manufactured via the Hot Strip Mill is produced from hot rolled coil (HRC) that is also sourced from Port Kembla Steelworks.

BlueScope make coil plate (plate made from HRC) at this site and utilise a third party to cut the coil plate into the required sizes. BlueScope advised that there are upper limits on the thickness of plate that can be made from HRC dependent on the manufacturing equipment. Generally thin, narrow plate steel is made via the hot strip mill and thicker plate is made via the plate mill. Typically coil plate is produced up to 2000mm wide.

Any blasting or painting of plate steel is outsourced by BlueScope. In the calendar year 2012 BlueScope estimated that it supplied around 3,000 tonnes of blast or blast and painted plate. Usually plate steel is supplied blasted and primed. However the majority of plate steel manufactured by BlueScope is sold without blast or paint treatment, termed 'as rolled'.

Plate steel is transported uncovered with rust not being a big issue as the plate steel is usually cut, welded etc before the surface is cleaned up. The plate steel is packed with a piece of timber (timber dunnage) placed between the plates so that it is easily picked up by a forklift. The plate steel is not wrapped and only occasionally tarped for shipping. Coil plate is strapped together for transport, usually in two or four tonne panels. Imported plate steel is generally not packaged, however sometimes coil plate is.

BlueScope advised that cost differences exist between coil plate and plate made via the plate mill, due to the differences of the two production methods. The manufacture of steel is very fixed costs leveraged as the blast furnace which produces the raw input iron cannot be reduced to lower than 80-85% of its operating

capacity. Running the blast furnace at a lower capacity than this presents a great operational risk of ruining the linings and internal structure of the furnace. Running the blast furnace cold reduces the life of the asset and risks damage to it. It is best for the longevity of the furnace to run it at 100% capacity. As such, the cost of operating the blast furnace is fixed at the minimum cost of operating at 80-85% of capacity. BlueScope advised that iron ore represent 60-70% of total liquid iron costs.

The second blast furnace at Port Kembla was decommissioned in October 2011, representing a 2.6 million tonne capacity reduction (discussed below).

BlueScope supplies plate steel directly from the Port Kembla steelworks and from seven service centres located in Sydney (Chullora and Erskine Park), Melbourne (Braeside and Sunshine), Brisbane (Acacia Ridge), Adelaide (Wingfield) and Perth (Myaree). It also sells plate steel through affiliated companies, including fully owned subsidiary, BlueScope Distribution Pty Ltd. The sales data provided by BlueScope includes all sales by BlueScope, including sales to its affiliated companies and sales by the service centres. Sales to affiliated companies represent approximately [redacted]% of total plate steel domestic sales.

BlueScope's Australian and New Zealand operations, incorporating all affiliated companies, are managed as a single unit. The plate steel plants are part of BlueScope's Port Kembla Steelworks. BlueScope's management structure is summarised at **confidential attachment GEN 2**.

BlueScope's statutory financial reports are generated using Hyperion, a reporting consolidation tool that extracts summary data from SAP. However, it explained that its day to day accounting is done in various systems such as an invoicing and settlement discounts system, debtor management, rebate model, manufacturing costs and freight model systems. A data reporting system, referred to as COGNOS, captures data from various systems. BlueScope explained that the trial balance from SAP may not agree with the COGNOS database as the database does not include accounting adjustments such as accruals, rebates, transfer pricing, government subsidies and carbon tax expenses.

BlueScope accounts are audited in accordance with Australian Accounting Standards and International Financial Reporting Standards. The company provided relevant financial documents in its application.

3.2 Recent company changes

On 22 August 2011, BlueScope's board announced a restructure of its business and significantly reduced the Australian export business. The restructure included the closure of the No. 6 Blast Furnace at Port Kembla and the Western Port hot strip mill.

In October 2011 the Western Port hot strip mill was closed and HRC was no longer produced at this location. BlueScope also significantly reduced its production for export.

BlueScope stated that this restructure required a workforce reduction of approximately 1000 people and at the time of the announcement, an estimated cash

cost of $300 to $400 million as the company closed one blast furnace and one hot strip mill along with associated plant.

3.3 Assistance received from the Steel Transformation Plan

After the visit, it was brought to our attention by an interested party that BlueScope had received a competitiveness assistance advance of $100 million under the Federal Government's Steel Transformation Plan. We queried BlueScope about this assistance payment and it confirmed that BlueScope had received the $100 million assistance payment, [redacted] of which was attributed to the Port Kembla Steelworks.

[redacted]. *[allocation to profit & loss statement]*

It was confirmed by BlueScope that [redacted] *[amount allocated]* posted to the Jan-Jun 2012 P&L was included in the data provided to us by BlueScope. BlueScope explained that its Competitive Assistance Advance application included details of the expenditure items the business would be incurring including research and development, environmental improvement projects, restructuring expenditure and repairs and maintenance. [redacted], *[use of assistance payment]* such costs had been removed from the datasets provided to Customs and Border Protection.

4 THE GOODS

4.1 The goods and like goods

The imported goods the subject of the investigations, are flat rolled products of:

- iron;
- non-alloy steel; or
- non-heat treated alloy steel of a kind commonly referred to as Quench and Tempered (Q&T) Green Feed.

of a width greater than 600 millimetres (mm), with a thickness equal to or greater than 4.75mm, not further worked than hot rolled, not in coils, with or without patterns in relief.

Goods excluded from the investigations are:

- 250 megapascal (MPa) yield strength grades of plate steel with a thickness greater than 150mm;
- 350 MPa yield strength grades of plate steel with a thickness greater than 100mm;
- Q & T Green Feed grades of plate steel with a thickness greater than 105mm; and
- heat treated Q & T grades of plate steel.

4.1.1 Quench and Tempered (Q&T) Green Feed

Imported alloy plate steel product grades that are made by BlueScope and also imported into Australia are generically called Q & T Green Feed which is supplied only in non heat-treated condition. Q & T Green Feed steel grades possess a higher hardenability, which (on heat treating) results in higher strength and hardness properties over 250 MPa and 350 MPa non-alloy steel grades. To achieve this higher hardenability, additional specific alloys are added during the steelmaking process (i.e. thereby incurring a higher cost of production).

Q & T Green Feed is only supplied in the non heat-treated condition (ie the heat treatment process to achieve the higher hardenability is undertaken by BlueScope's customer(s)).

4.1.2 Tariff classification

Plate steel is classified to the following tariff subheadings:

- 7208.40.00 statistical code 39;
- 7208.51.00 statistical code 40;
- 7208.52.00 statistical code 41;
- 7225.40.00 statistical codes 22 and 24.

4.1.3 Tariff concession orders

There are several tariff concession orders (TCOs) applicable to tariff subheadings that the goods under consideration fall under. Details of these TCOs are at **confidential attachment GEN 3**.

BlueScope advised that they are currently reviewing the TCOs for validity and that it intends on applying to revoke TC 9702134.

4.1.4 Australian and international standards

There are a number of relevant international standards for plate steel products that define specific grade designations, including the recommended or guaranteed properties of each of these product grades.

Q&T green feed products are often 'negotiated mill to customer' chemistry grades of plate steel.

BlueScope explained to us that most plate steel imported into Australia was made to the Australian or Japanese standards.

BlueScope provided the below table of relevant Australian standards matched with the comparable International standard.

PUBLIC FILE

Australian and International Standards:- Structural Grades			
AS/NZS 3678	**ASTM**	**JIS**	**China**
Grade	**Grade**	**Grade**	**Grade**
250	A36	G3101-SS400	GB/T 700 - Q275
250L15			
250L20			
250Y20			
250L40			
250Y40			
300			
300L15			
300L20			
300Y20			
300L40			
300Y40			
350	A572 -345 (50)	G3101-SS490	GB/T 1591 - Q345
350L15			
350L20			
350Y20			
350L40			
350Y40			
400	A572 -415 (60)		GB/T 1591 - Q390
400L15			
400L20			
400Y20			
400L40			
400Y40			
450	A572 -450 (65)		GB/T 1591 - Q420
450L15			GB/T 1591 - Q460
450L20			
450Y20			
450L40			
450Y40			

Australian and International Standards:- Pressure Vessel and Boiler Grades	
AS 1548	**ASTM**
Grade	**Grade**
PT 430	A516 - 415 (60)
PT 460	A516 - 450 (65)
PT 490	A516 - 485 (70)
PT 490	A516 - 485 (70)
PT 490 N	A516 - 485 (70) N

Copies of relevant standards are at **confidential attachment GEN 4**.

4.1.5 Further information on the goods

During the verification visit BlueScope explained that there are different terms used for plate made from coil and plate made from steel slab. Regarding plate made from the plate mill (directly from steel slab), the terms ‘pattern plate’, ‘plate from a Quarto mill’, and ‘plate’ are used. Plate made from HRC is often referred to as ‘coil plate’.

BlueScope explained that coil plate grades are cheaper to manufacture than pattern plate and much better for laser cutting.
Producers are able to manufacture pattern plate in much larger sizes than coil plate.

BlueScope explained that grade 250 and grade 350 of plate steel are the ‘vanilla’ grades that are sold around the world. Whilst there are usually extra charges to be incurred for widths above a standard range, BlueScope stated that these can be waived by exporters for large orders.

BlueScope explained that to meet special testing requirements for certain standards of plate steel, alloys need to be added to the steel to alter the chemical properties of the steel.

BlueScope explained that different standards were applicable for Structural grades of plate steel and Pressure Vessel and Boiler grade steel.

5 AUSTRALIAN INDUSTRY

5.1 Introduction

BlueScope's application stated that it is the only Australian manufacturer of plate steel. BlueScope manufactures plate steel at its Port Kembla facilities. During the verification visit we undertook a tour of BlueScope's plate steel production facilities.

5.2 Production process

As discussed in section 3.1, BlueScope uses two methods to produce plate steel; the Port Kembla Steelworks Plate Mill converts slab into XLERPLATE® plate steel; and the Port Kembla Hot Strip Mill produces XLERPLATE LITE® from hot rolled coil.

BlueScope is an integrated steel maker producing steel through to final hot rolled products. BlueScope provided a presentation detailing its production processes, see **confidential attachment GEN 5**. BlueScope described the production process as involving four distinct processes; iron making, steel making, casting and hot rolled product manufacturing.

i. The ironmaking process

The main materials used in the production of steel are iron ore, coal and fluxes (limestone and dolomite).

BlueScope purchases most of it iron ore requirements from Australian suppliers and blends these to produce a consistent chemical composition. The iron ore is transported to Port Kembla by sea.

Before being used in the blast furnace, the powdered iron ore is processed in a sinter plant, which agglomerates the ore into lumps. This coarser agglomerated material is necessary to allow air to move through them in the blast furnace. In addition to the sinter, the process also uses some coarser grades of lump ore. A blend of the lump ore and sinter is used to charge the blast furnace.

BlueScope sources coal from the local mines in the Illawarra in NSW. The coal is converted to coke in the coking ovens; this process drives off volatiles and agglomerates the remaining carbon into solid lump form, called coke, which has greater strength. The coke must be strong enough to support the total weight of material above it within the blast furnace.

The raw materials are fed into the top of the blast furnace by conveyor in predetermined proportions and sequences. Air, which is heated to about 1200°C, is blown into the blast furnace through nozzles that are spaced around the lower section of the blast furnace. The air causes the coke to burn, producing carbon monoxide which creates the required chemical reaction. The iron ore is reduced to molten iron by removing the oxygen.

