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Continuation 617 – Steel pallet racking exported from the People’s Republic of China, and Malaysia

1. Introduction

Dematic Pty Limited (**Dematic**) is an Australian manufacturer of adjustable steel pallet racking (**pallet racking** and/or **the goods**) and was the applicant company that requested the above-noted continuation inquiry (**CON 617**) – refer ADN No. 2023/021. Dematic makes the following initial submission in relation to the assessment of Chinese normal values.

2. China Particular Market Situation – Investigation No. 441

In the final report to investigation No. 441 (**REP 441**), the Commissioner of the Anti-Dumping Commission (**the Commissioner**) determined that the Government of China (**GOC**) exerted influence on the Chinese steel industry, which had substantially distorted competitive market conditions in the steel industry in China.¹ The GOC was able to exert this influence through its directives and oversight, subsidy programs, taxation arrangements and the significant number of State Owned Enterprises.²

The Anti-Dumping Commission’s (**the Commission’s**) assessment and analysis of the available information indicated that the GOC materially influenced conditions within the Chinese hot rolled coil steel (**HRC**) market during the investigation period and because of that influence, domestic prices for Chinese steel pallet racking were substantially different to those that would have prevailed under normal competitive market conditions.³

This assessment was informed, inter alia, with reference to several past trade remedy investigations where a particular market situation was found to exist in relation to steel and steel related products in China. The following cases were particularly relevant to the original inquiry, as they examined HRC as the major raw material input:

- Investigation No. 177 (2012): Hollow Structural Sections (**HSS**)
- Investigation No. 190 (2013): Galvanised and Aluminium Zinc Coated Steel;
- Reinvestigation No. 203 (2013): HSS;
- Continuation Inquiry No. 379 (2017): HSS; and

¹ REP 441, p. 122.

² Ibid.

³ Ibid.

- Review No's. 456/457 (2018): Galvanised Steel and Aluminium Zinc Coated Steel.

The Commissioner considered that the GOC's influence in the Chinese steel industry created a market situation for steel pallet racking, such that sales of steel pallet racking in China were not suitable for determining normal values under subsection 269TAC(1) of the *Customs Act 1901*.⁴

3. Cost replacement for HRC – Investigation No. 441

Having determined the existence of the particular market situation, the Commission then considered whether it was appropriate and possible to construct normal values for Chinese exporters in accordance with subsection 269TAC(2)(c). The determination that HRC prices were influenced by the GOC's involvement in the Chinese steel market meant that they did not reasonably reflect competitive market costs in the manufacture of steel pallet racking.⁵ The Commission therefore considered options for establishing competitive market costs of HRC in China for the purposes of constructing normal values under subsection 269TAC(2)(c). From REP 441, in relevant part:⁶

The Commissioner has determined that an appropriate basis for calculating a benchmark for HRC costs in China is the weighted average domestic HRC price paid by cooperating exporters from Korea and Taiwan in Reviews 456 and 457, at comparable delivery terms to those observed in China. This is because:

- *the review period for Reviews 456 and 457 is the same as the investigation period for this investigation; and*
- *it was determined using verified domestic HRC purchases by exporters in markets free of apparent government influence (in this instance, Korea and Taiwan).*

Furthermore, the Commissioner considers that it is not appropriate to use private domestic prices for HRC in China or import prices for HRC in China when determining a benchmark for the reasons discussed in Non-Confidential Appendix 4.

The Commissioner then considered it appropriate to adjust the Korean and Taiwanese HRC costs to reflect comparative differences between the producers of HRC in China, Korea, and Taiwan. To do so, the Commissioner identified the differences in price observed when comparing the prices paid for HRC by Chinese exporters examined in Reviews 456 and 457 and prices paid for HRC by Chinese exporters examined in the steel pallet racking investigation. The Commissioner found that Chinese exporters of steel pallet racking paid significantly more for HRC than the Chinese exporters examined in Reviews 456 and 457:⁷

...this difference is likely to reflect a number of different pricing considerations relevant to HRC purchases in China, including:

- *different grades and thicknesses of HRC;*
- *any slitting costs incurred before purchase;*
- *intermediary margins; and*
- *volume based price variations.*⁸

The Commissioner then made an upward adjustment to the HRC benchmark prices using weighted average price differences (calculated as percentages) on a quarterly basis. Footnote 77 of REP 441 noted the specifics of the HRC price adjustment, being based only on purchases of 'black' HRC – while the Commissioner recognised that Chinese steel pallet racking exporters consumed both 'black' and galvanised HRC, the latter was in small proportion for the

⁴ A reference in this submission to "the Act", or to a "Section", "Subsection", or "Subparagraph" is a reference to a Section, Subsection, or Subparagraph of the Act, unless otherwise specified.

