AUSTRALIA

Suite 13-01, Level 13,
59 Goulburn Street,
Sydney NSW 2000
+61 (0) 486 915 008
molycop.com

5 January 2024

Director
Investigations 4
Anti-Dumping Commission
GPO Box 2013
Canberra ACT 2601

Email: Investigations4@adcommission.gov.au

Public File

Dear Sir/Madam

Investigation No. 632 – Iron ore Railway Wheels – Particular Market Situation: China

I. Executive Summary

Commonwealth Steel Company Pty Ltd ("Comsteel") contends that a particular market situation for railway wheels continues to apply in the People's Republic of China ("China") due to Government of China influence ("GOC") impacting the Chinese steel and steel input industries. The policies and practices of the GOC have not altered in the period following the then Minister's decision to impose anti-dumping measures on exports of railway wheels to Australia from China in July 2019.

Comsteel submits that normal values for the cooperative Chinese exporter – Baowu Group Masteel Rail Transit Materials Technology Company Limited ("Masteel") be determined in accordance with the same methodology followed in Report 466 (that is, on a constructed cost basis (sub-section 269TAC(2)(c)), reflecting a suitable steel billet input costs benchmark as represented by costs of the French manufacturer MG Valdunes SAS ("Valdunes")).

The constructed normal value for Masteel can also be used for determining normal values in China for uncooperative Chinese exporters (without adjustments) under subsection 269TAC(6).

II. Shareholdings

The Chinese exporter of iron ore railway wheels ("the goods"), Masteel, is stated to be a "division" within the Maanshan Iron and Steel Company Limited (a subsidiary company of the State-Owned steel conglomerate China Baowu Group of companies[1]).

The exporter cooperating with the ADC in investigation No. 632 is "Baowu Group Masteel Rail Transit Materials Technology Company Limited". It is stated that the business is owned by Maanshan Iron and Steel Company Limited.

Prior to the change in name of the exporter (i.e. prior to 30 November 2019), the exporter was known as "Ma'anshan Iron and Steel Company Limited Wheel Company".

[1] Maanshan Iron & Steel Company Limited, 2022 Annual Report, Note 1, Notes to Financial Statements, P. 159.

In its financial statements[2], Maanshan Iron and Steel Company Limited is 45.10 per cent owned by Magang (Group) Holding Co., Limited. A further 3.83 per cent of shares are owned by State-Owned Enterprises. The next largest shareholding with 22.08 per cent of shares is Hong Kong Securities Clearing Company (Nominees) Limited.

Masteel is ultimately owned by SASAC (State-Owned Assets Supervision and Administration Commission). On 19 September 2019, SASAC transferred its 51 per cent interest in Anhui Steel to China Baowu Steel Group Corporation Limited (China Baowu)[3] . Following the transfer, China Baowu became the controlling entity of the Magang Holding Company (i.e. Masteel's parent).

According to the Exporter Questionnaire Response ("EQR") Maanshan Iron & Steel Company Limited Wheel Company is a "branch" of Maanshan Iron & Steel Company Limited. It is further stated that Masteel Rail Transit Equipment Co., Ltd (referred to as "the Subsidiary") is a wholly owned subsidiary of Maanshan Iron & Steel Company Limited. On 7 April 2020 the subsidiary became known as "Baowu Group Masteel Rail Transit Materials Technology Company Limited" ("Masteel Rail").

III. High-Tech Enterprise

Masteel was recognised as a High-Tech Enterprise on 18 October 2022[4]. As a designated High-Tech Enterprise according to Measures for Administration of the Recognition of High-Tech Enterprises and Law of the People's Republic of China on Enterprise Income Tax, Masteel received a preferential rate of company tax of 15 per cent (compared with the general 25 per cent rate).

The benefit is available for three years duration.

It is further noted in the Maanshan Iron and Steel Company Limited 2022 Annual Report that "Baowu Group Masteel Rail Transportation Material Technology Co., Ltd[5]" has also been assessed as a High-Tech Enterprise and also attracts a preferential income tax rate of 15 per cent.

These benefits have been afforded to Masteel companies following the Minister's decision in 2019.

IV. Particular Market Situation

Masteel's introductory response at Section H asserts that a "particular market situation" for railway wheels in China does not exist.