About every two hours the molten iron and slag is drained from the blast furnace. The molten iron runs into torpedo ladles that are on rail tracks. These ladles are then transported to the steelmaking area.

i. The steelmaking process

The basic oxygen steelmaking (BOS) process creates liquid steel from molten iron, scrap steel and alloying materials. The first step is charging the BOS vessel. The BOS vessel is one-fifth filled with steel scrap to which molten iron is added until the vessel is full (around 280 tonnes per batch). A lance that blows 99% pure oxygen onto the steel and iron is lowered into the vessel. The temperature rises to about 1700℃. This melts the scrap, lowers the carbon content of the molten iron and helps remove unwanted elements. Fluxes are then fed into the vessel to form slag which absorbs impurities of the steelmaking process. Near the end of the blowing cycle (which takes about 20 minutes) a temperature reading and samples are taken. The samples are tested and a computer analysis of the steel is done to ensure the desired chemistry is achieved.

Molten steel from the BOS vessel is poured into a giant ladle, where the steel is further refined by adding alloying materials which give the steel special properties required by the customer. Slag, filled with impurities, is poured off and cooled.

ii. The casting process

Casting is the process that transforms liquid steel into a solid slab for rolling. This is done by continuous casting machines that mould the liquid steel into solidified blocks of steel called slabs (about 230 mm thick). The liquid steel is continuously poured from the ladle into a mould at the same rate as continuous steel cast slabs are extracted. This continuous cast slab is cut to desired lengths and the slabs are then cooled. This process is only stopped when the mould needs to be changed so slabs of different dimensions can be produced or when steel with a different chemistry is made.

iii. The Plate product manufacturing process

XLERPLATE®

As discussed above, XLERPLATE® is produced at the Port Kembla Plate Mill. Slabs produced by the Steelworks' continuous caster for the Plate Mill are put through a 1,200 degrees Celsius reheat furnace. Blasting with high pressure water removes surface scale from the reheated slabs and prepares them for the plate rolling process.

In the first stage of the plate rolling process the slab undergoes a series of passes through a reversing mill. During this stage of rolling, the required plate width is obtained. Once the correct width is obtained and the slab has been rolled to a predetermined intermediate thickness, the slab is then sent to a second reversing mill to complete the rolling process. A series of passes through the second reversing mill results in a ‘rolled length’ or ‘pattern.’

The rolling parameters are carefully controlled and monitored in the production of XLERPLATE® steel to ensure the specified properties of the plate are obtained. Following rolling, the plate passes through a hot leveller to ensure it meets the required flatness standards for XLERPLATE® steel.

After cooling, the 'pattern' or 'rolled length' is sent to the processing area, where it is cut to the required size. Cutting of test pieces and inspection of the plate is carried out at this stage as specified. XLERPLATE® can be produced with a thickness ranging from 5mm to 150mm, up to 3300mm wide and 22m long.

XLERPLATE LITE®

XLERPLATE LITE® is produced at the Port Kembla Hot Strip Mill. Slabs are heated up in the Hot Strip Mill's walking beam furnace, to reduce the risk of surface damage and maintain an even temperature. Scale (surface iron oxide) from the furnace is removed by high pressure water sprays.

The next step is the reverse roughing mill which the product passes through multiple times until it is reduced from a 230mm thick slab to a bar of about 25mm and lengthened considerably. The width is controlled by vertical edge rollers. The bar then travels to a coil box where it is rolled up to form a coil. This ensures the bar temperature is evenly distributed throughout its entire length.

In the final stage of rolling the coil passes through 6 sets of rollers that gradually reduce the thickness of the strip from 25mm to as low as 1.5mm. The thickness is monitored by x-ray gauges as the strip leaves the last stand and this equipment adjusts the mill settings during rolling if necessary.

After the strip leaves the last finishing stand it is cooled using water sprays en route to the down coilers. The final step of the rolling process is the coiling of the strip. The coiling temperature impacts the mechanical properties of the steel.

Hot Rolled Coils are taken to a secondary processing facility. Here they are sheared to length and levelled flat to make XLERPLATE LITE® steel. XLERPLATE® LITE can be produced with a thickness ranging from 1.5mm- 12.7mm, up to 1500mm wide and 12m long. Only product with a thickness equal to or greater than 4.75mm falls within the goods under investigation.

5.3 Capacity, employment and annual turnover

The total combined capacity for producing plate steel is around [redacted] tonnes per annum.

The turnover for plate steel (including both export and domestic sales) during the investigation period was $[redacted] million, or [redacted]% of the total revenue of the investigation period.

Total employment in respect of plate steel was [redacted] staff during the 2012 financial year, a reduction of about [redacted] over the previous year.

5.4 Conclusion

Based on information submitted in the application and gathered during the visit, we are satisfied that there is an Australian industry producing like goods.

6 AUSTRALIAN MARKET

6.1 Demand

BlueScope explained that there were three main market sectors for plate steel; mining, engineering and construction (or infrastructure) and transport and equipment manufacturing. In addition, there are smaller market sectors for plate steel including non-residential construction, manufacturing and agriculture. BlueScope sells plate steel to these markets via distributors and through direct sales.

BlueScope provided us with a powerpoint presentation detailing the applications of plate steel, markets and customers, see **confidential attachment GEN 6**.

BlueScope's presentation described the applications for plate steel in the mining sector to include machinery and equipment as well as repairs and maintenance.

In the engineering and construction sector, plate steel is used in infrastructure such as roads, railways, bridges and ports as well as in energy generation, water transmission and other heavy industry.

Transport and equipment applications of plate steel include road, rail and marine freight as well as defence projects.

Of the three broad types of plate steel that BlueScope produce (XLERPLATE®, XLERPLATE LITE® and Quench and Tempered Green Feed) XLERPLATE® and XLERPLATE LITE® are sold into the market segments described above, covering a wide range of different end uses. The Quench and Tempered Green Feed is sold to one customer [redacted] who undertakes a quench and tempering process, this product is then sold into the market segments described above.

Key sources of demand in the Australian market for plate steel come from these market sectors. BlueScope's application stated there was some seasonal demand for plate steel due to distribution customers reducing off-take toward the end of the year reflecting reduced fabrication/manufacturing activity and the end of fiscal year stock management.

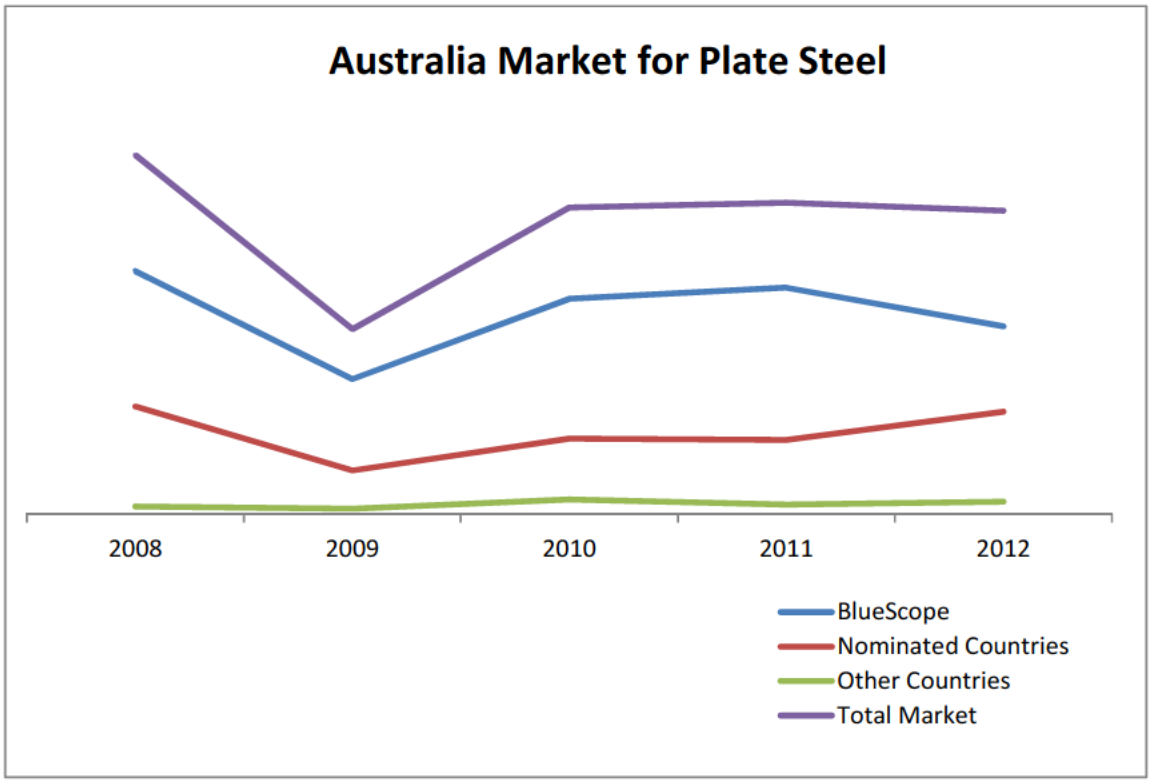
BlueScope's application stated that the following factors contribute to overall demand:

- availability of capital for infrastructure spending – government and private;
- global and domestic economic conditions, business and consumer confidence;
- global demand for raw materials (the mining sector);
- ability of Australian manufactures to compete with imported finished goods; and
- government regulation (such as standards, government spending and incentives to develop renewable energy sources, for example wind towers).

In addition BlueScope advised that capital expenditure in constructing mines in now being completed; this will affect future demand for plate steel in the mining sector.

6.2 Market size

We have estimated the size of the Australian market using data from Customs and Border Protection's import database and information verified during our visit. The market for plate steel was approximately 500,000 tonnes in calendar year 2012. The Australian market is illustrated in the following graph.



This graph depicts increasing market demand prior to the 2012 year, recovering from the global economic crisis of 2008-2009. The chart indicates that that the market has not recovered to 2008 levels.

6.3 Marketing and distribution

BlueScope sells approximately [redacted] of its plate steel via a network of distributors, including to BlueScope Distribution Pty Ltd (BlueScope Distribution), a fully owned subsidiary of BlueScope Steel Limited. These distribution companies offer plate processing which includes the cutting, drilling and shaping of the plate steel for customers who will incorporate these 'components' into finished products. Distributors hold stock, provide credit terms and can combine deliveries with other steel products for customers.

BlueScope sells the balance of its domestic plate steel production (approximately [redacted] directly to large end-users or converters. Large end-users will often procure the plate steel for major projects or are manufacturers with a regular 'off-take' for the purpose of manufacturing proprietary products, for example underground mining equipment.

The converters are generally large fabricators who fabricate structures or items from plate steel to customer orders, or for repair and maintenance (for example a pressure vessel or stacker reclaimer.)

BlueScope advised that with the exception of BlueScope Distribution, all of BlueScope's distributor customers also source imported plate steel. BlueScope indicated that some large end-user customers directly import plate steel rather than purchasing through a distributor. BlueScope and importers of plate steel compete in all States and Territories in Australia and across all market segments via the same distribution channels.

6.3.1 Alternative products

BlueScope stated that generally plate steel is not substitutable with any other product to any significant degree. Aluminium in some instances is substitutable but due to a quite different weight/cost proposition, generally these two products do not compete.

BlueScope was asked whether customers could buy imported hot rolled coil and have it cut into plate steel. BlueScope respond that this is not common given the additional costs of importing hot rolled coil and cutting it in Australia.