⁵ REP 441, p. 43.

⁶ Ibid.

⁷ Statement of Essential Facts No. 441 (SEF 441) noted this difference as being 21.8 percent. Refer SEF 441, p. 36.

⁸ REP 441, p. 43-44.

manufacture of Australian export sales. The adjustment was therefore based only on the observed differences in prices for 'black' HRC purchases.⁹

4. Chinese Particular Market Situation – current inquiry

Dematic submits that the Commission will find the continued existence of a Chinese particular market situation for the current continuation inquiry. There is no evidence to the contrary that would lead the Commission to conclude that such a situation no longer prevails in the Chinese steel pallet racking industry.

As an ongoing precedent base for the Commission since the imposition of trade measures from INV 441, the following trade remedy cases have examined HRC as the major raw material input for Chinese subject goods and like goods, have concluded the ongoing existence of a particular market situation, and have utilised external benchmarks in the construction of normal values:

- Review No's. 521/522 (fiscal year 2019): Galvanised Steel and Aluminium Zinc Coated Steel;
- Review No. 529 (October 2019 – September 2019): HSS;
- Continuation No. 590 (fiscal year 2021): HSS; and
- Continuation No's 610/611 (fiscal year 2022): Galvanised Steel and Aluminium Zinc Coated Steel.

Given that Continuation No's 610/611 remain the subject of final Ministerial determination as at the time of writing, Dematic refers to the Commission's conclusions in Report 590 (**REP 590**) to the Continuation Inquiry 590 (**CON 590**) involving HSS exported from China where it concluded that the GOC continues to influence the Chinese domestic market for HRC, the key raw material input in the production of HSS.

REP 590 detailed a total of 59 countervailable subsidies as being applicable to exports of HSS from China, as identified from an earlier HSS variable factors review inquiry.¹⁰ During the course of CON 590, the Commission also identified an additional program under which countervailable subsidies were provided to Chinese exporters of the HSS goods.¹¹ REP 590 then determined that Chinese exporters of the goods were in receipt of countervailable subsidies by margins of between 8.4 and 51 percent.¹²

In its proper comparison assessment, the Commission concluded as follows:¹³

...the effect of the particular market situation on the domestic sales prices in China does not result in any competitive advantages or disadvantages between market participants, being Chinese producers. In other words, while there may be competition between Chinese producers based on manufacturing efficiencies and other factors (no evidence of which was presented to the commission during the inquiry), the particular market situation nonetheless modifies the conditions of competition in a consistent manner for market participants.

In Australia, where no particular market situation or input cost decrease exists, competitive pricing prevails at a higher level. Higher production costs for those participants producing without the benefit of a particular market situation establishes a higher minimum threshold for competitive prices. Under these circumstances, the effect of the particular market situation in China on the price of Chinese HSS sold into the Australian market results in competitive advantages and disadvantages between market players.

Specifically, Chinese exporters enjoy a cost advantage that manifests as an increased margin at the prevailing level of competitive pricing in the Australian market, a lower export price that undercuts the Australian industry pricing, or a combination whereby the Chinese manufacturer can enjoy a higher margin while still undercutting Australian industry. In other words, the effect of the particular market situation on export price is to modify the

⁹ REP 441, p. 44.

¹⁰ REP 590, p. 101.

¹¹ Ibid.

¹² REP 590, p. 100.

¹³ REP 590, p. 182.

conditions of competition in Australia to the benefit of Chinese exporters and, to the extent that benefit manifests as a low price, to the detriment of Australian manufacturers. Thus, the relative effect of the particular market situation on domestic and export prices is different in the relevant markets.