Comsteel strongly refutes Masteel's assertions concerning the existence of a particular market situation for the goods produced and sold in China. Report No. 466 ("Report 466") details that the "*government influence by GOC in the steel and steel input markets is such that the costs incurred by Masteel in the production of railway wheels were not determined in a competitive market*.[6]"

Appendix 2 to Report 466 details the Commission's findings in relation to its Assessment of Competitive Market Costs for the goods in China. Specifically, at Section A2.6.4 GOC influence in the Chinese steel market, the Commission found that:

[2] Maanshan Iron & Steel Company Limited, 2002 Annual Report, P. 129.
[3] *Ibid*, P.159.
[4] *Ibid*, P.205.
[5] *Ibid*, P. 204.
[6] Report No. 466, Section 6.5.1, P.24

> "…*the GOC's involvement within and influence over the steel industry to be a primary cause of the structural imbalances within the steel industry in China*."

And further,

> "*This involvement includes the issuing of planning guidelines and directives along with the provision of direct and indirect financial support*."

It is noted by Comsteel that in 2019 (subsequent to the imposition of the measures) the GOC via SASAC transferred shareholdings from one Steel group (i.e. Anhui Steel) to the Baowu Group, confirming the continued intervention by the GOC in the Chinese steel industry.

The financial support provided by the GOC also continues as evidenced by the income taxation concessions for labelled "High-Tech" Enterprises of which the exporter and its parent have obtained status (including throughout the investigation period). Additionally, Maanshan Iron and Steel Company Limited benefits from a broad range of subsidies received from the GOC[7] which includes, *inter alia*,

- Subsidy funds for No. 4 blast furnace;
- Technological transformation fund for Phase II silicon steel;
- Subsidy for the hot-rolled 1580 project;
- New-zone Thermal power Plant CCPP system engineering;
- EMU steel wheel production line project;
- Environmental subsidy funds for gas desulfurisation and 136MW thermal power;
- Subsidy for thin plate project;
- Environmental funds for desulfurisation project of 3rd iron plant's flue gas (BOT);
- Alloy bar production line refinement project of electric furnace plant;
- Subsidy for Maanshan railway industry (Maanshan), etc

It is noted that the grant for the "Maanshan railway industry" totals approx. RMB 22,036,100 payable over a non-disclosed period of time.

The receipt of the subsidies by Maanshan Iron and Steel Company limited demonstrates the GOC's continued influence in the Chinese steel industry. The nature of certain subsidies payable to Maanshan Iron and Steel company limited for raw steel input production assets further reinforces the ongoing distortive impacts in the raw material steel sector in China. The ongoing influence reinforces the Commission's conclusion in Report 466[8]:

> "*The result of this (involvement) is that the cost to make steel is artificially lowered due to government influence, which results in artificially high supply that pushes prices down*."

Comsteel refers the Commission to its statements and research detailed in Section A2.6.4 of Report 466 that identifies the policies and guidelines that, in addition to the subsidy benefits identified above that the exporter's parent company receives, continued to apply throughout the investigation period. The distortions identified in Report 466 include:

- capacity management issues including tightening lending to smaller firms;
- industry consolidation through mergers and acquisitions (refer to Anhui Steel and Baowu Steel swaps identified above);
- use of strict environmental requirements to forcibly close capacity.

[7] Maaanshan Iron & Steel Company Limited, 2022 Annual report, P 159, 269-271.
[8] Report 466, Section A2.6.4, P.82.

The Commission further identified GOC directives to address imbalances in the Steel Industry including:

- Advice on addressing Excessive Capacity and Relieving Hardship for the Steel industry; and
- The Opinions of the State Council on reducing Overcapacity in the Iron and Steel Industry,

that are intended to reduce production capacity in an oversupplied domestic steel industry in China.

The Commission identified that the GOC utilised a range of guidelines and directives that contributed to structural imbalances and distorted costs and prices (refer P. 87 of Report 466). The oversupply in the Chinese steel industry continues to be problematic. China accounts for 47 per cent (see below) of world steel capacity and significantly influences steel supply and prices globally.

The following recent media reports identify Chinese steel supply as the cause of distortions on export markets.