6.4 Domestic sales

BlueScope sells plate steel to the mining, construction, transport, equipment and general manufacturing markets in Australia via distributors, manufactures and large fabricators/ converters. Its products and the prices are defined by grade, thickness, width and length. BlueScope provides additional services with respect to its plate steel, including edge trimming, property testing and ultrasonic testing.

BlueScope's A4–detailed sales listing details sales to the level of grade, thickness, width, length, edge trim, property testing and ultrasonic testing.

BlueScope divided sales into three thickness ranges:

- less than 10mm;
- equal to or greater than 10mm but less than or equal to 50mm; and
- greater than 50mm.

BlueScope divided sales into two width ranges:

- less than or equal to 2400mm; and
- greater than 2400mm.

BlueScope divided sales into three length ranges:

- less than or equal to 6000mm;
- greater than 6000mm but less than or equal to 9000mm; and
- greater than 9000mm.

We noted that BlueScope's A4-detailed sales listing included 85 models of plate steel. BlueScope provided Customs and Border Protection with a description for

each model, see **confidential attachment DOM 1**. Model codes indicated the plate steel characteristics including;

- whether the product was XLERPLATE LITE™ produced in a hot strip mill or XLERPLATE® produced via a plate mill process;
- strength grade (including yield and tensile strength);
- wear grade;
- standards; and
- property testing.

BlueScope considered that width, thickness, length, grade, and property testing were the main price determinates for plate steel.

6.5 Pricing lists

BlueScope advised that that it publishes monthly pricelists or offers for distributors and product specific price lists. These pricelists indicate the base prices in respect of grade, thickness, width and length. Variations from the base price have a stipulated additional cost. BlueScope provide example price lists as part of its application, see **confidential attachment DOM 2**. BlueScope indicated that customers can still negotiate prices based on these pricelists or offers.

6.6 Supply Agreements

BlueScope's application indicated that it has supply agreements in place with many of its customers which detail the terms of trade including supply arrangements, supply terms and conditions and rebate structure. BlueScope included as part of its application an example customer supply agreement, see **confidential attachment DOM 3**. At the verification visit BlueScope explained that it currently does not have any signed formal supply agreements in place; however it does have informal agreements and parties to these agreements act in the spirit of them.

6.7 Rebates and discounts

BlueScope explained that it offered [redacted] *[rebates]* to its customers in respect of its sales of plate steel. The value of these rebates differed depending upon whether the plate steel bought was XLERPLATE® or XLERPLATE LITE™.

BlueScope advised that the [redacted] *[rebate]* varied between [redacted][%] of invoice value, and the value of the rebate received depended [redacted], [redacted] *[commercially sensitive information]* etc. BlueScope explained the XLERPLATE® [redacted] *[commercially sensitive information]*. Finally, the early settlement discount of [redacted] *[%]* was applicable if customers paid on or before the payment due date. BlueScope

provided a summary of rebates offered in respect of steel plate, see **confidential attachment DOM 4**.

BlueScope advised that some rebates were applied directly to [redacted] *[method of payment]*; most rebates however were paid following [redacted] *[method of payment]* Rebates and discounts are not generally specified on the invoice. BlueScope further noted that this rebate structure [redacted] *[customer reference].* During verification of the A4-detailed sales listing, BlueScope identified [redacted] *[rebate types].*

6.8 Ordering, manufacture and delivery

As discussed above, offers or pricelists are published by BlueScope monthly and these offers remain open for approximately 8 weeks. Orders are generally required to be placed 4-6 weeks prior to delivery (although a premium can be paid for shorter lead times). BlueScope has an electronic ordering system called 'Steel Connect' which customers log onto to place orders. Steel Connect feeds order information into the computer system which plans production at the steelworks.

BlueScope sells its products on a free-into-store basis. We noted that some invoices indicate a freight surcharge. BlueScope advised that a freight surcharge was applied to deliveries made outside of metropolitan areas. This surcharge was included as part of the unit costs as stated on the customers invoice. This additional cost was captured in the transport and handling charges as part of BlueScope's A4 – detailed sales listing. Freight and delivery are organised by the logistics division, which invoices the steelworks.

BlueScope explained that generally its steel plate is made to order. A small volume of product, however, is sold as surplus stock.

6.9 Related Party Sales

BlueScope's application stated that its approach to price setting is the same for related and unrelated companies, however, from time to time related companies may benefit from nominally lower prices due to the structure of [redacted] *[rebate types].*

BlueScope advised at the meeting that whilst BlueScope Distribution is BlueScope's [redacted] *[level of trade]* plate steel, transactions work off a price list like sales to all other customers. BlueScope pointed out that they have [redacted] *[customer sensitive information]* other key distributors who collectively purchase more from BlueScope than [redacted] *[customer sensitive information]*. They advised that they maintain an arm's length relationship with BlueScope Distribution. If BlueScope's other key distributor customers believed that BlueScope Distribution was receiving better prices than them, they would likely purchase less from BlueScope and seek other supply options.

BlueScope's A4-detailed sales listing indicated that BlueScope Distribution purchased [redacted]% of the sales volume of plate steel during the investigation period. BlueScope advised it is not related to any of its other customers of plate steel.

At the verification visit BlueScope advised that BlueScope Distribution purchases its requirements of plate steel from BlueScope, and will only purchase imported plate steel that BlueScope does not produce.

Our analysis of the A-4 detailed sales listing indicates that BlueScope Distribution's purchase prices for plate steel are approximately [redacted]% [redacted] than purchases by unrelated customers.

We consider that although BlueScope Distributions purchase prices are [redacted] *[pricing levels]*, the volume of purchases by BlueScope Distribution adequately accounts [redacted] *[pricing levels]*. In light of the information provided regarding the approach to price setting, we are satisfied that purchases by BlueScope Distribution are arm's length transactions.

6.10 Verification of sales data – Completeness & Relevance

We sought to reconcile BlueScope's sales data as provided in its A4-detailed sales listing to the company's audited financial accounts to ensure completeness. BlueScope explained that its financial records were contained in both a COGNOS system and a SAP accounting system. The Appendix A4 was created using the COGNOS database, adjusted for the correct costs as shown in SAP as explained below.

BlueScope's COGNOS database captures line-by-line sales as well as associated costs for both local and export sales for all products. The totals in the database, however, are slightly different than the totals shown in the trial balance in SAP, which reconcile with the audited financial statements. BlueScope explained that this was because the COGNOS database reflected the day to day sales transactions and did not take into account any accounting adjustments that occurred, such as accruals or changes to transfer pricing.

BlueScope provided us with an extract (described as a dataset) from the COGNOS database for each quarter of the investigation period, see the second tab of the quarterly spreadsheets at **confidential appendix 1**. For each dataset BlueScope provided a 'variance spreadsheet' which summarised differences between totals shown in COGNOS and the SAP trial balance, see the first tab of quarterly spreadsheets at **confidential appendix 1**. We note the total difference between the revenue shown in COGNOS and the trial balance was [redacted] *[%]* for the investigation period.

[redacted] *[product pricing characteristics]*. BlueScope provided details of this adjustment, and adjusted the datasets by applying the difference to the affected [redacted] *[product]*. After this difference was accounted for, the variance in revenue between the amount stated in COGNOS and the trial balance was [redacted] *[%]* for the investigation period. BlueScope explained that this difference

reflects high level adjustments for example, [redacted] *[commercially sensitive information]* and a carbon tax offset. [redacted] We noted that there was an [redacted] *[%]* difference between rebates shown in COGNOS and the trial balance. BlueScope explained that this was [redacted] . [redacted] *[reconciliation process]* the trial balance reflected the rebates as accrued. [redacted] *[reconciliation process]*

BlueScope explained that where there was a difference between the COGNOS database and the trial balance, the company had adjusted the dataset for the difference by quarter. For example in the fourth financial quarter of 2012 (i.e. April – June 2012) the difference between rebates in the trial balance and COGNOS was *[$]* [redacted]. BlueScope divided this amount by the total tonnes of product sold domestically in this period (rebates are only applicable to domestic sales) and calculated an adjustment of *[$]* [redacted]. This was subsequently applied to all domestic sales in the COGNOS dataset for this period. Adjustments to rebates for the investigation period ranged from *[$]* [redacted]

Adjustments were also made to revenue of between [redacted] *[$]* across all sales and commission of between [redacted] *[$]* for export sales only. Given that the selling price for plate steel was approximately [redacted] *[$]*, these adjustments were minor and we considered them to be reasonable.

We requested that BlueScope provide an A4–detailed sales listing that did not include the COGNOS/SAP differences adjusted see **confidential appendix 2**. We compared the unadjusted A4 totals with the original adjusted A4-detailed sales listing, and divided the difference by volume to arrive at the amount adjusted by and this amount was reconciled to the adjusted amount shown in the 'variance' spreadsheets. We are satisfied that the adjustments have been are accurately reflected in the A4 – detailed sales listing.

BlueScope explained that it was able to identify the GUC from all goods in the COGNOS dataset by the shape code (i.e. coil plate, coil floor plate, pattern plate, narrow plate and floor plate). After identifying the GUC by shape code, Bluescope then excluded thicknesses below 4.75mm as per the goods description. We noted that in the revised A4- detailed sales listing, there was a small quantity of plate steel with a width below 600mm and have excluded these goods from our analysis.

An adjustment was also made for transport and handling costs. BlueScope explained that the transport and handling costs in the A4-detailed sales listing were as per the COGNOS datasets, which captured freight costs reported by the SGIS invoicing system. BlueScope explained that the SGIS system calculates freight costs based on standard freight rates. However, SAP captures freight costs as reported by the Logistic Division 'Managed Logistics Operations (MLO)' system, which calculates actual freight costs reflecting vendor invoicing. The costs captured by the MLO systems include fuel surcharges, management fees and overhead allocations. Costs in SAP trial balances were approximately [redacted] *[value]* higher than costs recorded in

COGNOS. Accordingly, an adjustment of between -[redacted] to[redacted] *[value]* to all sales in the COGNOS database was required.

Taking the adjustments into account, we were able to reconcile the totals for the fourth financial quarter of 2012 (i.e. April to June 2012) for the quantity, net invoice value, gross invoice value, discounts, rebates and freight in the A4–detailed sales listing to the COGNOS dataset for the same period for domestic sales of steel plate (excluding steel plate outside the goods description). Inclusive of adjustments, the COGNOS dataset for this period could be traced to the SAP trial balance for this quarter. BlueScope provided trial balances for the other quarters of the 2012 financial year, see **confidential appendix 3**. The total revenue shown in these trial balances tied to the sales revenue as stated in the audited financial statements for BlueScope Steel (AIS) Pty Ltd for 2012, see **confidential attachment DOM 5**.

6.11 Verification to source documents – Accuracy

Prior to the visit Customs and Border Protection selected the following 20 sales from the originally submitted Appendix A4-detailed sales listing for verification to source documents:

Customer name	Invoice number	Invoice date
[redacted]	SPBR 04971	28/11/2011
[redacted]	SPBR 03706	16/11/11
[redacted]	SPBS 01500	6/12/11
[redacted]	SPFA 02087	10/01/12
[redacted]	SPFA 02451	10/02/12
[redacted]	SPFB 03808	23/02/12
[redacted]	SPFF 03615	20/03/12
[redacted]	SPFG 03960	23/04/12
[redacted]	SPFH 04547	26/05/12
[redacted]	SPFJ 02720	8/06/12
[redacted]	SPFB 04346	8/06/12
[redacted]	SPFJ 03838	21/06/12
[redacted]	SPFK 02492	3/07/12
[redacted]	SPFL 03534	14/08/12
[redacted]	SMFK 00062	2/07/2012
[redacted]	SPFM 04360	25/09/12
[redacted]	SXFF 00141	30/03/2012
[redacted]	SUFK 00034	30/07/2012
[redacted]	SPFK 03948	18/07/2012
[redacted]	SPFK 04562	25/07/12

[*customer names*]

In respect of the above selected sales BlueScope provided:

- order acknowledgement from BlueScope's online ordering system;
- tax invoice;
- customer dispatch advice;

- credit notes evidencing the early settlement discount (where applicable); and
- evidence of payment (including where applicable remittance advice and bank statement).