In CON 590, the Commission established a competitive international benchmark based on HRC prices provided by verified Korean and Taiwanese HSS exporters during the inquiry period.¹⁴ This benchmark represented the most suitable recorded evidence available to the Commission during the inquiry, on the basis that the GOC declined to respond to requests for information and provide evidence of direct relevance to the Commission's market situation assessments.

Applied here to steel pallet racking, Dematic submits that the GOC has continued to exert influence over the Chinese steel industry generally, and within the steel pallet racking industry specifically. The Commission should therefore find the continued existence of a market situation, and therefore construct Chinese normal values with reference to external benchmarks.

5. Steel cost replacement – current inquiry

This issue before the Commission in the current inquiry is the absence of a concurrent CY2022 investigation that verifies cooperating steel exporters from countries such as Korea and Taiwan, these being export origins against which the Commission has often benchmarked flat steel input feed costs (primarily HRC, and galvanised steel) as the starting point for Chinese constructed normal values.

As noted above, CON 590 established a benchmark based on HRC prices provided by verified Korean and Taiwanese HSS exporters. In the preliminary Statement of Essential Facts to aluminium zinc coated steel Continuation No. 610, the Commission has recommended that the dumping and countervailing duty notice remain unaltered, and that the variable factors last ascertained for China in Review No. 522 be carried forward.¹⁵ In Review No. 522, the Commission considered that the verified HRC purchases of cooperating exporters of zinc coated (**galvanised**) steel in Korea, Taiwan and Vietnam in Review No. 521 was the best available information to use as the basis for the cost adjustment with respect of aluminium zinc coated steel.¹⁶ The cost adjustment in Review No. 521 was based on verified HRC purchases in the review period from cooperating galvanised steel exporters in Korea, Taiwan and Vietnam.¹⁷

In galvanised steel Continuation No. 611, the Commission established the competitive international benchmark based on HRC prices provided by Korean and Taiwanese exporters during the inquiry. From previous cases, the Commission considered that normal competitive market conditions prevailed in the domestic markets for HRC in Korea and Taiwan, and that HRC costs in China did not influence HRC purchases in these markets.¹⁸

Dematic submits that the benchmark to be adopted by the Commission in the current enquiry (and any adjustments in relation thereto) should continue to reflect steel pallet racking feed costs unimpacted by GOC distortions. The benchmark also needs to account for the various types of specific steel feed used to make steel pallet racking. The Commission will recall from its Australian industry verification that the beam component of steel pallet racking is roll-formed using narrow bare/black pickled¹⁹ HRC. The brace and upright components are manufactured from narrow galvanised steel coil, of varying widths and thicknesses. These can be evidenced as follows:

¹⁴ REP 590, p. 186.

¹⁵ Statement of Essential Facts No. 610, p. 7.

¹⁶ Final Report No. 521/522, p. 38.

¹⁷ Ibid, p. 38.

¹⁸ Statement of Essential Facts No. 611, p. 136.

¹⁹ Pickling prevents corrosion of HRC prior to it being roll-formed into steel pallet racking beams.

[Commercial-in-Confidence Confidential Picture's 1-5; galvanised steel feed material]

[Commercial-in-Confidence Picture 6; HRC steel feed material]

A multitude of thick/width HRC and galvanised steel feed combinations are required to manufacture steel pallet racking. Contrary to the Commission's approach taken in INV 441 where the benchmark was based on black HRC only, Dematic submits that the benchmark for the current inquiry should reflect the varying feed product characteristics, with an appropriate weighting for steel pallet racking feed between black pickled HRC and galvanised steel. Where the benchmark to be adopted is that for wide/mother coil HRC and galvanised steel, the Commission should make the appropriate adjustment to reflect the costs associated with slitting wider coils, and in the case of HRC, the additional cost for pickling. Confidential Attachment 1/2 [commercial-in-confidence feed cost processing details].

Should you have any queries in relation to this submission, please don't hesitate to contact either myself on the above-signed, or Dematic's trade advisor Mr Chad Uphill on 0412 377 603.

Yours sincerely,



Alan Lamb
Company Secretary
Dematic Pty Ltd