These documents form **confidential attachment DOM 6**.

We note that the above evidence was not included for all sales, however given the number of sales selected, we consider the evidence provided to be reasonable. It is also noted that the selected sales include sales as per the originally submitted A4-detailed sales listing included in the application, which include sales which are outside the investigation period.

As noted in section 7.4, the tax invoices provided by BlueScope do not include any applicable rebates, we were able to reconcile for each selected sale the gross value as stated on the invoice to the A4-detailed sales listing. We were also able to match the model, width, thickness and length as stated on the invoice to the A4-detailed sales listing. For some selected sales, the order acknowledgment from BlueScope's online ordering system listed additional services provided which matched the A4-detailed sales listing, e.g. property tests or edge trimming.

The A4-detailed sales listing included a number of sales with a zero gross invoice value. We selected two of these sales for further verification. BlueScope explained that these sales were part of [redacted] *[commercially sensitive information]* arrangement. The [redacted] [*commercially sensitive information]* arrangement allows the customer to place an order and [redacted] [*commercially sensitive information].* Upon examining these sales it was agreed with BlueScope that sales with a zero gross invoice value should be excluded from the A4-detailed sales listing, as these sales had already included in the A4-detailed sales listing and were repeated because of [*commercially sensitive information]* [redacted]

We sought to verify the rebates, noting that rebates accounted for approximately [redacted] *[%]* of sales value.

Using the credit notes supplied we were able to reconcile the early settlement discount rebate to the discount column in the A4-detailed sales listing. BlueScope's A4-detailed sales listing reported this discount on a separate credit/debit line in the spreadsheet. Customs and Border Protection observed that overall this discount represents [redacted] *[%]* of sales value. To simplify the A4-detailed sales listing, Customs and Border Protection has disregarded the credit/debit notes for the early settlement discount and simply applied a [redacted] *[%]* discount to each invoice line directly.

In order to reconcile the [redacted] *[type]* rebates BlueScope provided a summary of the applicable rebate for each eligible customer represented as a percentage of sales value by month. Customs and Border Protection selected the [redacted] [*customer and month]*, and reconciled the [redacted] *[type]* rebate as reported in this summary [redacted] *[%]* to the A4-detailed sales listing. In addition BlueScope provided a statement showing the total [redacted] *[type]* rebate paid to [redacted] [*customer]* in the month of [redacted] *[month]*, after deducting amounts for hot rolled coil and plate steel less

than 4.75mm thick Customs and Border Protection was able to reconcile the gross sales value and [redacted] *[type]* rebates in this statement to the A4-detailed sales listing. Finally BlueScope provided credit notes displaying the amounts paid to [redacted] [*customer]* under this rebate (these credit notes are supplied to [redacted]) [*customer]*. The summary of applicable rebates, statement of rebates paid and credit notes for [redacted] *customer and month]* form **confidential attachment DOM 7**.

In respect of the [redacted] *[type*] rebates BlueScope provided a 'National Reconciliation – [redacted] *[type]* rebate' schedule (National Reconciliation schedule). This schedule identified the unit values of the [redacted] *[type]* rebates as well as the total value of these rebates over the investigation period. Customs and Border Protection noted that in respect of sales to [redacted] [*customer]* for the month of [redacted], *[month]* the unit values of the [redacted] *[type]* rebates aligned with the amounts outlined in section 6.7. BlueScope explained that to reconcile the [redacted] *[type]* rebates as shown in the A4–detailed sales listing, it excluded orders for [redacted] [*month]* in the National Reconciliation schedule as these would have been invoiced in a later month. Customs and Border Protection reconciled with a slight variance the National Reconciliation schedule and A4 –detailed sales listing in respect of the [*rebate types]* [redacted]. In addition BlueScope provided credit notes demonstrating payment of these rebates to [redacted] [*customer]* for the month of [redacted] BlueScope explained that to reconcile the credit notes for the [redacted] *[type]* rebate to the National Reconciliation schedule, it need to exclude 'planned dispatch sales' for the months of [redacted] [*months]*. Customs and Border Protection noted this resulted in a small variance between the National Reconciliation schedule and the credit notes for the [redacted] *[type]* rebate. In respect of the [redacted] *[type]* rebate BlueScope explained that to reconcile the National Reconciliation schedule to the [redacted] *[type]* rebate credit notes, the 'planned dispatch sales' for the months [redacted] [*months]* 2012 are to be excluded. Again Customs and Border Protection was able to reconcile the [redacted] rebates as shown in the National Reconciliation schedule to the credit notes with a small variance. The National Reconciliation schedule, credit notes and BlueScope reconciliation explanation form **confidential attachment DOM 8**.

As indicated in section 6.7, during the verification process BlueScope identified a [redacted] *[type]* rebate applicable to sales to [redacted] [*customer]*. BlueScope amended its A4-detailed sales listing to separately identify this rebate. To verify this rebate BlueScope selected the month [redacted], and provided a statement of rebates which identified the [redacted] *[type]* rebate as applying a [redacted] *[$]* rebate per tonne. BlueScope also provided a credit note evidencing payment of this rebate for the month of [redacted]. Customs and Border Protection totalled the [redacted] *[type]* rebate line for BlueScope in [redacted] in the A4 detailed sales listing and divided this by the quantity purchased; the rebate calculated was [redacted] *[$]* per tonne. The total [redacted] *[type]* rebate for this month in the A4 detailed sales listing reconciled with a slight variance to the statement of rebates and credit note for this period. The statement of rebates and

credit notes applied to [redacted] [*customer]* in [redacted] *[month]* in respect of the [redacted] rebate, form **confidential attachment DOM 8**.

Customs and Border Protection noted that there were transaction lines in the A4-detailed sales listing that did not list an invoice number but were labelled [redacted] *[commercially sensitive information]*. BlueScope explained that these were miscellaneous credit/debit notes that have been allocated at the customer and product level (rather than the item number level). The posting is apportioned across the full financial year for the customer and product (i.e. plate steel). An explanation and reconciliation for a selected [redacted] *[commercially sensitive information]* invoice forms **confidential attachment DOM 9**.

Customs and Border Protection also observed that an 'other charges' line was included in the A4-detailed sales listing. BlueScope advised that this 'other charges' line reflected adjustments for things such as [redacted] *[commercially sensitive information]*. Customs and Border Protection notes that overall these 'other charges' accounted for [redacted] *[%]* of sales value.

As explained in section 7.7, freight costs included in the A4-detailed sales listing were allocated using standard freight tables, captured by the SGIS invoicing system. The SGIS system uses journey codes to calculate freight costs based on standard freight tables. Actual freight costs are calculated by the logistics branch of BlueScope Steel (AIS) Pty Ltd based on freight rate cards (which reflect vendor invoicing, fuel surcharges, management fees and overhead allocations) and captured in the Managed Logistics Operating (MLO) system. The logistics branch are invoiced and paid for freight for the steelworks. BlueScope explained that the logistics branch seeks to operate at a revenue neutral position and the management fees only cover its actual costs. As discussed at section 7.7, the COGNOS dataset was adjusted to reflect the difference between the SGIS invoicing system and the MLO system. The cost of freight to customers is on average [redacted] *[%]* of the net selling price.

To demonstrate the reconciliation from the COGNOS datasets back to the SGIS freight tables, BlueScope provided an SGIS invoice print out for nine sample invoices showing three different locations, see **confidential attachment DOM 10.** By deducting the SAP adjusted freight amount, we were able to reconcile the amount stipulated in the A4-detailed sales listing for the invoices sampled to the SGIS invoice print outs.

We requested proof of payment for each selected sale. BlueScope provided remittance advices (where available) and bank statements demonstrating payment for each sale except for purchases by [redacted] [*customer]*. For sales to [redacted] [*customer]*, payment was allocated by [redacted] [*commercially sensitive information]*. For these sales, BlueScope provided SGIS ledger entries, showing the amount paid and the associated early settlement discount, these ledger entries form part of **confidential attachment DOM 11**.

6.12 Conclusion

During the verification process BlueScope revised its A4-detailed sales listing to simplify the data presented. The revised data contains a COGNOS adjusted net invoice value as well as a unadjusted net invoice value, we consider the unadjusted net invoice value more accurately reflects the actual price paid by customers net of rebates and discounts.

Customs and Border Protection observes that there is a small variance between the quantity and gross sales value of BlueScope's originally submitted A4-detailed sales listing which was reconciled to its audit accounts (discussed in section 6.11) and the quantity and gross sales value recorded in its revised A-4 detailed sales listing.

Noting the above we are satisfied that the sales data as revised by BlueScope is relevant and accurate, and suitable for the purposes of injury analysis. A listing of domestic sales by customer, model/grade, width, thickness and length is at **confidential appendix 4**.

7 COST TO MAKE AND SELL

7.1 Approach to verification

BlueScope advised that steel plate is manufactured at the Port Kembla Steel works which sits within the BlueScope Steel (AIS) Pty Ltd entity (also referred to by its SAP accounting number, 1010). BlueScope's application provided data in respect of costs for the manufacture of plate steel within this 1010 business. All components of manufacture of plate steel occur within the 1010 business from production of the steel slab to the final product of plate steel.

BlueScope operates on a July to June financial year and the most recent audited full year accounts are for the 2011-12 financial year. The investigation period is from 1 January to 31 December 2012 and we sought to verify costs for the June quarter 2012.

BlueScope provided electronic copies of the trial balance (confidential appendix 3) for the Port Kembla steelworks and its COGNOS database (confidential appendix 1) for each quarter of 2011-12. During the verification of sales we verified this trial balance to the audited accounts for BlueScope Steel (AIS) Pty Ltd (refer section 6.10).

7.2 Production volumes

BlueScope stated that its reported production was total sales of plate steel. It explained that it considered sales to be an appropriate measure of production as goods were made to order. Sale tonnes are captured from an order tracking inventory system. Sales by the Port Kembla steel works included numerous products to both export and domestic customers.

We verified that sales of plate steel to domestic customers in the COGNOS database in the June 2012 quarter matched production reported in Appendix A6.

We noted that there were higher production costs in 2008-09. BlueScope explained that this was due to a fall in production volumes in this period due to the temporary closure and reline of the No. 5 blast furnace, and the effect of the global financial crisis.

BlueScope explained that plate produced on the plate mill (pattern plate) is sold on theoretical weight (ordered dimensions). Because the weight of the product coming out of the plate mill re-heat furnace cannot be easily measured, the slab going into the plate mill re-heat furnace is weighed and a ratio applied to this weight to estimate the weight of the end product. The ratio is designed to account for steel losses due to scale and end trimming. Cost data and sales data are calculated on theoretical tonnes.

Plate made from HRC (coil plate) is measured after production. The coils are weighed and the total weight of the coil is divided by the number of plates that are cut from each coil. The cost data and sales data of coil plate are calculated on

theoretical tonnes, however BlueScope stated that the theoretical figures are very close to the actual figures.

7.3 Cost to make

BlueScope explained that fixed costs on coil plate are lower as the size of the plant is much smaller than the plate mill. The coil plate plant has a capacity of [redacted] tonnes whereas the plate mill capacity is [redacted] tonnes. There is not much difference in the chemical properties of coil plate and pattern plate within a common grade and size range. The cost to make differences between pattern plate and coil plate are mainly due to the economies of scale differences arising from the different production capacities.

BlueScope adjusts the costs from COGNOS back to the trial balance (produced by Hyperion/SAP) as per the process for domestic sales values (discussed in section 6.10 above). The finance cost module (production accounting system) captures the cost of hot metal and provides these figures to the Industrial Markets team who calculate a hot metal dollar per tonne cost. This dollar per tonne cost for hot metal is sent through to head office and reported in the statutory accounts.

The full manufacturing cost in COGNOS is obtained from the FICO system. From the trial balance, the total cost is obtained and non-steel costs are deducted (revenue from other sources besides steel, such as coke). From the total costs in the trial balance, overheads and freight are deduced to get the full manufacturing costs. This figure is then compared to the full manufacturing cost in COGNOS. The difference is due to accruals, carbon tax expenses and transfer pricing etc.

Commissions are left out of the trial balance as they are treated as costs. BlueScope advised that commissions are paid on export sales only. We noted that the 'other adjustments' field in COGNOS contained both positive and negative figures. BlueScope explained that these were credit notes and debits notes that had been raised and had no quantities attached to them. When we questioned why no quantities were attached, BlueScope elaborated that these credit and debit notes were adjustments for price changes. We selected several transactions and BlueScope showed us the source documents. We were satisfied with this explanation.

BlueScope explained that the Management Accounting System (MAS) contains full manufacturing costs (overheads, raw materials & labour) for plate steel. The MAS contains information on the different process costs and additional material costs (such as alloys) for each individual plate steel product manufactured by BlueScope.
For example each plate product has different grade, width, thickness, refractories and alloy content properties which contribute to the cost of manufacture.

We selected three specific plate products and BlueScope provided us with the MAS costing sheet for quarter 4, FY2012. These are at **confidential attachment COSTS 1.**

BlueScope explained how each quarter the COGNOS data manager reviews the MAS data and rebalances projected costs to actual costs. The COGNOS data manager also updates the data to reflect any changes such as the cost of alloys, in

order for the total cost to match the MAS data. The cost information contained in MAS feeds into the COGNOS data reporting system.

BlueScope explained that there is always a difference between SAP and COGNOS because SAP does not contain costing information down to each specific product model like MAS does.

SAP takes the total cost of manufacturing all plate steel products and apportions this total cost equally amongst all volume of all plate steel products manufactured. BlueScope advised that the result is that [redacted] *[commercially sensitive information]* than the actual cost to manufacture for most plate steel products.

7.3.1 Verification to financial statements

We sought to verify costs reported in the Appendix A6 to the trial balance for the Port Kembla steelworks.

BlueScope advised that the manufacturing cost reported in SAP is revenue less freight, less selling, general and administration (SG&A) expenses.

In COGNOS, standard manufacturing costs are extracted from a management accounting system (MAS). Costs are identified for each product by grade, thickness, width, length and other variables. The full cost of manufacture in COGNOS includes these standard costs.

SAP picks up manufacturing costs at a high level and costs for individual products cannot be identified. Variances are accounted for as actual costs are entered into SAP. The adjusted COGNOS costs were further adjusted to reflect the difference between the manufacturing costs from SAP. This adjustment in effect reflects the variances between standard and actual costs.

For quarter 2 FY2013, there was a variance of [redacted] *[$]* between the full manufacturing costs reported in COGNOS and the trial balance. This equates to [redacted] *[$]* per tonne. We noted the [redacted] *[variance details]* variance and asked BlueScope to show us what was driving this variance. BlueScope explained that there was a [redacted] *[commercially sensitive information]* incurred in that quarter and posted to the 1010 trial balance. We sighted this [redacted] *[$]* entry in the trial balance for that quarter (Q2 FY2013). As this [redacted] *[expense type]* expense was not reflected in the COGNOS dataset, the total figure was divided by the total production tonnes figure in the 1010 business for that quarter to get a per tonne variance adjustment [redacted] *[$].* BlueScope provided us with a copy of the spreadsheet showing the COGNOS to trial balance reconciliation (confidential appendix 1).

We sought to verify the costs to the financial statements. BlueScope advised that the statutory accounts incorporate the following reporting entities:

- BSL Coated Products (1310);

- BSL Lysaght;
- Darwin Roll Forming;
- BSL Corporate;
- Associate Trading – South East Asia; and
- Associate Trading – Pacific.

It was explained to us that because the costs from these different entities all roll up into the statutory accounts it was not possible to verify the costs of plate steel to the statutory accounts.

As discussed in 6.10, BlueScope demonstrated how the revenue totals in the A4 reconciled up to the COGNOS dataset which reconciled to the SAP trial balance. The SAP trial balance reconciled to the sales revenue as stated in the audited financial statements for BlueScope Steel (AIS) Pty Ltd for 2012.

BlueScope demonstrated how the COGNOS 1010 dataset EBIT position reconciled to the statutory accounts. Page 5 of the BlueScope Steel (AIS) Pty Ltd financial statements for FY2012 lists Profit before income tax of $[redacted] and finance costs of $[redacted]. The calculated EBIT from the total of these two figures is $[redacted].

The BlueScope monthly summary report for the month of [redacted] *[month]* shows the year to date OPBI (operating profit before interest) as [redacted] *[$]*. This report also shows the OPBT (operating profit before tax) as [redacted] *[$]* (**confidential appendix 5**). Both of these figures agree with the figures in the statutory accounts.

7.3.2 Verification to source documents

In Appendix A6 BlueScope identified the two components of the cost to make plate steel – raw materials (hot metal cost) and manufacturing cost.

Hot metal cost includes costs associated with the first key step of iron making, including iron making raw materials (iron ore, coal, limestone), conversion of raw materials into blast furnace feed (such as iron ore fines into sinter and coal into coke), labour, repairs & maintenance, refractories and other consumables, mobile, contract and other services, utilities, depreciation and overheads.

Manufacturing costs are the difference between the hot metal and total costs and are mainly internal operating costs for the BOS steelmaking furnaces, the slab caster and the hot strip mill, although there are external costs for chemicals used in the steel making furnaces.

We sought to verify the hot metal cost for plate steel back through the production process all the way to the purchase of the raw material (iron ore) for the month of June 2012. The process flow started at the end of the production process for plate steel, cost centre 10883620 and traced back through cost centre 10862804 (plate yard), cost centre 10860445 (caster/slab vacuum degasser), cost centre 10880550

(BOS), cost centre 10880001 (hot metal), cost centre 10879300 (Blast furnace number 5), to the raw material inputs purchased by BlueScope.

The data in SAP is collected at the overall plate level, with the data not going down to the level of different grades or thickness of plate.

BlueScope provided print outs from SAP for this verification which are at **confidential attachment COSTS 2**, and are discussed below.

- Page A is the cost centre report for domestic plate steel for the month of June 2012. The highlighted figure shows the actual tonnes produced for June 2012.

- Page A-1 shows the volume of production (2) for sale to BlueScope distribution.

- Page A-2 shows the volume of production (1) for sale to domestic customers (other than BlueScope Distribution).

- The figures (1) and (2) total the actual tonnes produced figure on page A.

- Page B shows the production volume tonnes and agrees with the production figure on page A. Page B also shows the total quantity material feed for material P1883615 (Plate).

- Page H shows the production for material feed P1883615 (plate) and agrees with the figures on page B.

- Page C shows the Cost Centre report for 10883615 (plate) and total tonnes produced. This figure agrees with the production figure on page H and the production figure on page D. Page C also shows the actual material feed.

- Page E is the Material Price Analysis for P1883005 (plate patterns) and shows the consumption figure for P1883615, which agrees to the material feed figure on page C. Page E also shows the production tonnes for (plate patterns) which agrees with the total tonnes produced figure on Page F (Cost Centre Report for 10883005, Plate Patterns).

- Page F is the Cost Centre report for 10883005 (Plate Patterns) and shows the 'detail costing report' figure. The preliminary value minus the price difference for the production of plate patterns on Page E agrees with this costing figure on Page F.

- Page G displays the actual cost line items for cost centre 10883005 and shows a quantity for material P1862804, slab for plate. This figure roughly agrees to the tonnes produced figure on page F. We can see that the total tonnes produced on page F is slightly less than the total quantity for all material feed elements on page G.

- Page I is the material price analysis for P1862804 (slab for plate) and shows the consumption of P1883005 which agrees to the material feed figure for P1883005 on page G. It also shows the production volume which agrees to

the tonnes produced figure on Page J (Cost Centre Report for 10862804, Slab for Plate).

- Page K displays the actual cost line items for cost centre 10862804 (slab for plate). We can see that the total quantity of all material feed items roughly equals (less than [redacted] difference) the tonnes produced on page J.

- Page L is the Material Price Analysis for P1860445 (vacuum degasser for plate) and shows the consumption figure for material P1862804. This figure agrees to the material feed figure for material P1860445 on page K.

- Page M is the Cost Centre report for 10860445, Slab vacuum degasser and shows the tonnes produced which agrees to the production figure on page L. It also shows the actual quantity of the material feed which agrees with the total quantity material feed on page N.

- Page N displays the actual cost line items for cost centre 10860445, slab vacuum degasser GR 08 Carbon. It shows the total quantity of material P1880550, liquid steel vacuum des gasser >.08 carbon. This figure agrees with the consumption figure on page O for P1860445.

- Page O is the Material Price Analysis for P1880550 and shows the total production volume which agrees with the tonnes produced on page P.

- Page P is the Cost Centre report for 10880550 and shows the quantity of material feed. This figure agrees to the total quantity material feed for all materials on page Q.

- Page Q displays the actual cost line items for cost centre 10880550 and shows the quantity of material feed for material P1880001, hot metal.

- Page R is the Material Price Analysis for P1880001, hot metal (for the BOS). It shows the consumption of material 1880550 which agrees to the figure on page Q. It also shows the production volume of hot metal, which agrees with the tonnes produced figure on page S.

- Page S is the Cost Centre Report for 10880001, Hot Metal and shows the feed costs for the blast furnace. This figure agrees with the material feed quantity on page T.

- Page T displays the actual cost line items for Cost Centre 10880001, Hot Metal. It shows the total quantity of material feed hot metal – No. 5 Blast Furnace, material P1879300.

- Page U is the Material Price Analysis for P1879300, Hot Metal – No. 5 Blast Furnace. It shows the production quantity which agrees with the material feed quantity on page T.

- Page V is the Cost Centre report for 10879300, Hot Metal – No. 5 Blast Furnace. It shows the tonnes produced which agrees with the production

quantity on page U. Page W is the second page of the Cost Centre Report on page V and shows the actual quantity [redacted] Iron Ore Lump.

- Page X displays the actual cost line items for Cost Centre 10879300 and shows the quantity of [redacted] lump iron ore. This quantity agrees with the quantity on page W.

- Page Y is the Material Price Analysis for 10191981, iron ore, unscreened, [redacted] lump. It shows the consumption of [redacted] iron ore lump from cost centre 10879300 which agrees with the quantity on page X. Page Y shows that no iron ore was receipted in the month of June and iron ore was consumed from existing stock.

- Page Z is the Material Price Analysis for 10191981, iron ore, unscreened, [redacted] lump for the month of May. It shows goods receipt of a quantity of [redacted] iron ore lump and the associated transaction number. The transaction number and value agree with page AC which displays the purchase transaction for the iron ore.

- Page AA is the Material Ledger Update and shows the quantity of [redacted] iron ore lump receipted. This figure agrees to the goods receipt quantity on page Z.

- Page AB shows the value of the [redacted] lump iron ore. It shows the invoice value of the iron ore (price payable by BlueScope to [redacted]) and also the value of the iron ore based on the previous month's $ per tonne inputs. The invoice value agrees with the value of the iron ore on page Z.

- Page AD is the direct material purchase order showing the BlueScope's purchase of the [redacted] iron ore lump from [redacted]. The value of the purchase agrees with the value in pages AC and AB.

- Page AF is the tax invoice from [redacted] to BlueScope for [redacted] iron ore lump. The quantity on this invoice agrees with the quantity shown on purchase order page AD.

We were able to verify the hot metal cost for plate steel from the finished product through to the raw material inputs for the steel.

7.4 SG&A expenses

BlueScope ran the Cost Centre Report for SG&A which provided all SG&A costs that sit in the trial balance for the quarter. They explained that whilst the general and administration (G&A) expenses were accurately reported for the 1310 and 1010 businesses,

[redacted] *[accounting methodology]*.

BlueScope explained how the Cost Centre Report (trial balance) was pulled from SAP each quarter. We chose the quarter ending June 2012 for detailed verification.

7.4.1 General and Administrative expenses

BlueScope provided a print out of the cost centre report for the June 2012 quarter (**confidential attachment COSTS 3**) which BlueScope used to explain the G&A expense allocation. We could see that the G&A expenses were broken down into admin and finance expenses. We were able to agree the Domestic Plate allocation for Administration and Finance expenses along with the domestic sales volumes, to the figures provided by BlueScope in the A6.

BlueScope explained that a G&A dollar per tonne amount was calculated based on total G&A for the 1010 business and allocated based on selling volumes for each product in the 1010 business. For plate steel, BlueScope calculated the plate steel sales volume as a percentage of total sales volumes and applied this to the total general expenses and total administration expenses (separately) to get the allocations for plate steel. They then calculated the percentage of domestic and export plate steel sales to apportion the G&A expenses to plate domestic sales and plate export sales.

7.4.2 Selling expenses

BlueScope provided a print out of the SAP report for the [redacted] *[business area]* showing the calculations for the selling expenses for plate steel (**confidential attachment COSTS 4**). The worksheet calculated the proportion of domestic plate sales over total domestic sales from the [redacted] *[business area details]*. This percentage was applied to the total domestic selling expenses [redacted]) *[business area details]* for sales of all domestic products in the [redacted] *[business area details]*. We sighted the source spreadsheets for the quarterly selling expense amounts in that made up the total financial year amount. We sighted the spreadsheets in the trial balance showing total selling costs for each quarter. We were able to agree the totals of these quarterly amounts with the total amount in confidential attachment COSTS 4. We were able to reconcile the domestic plate sales tonnes for FY 2012 with the volumes in the A6. We were able to reconcile the domestic plate selling expense allocation in confidential attachment COSTS 4 with the A6. We examined the cost centres attributed to export sales and were provided an explanation of each item by BlueScope.

We have accepted the SG&A expenses presented by BlueScope.

7.4.3 Restructuring costs

As discussed in section 3.2 of this report, in August 2011 BlueScope announced a major restructure of its operations which included shutting down the No. 6 blast furnace at the Port Kembla Steelworks and closing down the Western Port hot strip mill.

BlueScope provided an overview presentation of the Port Kembla steel works restructuring, **confidential attachment COSTS 5.**

BlueScope advised that the [redacted] *[commercially sensitive information]* restructuring costs were all finalised by [redacted] [*commercially sensitive*

information] and did not affect the plate steel case. However the [redacted] *[commercially sensitive information]* were affected by some credit adjustments as a result of the restructure. BlueScope excluded these costs in the relevant quarters from the appendices and datasets provided to us. It was explained to us that BlueScope [redacted] *[accounting methodology]*.

We consider that it is necessary to remove these restructuring costs so that cost trends over the injury analysis period are not distorted. We were satisfied with the information provided by BlueScope in regards to these restructuring costs.

7.5 Conclusion

We have verified the cost information provided by BlueScope and we are satisfied the data is relevant and accurate, and suitable for the purposes of injury analysis. An annual summary of each appendix A6 data is at **confidential appendix 6.**

8 ECONOMIC CONDITION OF THE INDUSTRY

8.1 Introduction

BlueScope estimates that "injury from exports of plate steel from China, Indonesia, Japan, Korea and Taiwan commenced to impact profit and profitability in 2009-10 as the market recovered from the effects of the global economic downturn".

Following the global financial crisis, BlueScope's domestic sales recovered in 2010 and 2011, before sales fell and market share decreased in 2012.

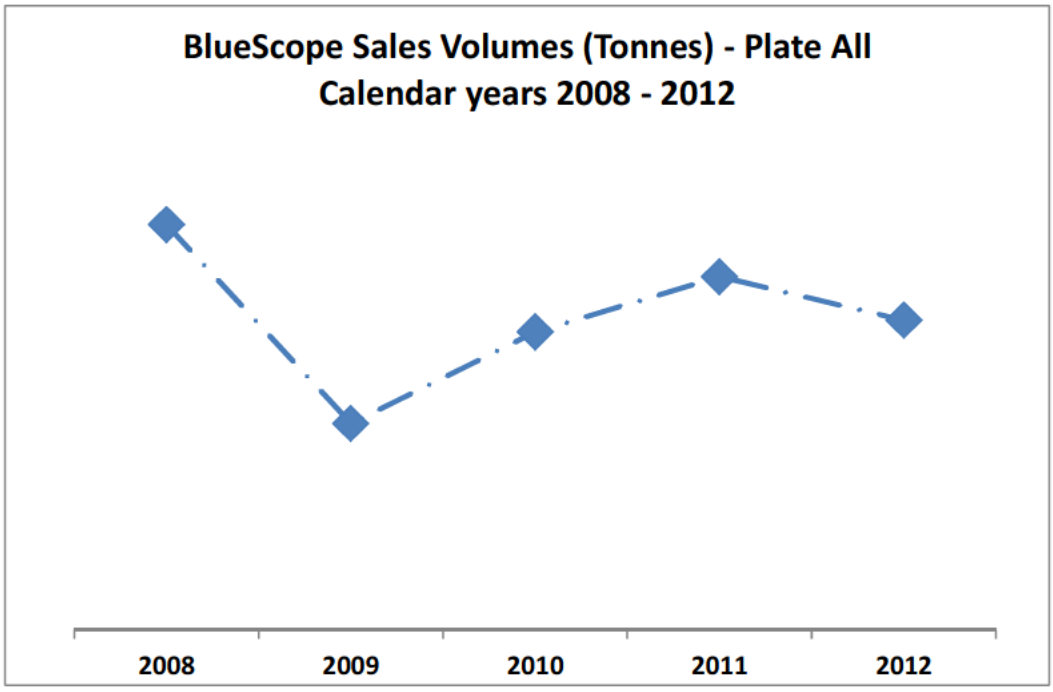
BlueScope claimed it has suffered injury in the form of:

- loss of sales volume;
- reduced market share;
- price depression;
- price suppression;
- reduced revenues;
- reduced profits;
- reduced profitability;
- reduced return on investment;
- reduced attractiveness for re-investment; and
- lower employment levels.

8.1.1 Volume effects

Sales volume

BlueScope's domestic sales volume over the injury analysis period is illustrated in the following chart.



BlueScope's sales volume fell in 2009, rose in 2010 and 2011 and fell in 2012. The volume achieved in 2012 was lower than in 2008. We consider that BlueScope has suffered injury in the form of reduced sales volume.

Market share will be discussed in the Statement of Essential Facts.

8.1.2 Price effects

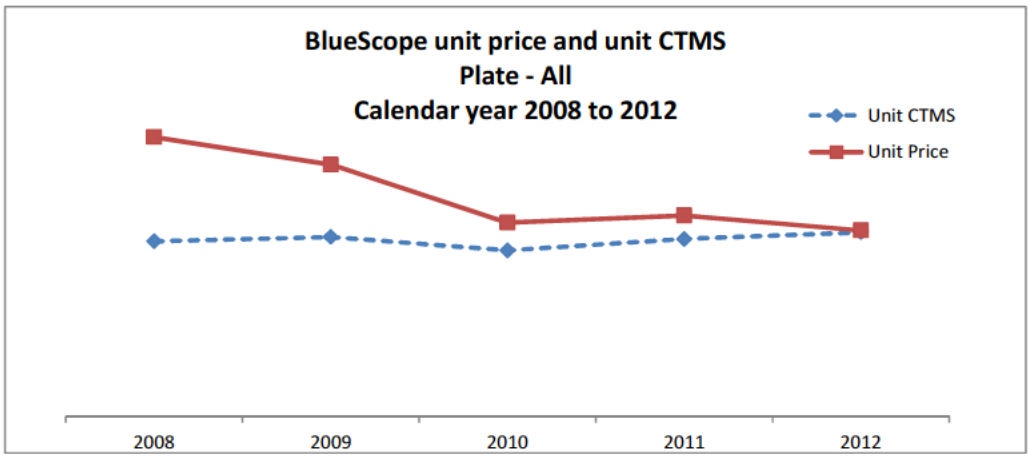
Price undercutting

Price undercutting occurs when imported product is sold at a price below that of the Australian manufactured product. BlueScope's claim of price undercutting will be assessed when visits to importers are completed.

Price depression

Price depression occurs when there is a reduction in prices. Movements in BlueScope's prices are illustrated in the following chart.

BlueScope's prices fell in 2009 and 2010, rose marginally in 2011 and fell in 2012. BlueScope's prices in 2012 were lower than in 2008, the lowest level over the five year period. We consider that BlueScope has suffered injury in the form of price depression.

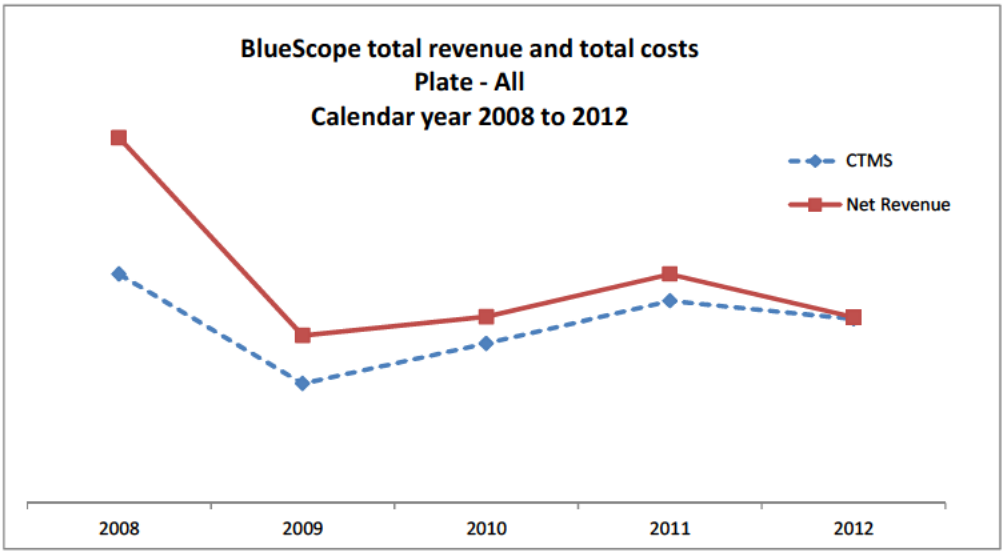


Price Suppression

Price suppression occurs when price increases for the applicant's product, which otherwise would have occurred, have been prevented. An indicator of price suppression may be the margin between revenues and costs. The relationship between unit and total revenues and costs are illustrated in the above chart.

Whilst unit costs remained relatively stable throughout the period 2008-2012, unit revenue decreased markedly from 2008 to 2010. Revenue increased slightly in 2011 before falling again in 2012.

Over the five year period it can be seen that the gap between unit costs and unit revenue has been squeezed from a point in 2008 where unit revenue was well above unit costs to 2012 where unit revenue was barely above unit costs.

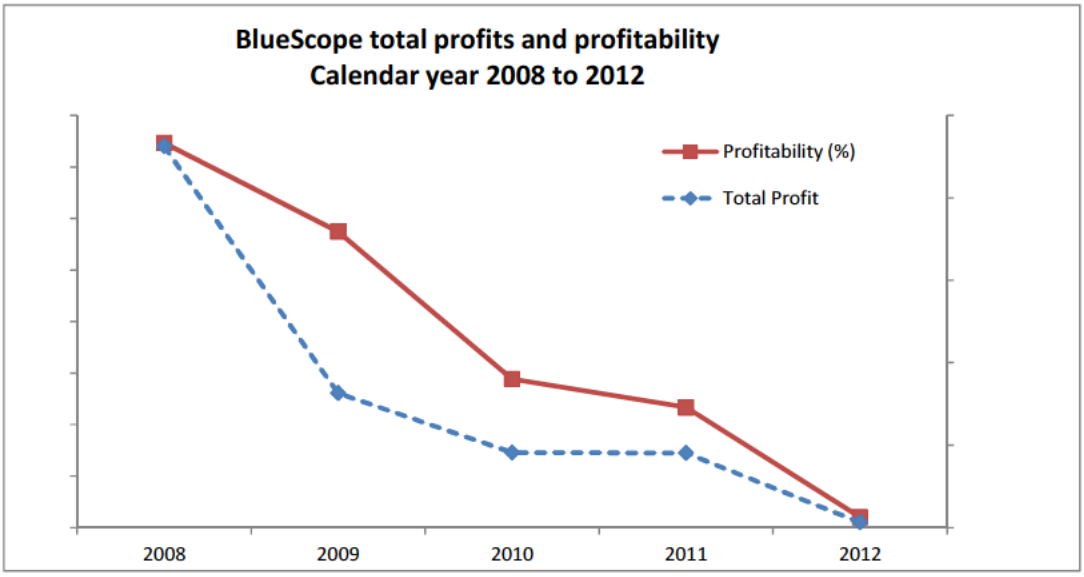


In 2009 both total revenue and total costs fell to the lowest point over the five year period. In 2010 and 2011 revenue and costs both increased. In 2012 costs decreased slightly and revenue decreased to a point where it was only marginally higher than costs.

We consider that BlueScope has suffered injury in the form of price suppression.

8.1.3 Profits and profitability

BlueScope's profits and profitability are illustrated in the following chart. Profitability is profits expressed as a percentage of revenue.



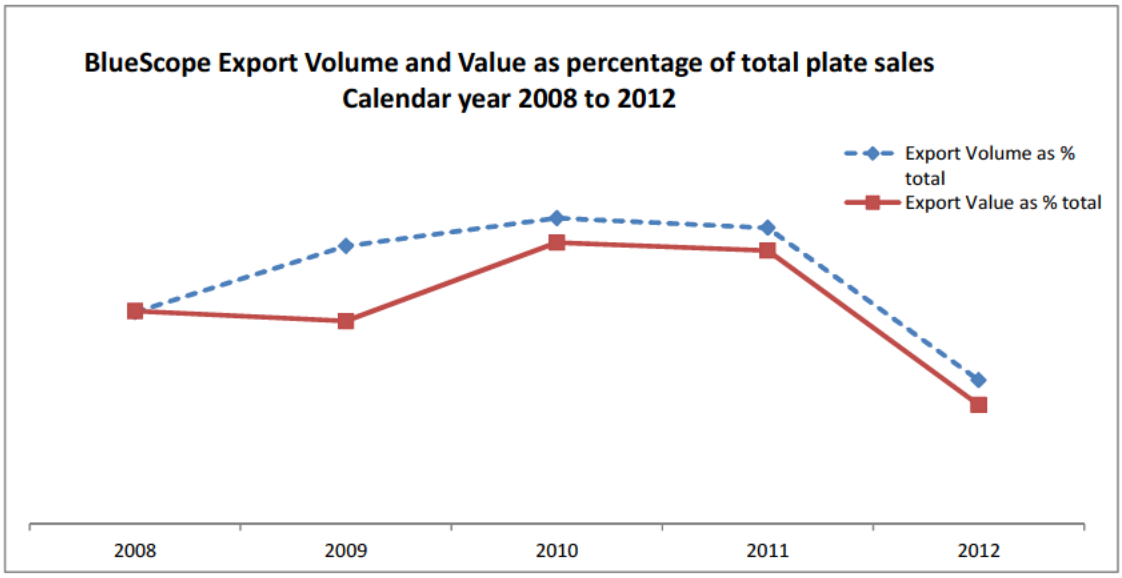
BlueScope's profits and profitability fell significantly from 2008 to 2012. Profits and profitability fell from a positive level in 2008 to a level in 2012 where BlueScope was barely making a profit.

We consider that BlueScope has suffered injury in the form of reduced profits and profitability.

8.1.4 Export Sales

BlueScope's export sales volume and value as percentage of total plate sales are illustrated in the graph below. Export sales volume increased as a percentage of total plate sales in 2009 and 2010 before slightly decreasing in 2011. Figures for 2012 have decreased significantly due to the restructuring of operations and closure of the No. 6 blast furnace in October 2011.

We analysed BlueScope's export sales volume from 2008 to 2012 and observed that sales grew marginally in 2009 and significantly in 2010 before decreasing in 2011 and 2012.



8.2 Other economic factors

BlueScope completed an Appendix A7 for plate steel from financial years 2009 to 2012.

Assets

The value of assets in the production of plate steel increased each financial year 2009-2012. BlueScope advised that these figures apply to the [redacted] *[commercially sensitive information]*. There appears to be no injury to BlueScope in the form of a reduction in the value of assets used in the production of plate steel.

Capital investment

Capital investment in plate steel increased significantly in FY2010 before decreasing in FY2011. There was a minor increase in capital investment for plate steel in FY 2012.

Based on the available figures we are unable to draw any meaningful conclusions about capital investment.

Research and development (R&D) expenditure

R&D expenditure for plate steel decreased in FY2010, increased in FY2011 before decreasing again in FY2012. There is no evidence of injury to BlueScope in the form of decreased R&D expenditure for plate steel.

Revenue

Revenue from plate steel fell in FY2010, increased in FY2011 before decreasing slightly in 2012.

Return on income

Return on income for plate steel decreased consistently and significantly for each financial year from FY2009 to FY2012.

Capacity

Capacity in relation to plate steel fell in FY2010 and increased in FY2011. In FY2012 capacity decreased significantly.

Capacity utilisation

Capacity utilisation increased each financial year from FY2010 to FY2012.

Employment

Employment decreased consistently from FY2009 to FY2012. Over the five year period employment in the production of plate steel decreased by [redacted] *[%]*.

Productivity

Productivity in relation to plate steel increased steadily each financial year from FY2009 to FY2012.

Wages

The wage bill for plate steel increased in FY2010 and 2011 before falling slightly in FY2012.

8.3 Conclusion

The data indicates that BlueScope suffered injury through:

- loss of sales volume;
- reduced revenues;
- price depression;
- price suppression;
- reduced profits;

- reduced profitability;
- reduced return on income; and
- loss of employment.

Injury in the form of price undercutting will be assessed when visits to importers are completed.

9 CAUSATION

9.1 Pricing

BlueScope stated that its pricing is based on import parity pricing and therefore, the price of imports is a key determinant of its selling price and directly causes price injury resulting in lost revenue and profits. BlueScope considers itself to be a price taker in the plate steel market.

Import parity price (IPP) has become the reference point for domestic pricing. Pattern plate and coil plate have been priced on an IPP basis for 7-9 years.

BlueScope explained that its sales force was out in the market spending time with contacts trying to get as much information as possible from them in regards to what was happening regarding imported plate steel and price offers. They then feed this information back into BlueScope through a series of portals. One such portal was the customer relationship management system which captures such information on import price offers. BlueScope sales staff attempt to source copies of import offers, [redacted] *[details of import offers]* BlueScope stated that it is more reliant on [redacted] *[business practices relating to import offers]*

BlueScope explained that the price of imported plate steel was generally released into the market three months before the date by which the purchased goods would eventually be imported (arrive in Australia). BlueScope provided several examples of the import offers that were made available to importers during the investigation period with its application. Import offers for plate steel are usually only open for two weeks. In light of the currency fluctuations over the past 6-9 months sometimes these offers can be valid for shorter timeframes such as 24 hours. All import offers specify the exchange rate.

BlueScope have established a view on which overseas plate mills [redacted] [*BlueScope's opinion of overseas mills].* BlueScope maintain a Market Intelligence (MI) spreadsheet containing information on [redacted] *[commercially sensitive information]* offers including [redacted] *[commercially sensitive information]* etc. BlueScope provided us with this MI spreadsheet for each month from January 2012 to January 2013, see **confidential attachment INJ 1.**

BlueScope stated that *[commercially sensitive information]* [redacted] main points of reference for benchmarking. The import offers [redacted] *[market intelligence].*

In addition to its MI spreadsheet, BlueScope access import pricing from the Australian Bureau of Statistics (ABS) database. The clarity around country of origin in the ABS data has been diminishing over time as importers request their data be hidden citing confidentiality concerns. BlueScope also have access to data from the Iron and Steel Statistics Bureau (ISSB) and explained that it overlays this information with ABS data to form a picture of import price offers. BlueScope went on to explain how

[*BlueScope]* use this information, in conjunction *[commercially sensitive information]* to determine a benchmark import price which is then used as a basis for BlueScope's pricing. BlueScope also consider *[commercially sensitive information].*

BlueScope stated that factors other than import prices are taken into consideration when determining price, for example manufacturing costs and margins, however maintaining market share and volume is the key determinant.

As BlueScope have a geographical advantage of being located closer to its customers and can thus offer shorter lead times, it attempts to achieve a local price premium above import offers. BlueScope [*commercially sensitive information]* sure that its IPP benchmark is accurate. For example it *[details relating to IPP benchmark].* So at times BlueScope can *[details relating to IPP benchmark]*

BlueScope look to determine the IPP benchmark monthly and release its prices eight weeks out from delivery. Customers can *[order process]*. The price list is still open for negotiation with customers.

BlueScope's sales staff talk to customers before the *[details of communication with customers]* from BlueScope's supply for the months ahead. BlueScope stated that in order to get customers to place these *[commercially sensitive information]* need to be offered to customers.

9.2 Current trends in the market

BlueScope explained that its pattern plate local price premium has been on a downward run for the last three years, falling from an achievable premium of *[%].* With high supply in the market, there is a lot of price negotiation happening.

During and post the application period BlueScope have been benchmarking to the bottom range of import prices as the market has been increasingly price driven. BlueScope explained that 'fit for purpose' is a term used in the plate steel industry to reflect the suitability of plate steel to the specific end use. BlueScope consider that steel plate from all of the countries under consideration is fit for purpose. BlueScope has to match IPP prices from these mills where the plate has been tested and proven to be fit for purpose. BlueScope explained that it would not necessarily match the price of imported plate from India, particularly if the product was untested. It was explained to us that profilers and fabricators are generally able to use cheap imported steel regardless of the appearance as the steel is usually cut and further worked before having the surface cleaned up. They were described as being the most price sensitive customer segment. Fitness for purpose depends largely on the end use of the product. For example steel plate to be used in the construction of a bridge would be required to be of high quality whereas fabricators purchasing steel plate to manufacture accessories from the plate would not care so much about the quality.

BlueScope consider its plate steel to be a quality product. BlueScope also acknowledged that most customers generally treat plate steel as a commodity product. It was stated that some end users see value in higher quality plate which helps support BlueScope's price premium above the IPP price. Notwithstanding the above, BlueScope consider that there is no second tier (downgrade or poor quality) plate in the market from the countries the subject of the investigation.

We were told how the plate supply capacity in South Korea has grown dramatically and that in terms of imports into Australia, Indonesia has lost a little market share to Taiwan and Korea. BlueScope are of the view that a large percentage of the imports from China are Quench and Tempered (Q&T) green feed and that the January 2013 import figures from China are up five times on the previous month's figures. China is also exporting other forms of plate to Australia.

They outlined how the Korean ship building industry has substantially contracted post the Global Financial Crisis and with reduced demand, and very large excess capacity, suppliers are looking to sell their products into alternative markets.

BlueScope is of the opinion that the Australian customers view plate steel as largely commoditised, particularly in the Grade 250 and 350 product ranges (all thicknesses) due to the high supply availability and price focus. They stated that whilst customers often want to have a number of sources of supply, price is still the main determinant. As the current availability on the world market is very high, prices are facing downward pressure.

We were told how the market dynamics have driven customers towards price and that most of the time BlueScope are not [redacted] *[commercially sensitive information]*. With the blast furnace needing to operate at a minimum 85% capacity BlueScope need to maintain volume of production. When considering pricing, BlueScope take into account the next best alternative source for selling plate steel, including [redacted]

[redacted] [*details of BlueScope internal business decisions*].

BlueScope described how importers used to mainly offer supply and low prices to large customers but now often [redacted], [redacted] [*BlueScope comment on importer behaviour].*

9.3 Quench and Tempered Green Feed

BlueScope explained that [redacted] *[customer]* of Q&T green feed. Pre GFC BlueScope could not supply all of [redacted] [*customer]* required volume of plate steel. BlueScope stated that this was the same situation for several other customers during this time of unprecedented demand. It is now BlueScope's understanding that most of its customers do not purchase all of their required plate steel volumes from BlueScope.

Post-GFC, [redacted] [*customer]* started to look for an alternate supply channel. In 2011 [redacted] *customer]* announced its joint venture with Chinese manufacturer, [redacted] *[commercially sensitive information]* went from purchasing [redacted] *[%]* of its required plate volume from BlueScope to [redacted] *[%]*. BlueScope understands that [redacted] [*customer]* also purchase from [redacted] *[supplier]* BlueScope is of the opinion that [redacted] [*customer]* preferred source of supply is whoever offers [redacted] *[commercially sensitive information]* (mainly China and Korea). We were also told that [redacted] [*customer]* always purchase imported plate through a trader as payment terms and logistics is considered critical to [redacted] [*customer].*

Prior to 2011 BlueScope approached [redacted] [*customer]* with a price list [redacted]. In 2011 [redacted] *[customer behaviour]* We were provided an example of a sale [redacted] where BlueScope [redacted] *[commercially sensitive information]* discount in order to make the sale. [redacted] [*customer]* do not tell BlueScope the price it pays for imported plate steel. BlueScope outlined the sales ordering process with [redacted] *[customer]* as follows:

- [redacted] *[customer]* present BlueScope with a request for quotation;
- BlueScope develop a price model and submit it to [redacted] *[customer]*;
- [redacted] *[customer]* advise BlueScope if they are successful or not.

There are some months that [redacted] *[customer]* does not approach BlueScope and invite them to tender. BlueScope advised that [redacted] *[customer]* does not receive any [redacted] *[commercially sensitive information]* and that only a [redacted] *[commercially sensitive information]* is provided for invoices that are paid on time.

BlueScope also sell to [redacted] *[customer]* straight off the list price, with no discounts provided. BlueScope stated that [redacted] *[customer]* bought the more [redacted] *[details of type of plate steel customer purchased]* of plate steel at BlueScope's list price and only in small quantities.

BlueScope provided us with emails showing [redacted] *[commercially sensitive information]*. It advised that for each of the last [redacted] *[number]* parcels they had been asked to quote on, they had won [redacted] *[number]*. For each quotation won, the volume was only a certain percentage of [redacted] *[customer]* requirements.

BlueScope estimate [redacted] *[customer]* total requirement of Q&T green feed for FY2012 as approximately [redacted] *[XX]* tonnes. For calendar year 2012 BlueScope estimates [redacted] *[customer]* imports at [redacted] *[XX]* tonnes. BlueScope consider that outside of the negotiated low price parcels, the main products it sells to [redacted] *[customer]* are plate steel products that are [redacted] *[details of type of plate steel customer purchased].*

BlueScope consider that it has lost business to [redacted] *[customer]* even when its prices were competitive due to importers offering [redacted] *[commercially sensitive information]*. To accommodate [redacted] *[customer]* preference for [redacted] *[customer requirements]*, in [redacted] *[time period]* BlueScope [redacted] *[commercially sensitive information]*. That month, BlueScope was awarded the contract from [redacted] *[customer]* to provide [redacted] *[XX]* volume. BlueScope are of the view that in order for [redacted] *[customer]* to continue receiving favourable prices from [redacted] *[commercially sensitive information]* it needs to continue purchasing from [redacted] *[supplier].*

BlueScope is aware of importers offering to [redacted] *[commercially sensitive information]* [redacted] *[customer]* and allowing them to [redacted] *[commercially sensitive information]*. In the past this has been a service that only BlueScope have offered to [redacted], *[customer]* a service which gave it a [redacted] *[commercially sensitive information].*

BlueScope explained that in September 2012 the market for plate, including Q&T steel, rapidly declined when the mining commodity prices softened & were forecast to have peaked, and miners such as BHP, Rio Tinto and FMG cancelled or delayed major projects and also substantially reduced their repairs and maintenance spending. [redacted] *[customer]* sales are heavily linked to the mining industry and as its inventory rose, the order book stopped, with BlueScope's sales to [redacted] *[customer]* of Q&T green feed being adversely affected.

BlueScope provided us with copies of correspondence between [redacted] *[customer]* and BlueScope, **confidential attachment INJ 2**. Several emails documented

[redacted] *[price negotiations].*

9.4 Other possible causes of injury

BlueScope noted that the plate steel market has not recovered to the position it held prior to the global financial crisis and that building activity is still suppressed. It also noted that the strength of the Australian dollar has some impact on the attractiveness of import offers. However, despite these observations, BlueScope noted that neither of these factors displaces the impact of having to compete with dumped import prices. Given its import parity pricing policy dumped import prices have a direct and identifiable impact on BlueScope's prices.

BlueScope's inability to turn down (or off) the capacity of the blast furnace means that it needs to compete on price in order to keep operating. Since it has turned off the second blast furnace and is down to one, it is largely a choice to either run the blast furnace or not.

We were advised by BlueScope that the electric arc method of production is batch production, and therefore it can be more readily turned off. This production method is mostly employed in China, Korea and Malaysia.

9.5 Conclusion

The information provided by BlueScope indicates a link between the allegedly dumped and subsidised imports. This will be considered further as the investigation progresses.

10 UNSUPPRESSED SELLING PRICE

Unsuppressed selling price and non-injurious price issues are examined at an early stage of an investigation and, where possible and appropriate, preliminary examinations are made during the application consideration period for the purpose of assessing injury and causal link and therefore the appearance of reasonable grounds for the publication of a dumping duty notice.

Customs and Border Protection generally derives the non-injurious price by first establishing a price at which the applicant might reasonably sell its product in a market unaffected by dumping. This price is referred to as the unsuppressed selling price.

Customs and Border Protection's preferred approach to establishing unsuppressed selling prices observes the following hierarchy:

- industry selling prices at a time unaffected by dumping;
- constructed industry prices – industry cost to make and sell plus profit; or
- selling prices of un-dumped imports.

Having calculated the unsuppressed selling price, Customs and Border Protection then calculates a non-injurious price by deducting the costs incurred in getting the goods from the export free on board point (or another point if appropriate) to the relevant level of trade in Australia. The deductions normally include overseas freight, insurance, into-store costs and amounts for importer expenses and profit.

BlueScope advised that it will likely provide a submission on the unsuppressed selling price and injury in due course.

PUBLIC FILE

11 LIST OF ATTACHMENTS

Confidential appendix 1	Datasets for COGNOS data and reconciliation between COGNOS and SAP
Confidential appendix 2	A4 –Unadjusted for COGNOS/SAP differences
Confidential appendix 3	Trial balances
Confidential appendix 4	A4 Revised detailed sales listing
Confidential appendix 5	AISOPS spreadsheet
Confidential appendix 6	Appendix A6
Confidential attachment GEN 1.	Summary of BlueScope's global interests
Confidential attachment GEN 2.	BlueScope's management structure
Confidential attachment GEN 3.	Details of TCOs
Confidential attachment GEN 4	Relevant Australian standards
Confidential attachment GEN 5	PowerPoint presentation on production process
Confidential attachment GEN 6	PowerPoint presentation on plate steel markets, applications and customers
Confidential attachment DOM 1	Description of models in A4
Confidential attachment DOM 2	BlueScope price lists
Confidential attachment DOM 3	Example customer supply agreement (refer to hard copy in confidential version of the application)
Confidential attachment DOM 4	Summary of customer rebates
Confidential attachment DOM 5	Audited financial statements for BlueScope Steel (AIS) Pty Ltd for 2012
Confidential attachment DOM 6	Supporting evidence for selected sales (hard copy only)
Confidential attachment DOM 7	[redacted] rebate reconciliation
Confidential attachment DOM 8	[redacted] rebate reconciliation
Confidential attachment DOM 9	[redacted] rebate reconciliation
Confidential attachment DOM 10	Portioned invoice explanation and reconciliation
Confidential attachment DOM 11	SGIS invoice print out for sample freight invoices
Confidential attachment DOM 12	Evidence of payment by [redacted]
Confidential attachment COSTS 1	MAS costing sheet for sample products
Confidential attachment COSTS 2	Print outs from SAP for verification of hot metal cost for June 2012
Confidential attachment COSTS 3	Cost centre report for the June 2012 quarter
Confidential attachment COSTS 4	Print out of the SAP report for the [redacted] business
Confidential attachment COSTS 5	Restructuring presentation

PUBLIC FILE

Confidential attachment INJ 1	Market Intelligence (MI) spreadsheets
Confidential attachment INJ 2	Evidence of price pressure on BlueScope from customers