- **Chinese steel industry capacity utilisation**

  - 18 October 2023 – Steel Orbis – https://www.steelorbis.com/steel-news/latest-news/chinese-steel-sectors-industrial-capacity-usage-at-791-in-july-sept-1310827.htm?searchKey=Chinese%20Steel

    Chinese Steel Sectors Industrial Capacity Usage at 79.1% in July-Sept 2023

    Key extract:

    - *In the first nine months this year, the capacity utilization rate of the ferrous metal smelting, rolling and processing industry in China was at 78.7 percent, up 1.6 percentage points compared to the same period last year.*

  - 13-14 March 2023 – 93rd session of the Steel Committee – Statement by Ms. Sheryl Groeneweg and Mr. Lieven Top, Vice-Chairs of the OECD Steel Committee:https://www.oecd.org/industry/ind/93-oecd-steel-chair-statement.htm#:~:text=At%20its%2093rd%20session,markets%2C%20and%20increased%20market%20uncertainty

    Ongoing war of aggression by Russia against Ukraine risks further downturn in global steel markets and capacity challenges

    Key extracts:

    - *….and ever-growing excess steelmaking capacity.*

    - *Participants at the meeting:*
      - *Expressed concerns about the further increase in global steel excess capacity. Global crude steelmaking capacity rose to 2 463.4 mmt in 2022, with significant capacity expansions particularly in Southeast Asia and the Middle East contributing to the growing gap between global crude steelmaking capacity and production that reached 632.0 mmt in 2022 from 516.9 mmt in 2021. The modest longer-term outlook for steel demand growth risks exacerbating these challenges.*
      - *Highlighted continued concerns regarding Chinese steelmaking capacity, accounting for 47% of the world's total in 2022, particularly given the current market slowdown from an ailing real estate sector and possible steel demand declines in the coming years.*

- *Reviewed recent trade measures on steel and steelmaking raw materials, including sanctions, and agreed that addressing the root causes of excess capacity remains a priority to avoid trade tensions involving steel products in the future.*
- *Agreed to strengthen their work on the impacts of market-distorting subsidies and other government support on excess capacity, trade and the viability of the steel industry, while encouraging decarbonisation of the steel sector under conditions of fair competition.*
- *The deterioration in international steel market conditions is being driven by the global economic slowdown, historically high inflation worldwide, the impacts of Russia's aggression against Ukraine, and an ailing Chinese real estate market that has depressed steel demand in the world's largest steel-consuming economy.*
- *The increase in global excess capacity is raising risks of future oversupply, steel trade disturbances and trade frictions involving steel products. The work of the OECD Steel Committee shows that global steelmaking capacity increased to 2 463.4 mmt in 2022 despite the market slowdown, and the gap between capacity and production surged to 632 mmt. As a result, the average capacity utilisation rate has fallen to 74.3%, a level that is not in line with a healthy and financially viable steel industry that needs to invest in a low-carbon future and remain competitive vis-à-vis alternative materials.*
- *The Steel Committee agreed to continue addressing structural problems facing the steel industry, such as market-distorting government interventions that are not only the source of trade frictions but also inefficiencies that inhibit investment activity needed by the steel industry to remain competitive.*

o 13 March 2023 – 93rd session of the Steel Committee Paris, Masanobu Nakamizu (OECD):https://www.oecd.org/industry/ind/93rd_Steel_Session_Item_8.1_Capacity.pdf

Current And Projected Capacity Developments

Key extracts:

- *China represents approx. 47% of crude steelmaking capacity (1,150 of 2,463mmt)*
- *Global excess capacity rose to 26% in 2022 (from 21% in 2021).*

o 7 September 2023 – Reuters - https://www.reuters.com/article/china-economy-trade-ironore-idUSL4N3AJ14I

China's Aug iron ore imports jump ahead of peak construction season

Key extracts:

- *China's exports of steel products in August climbed by 34.6% from the prior year to 8.28 million tons, which was also 13.3% higher than 7.31 million tons shipped in July, customs data showed. The world's largest steel producer shipped 58.79 million tons of steel products from January to August, a 28.4% year-on-year increase, according to customs.*
- *Chinese long product producers operating at losses.*

Below is a graph of operating losses for steel products (rebar) in China. The data source is CRU and it clearly demonstrates that steel producers (especially rebar producers) are operating at losses in China.

REDACTED [*chart depicting profit margins for steel products in China*]

The above chart highlighting losses experienced in sales of flat steel products by Chinese producers is consistent with the reported losses of Maanshan Iron and Steel Company Limited 2022 Annual Report. Chinese producers have been incurring losses on flat steel products for a period greater than 12 months – in particular, across the investigation period in Invest 632.

The recent media reports identified above confirm the ongoing influence of the GOC's policies and directives that result in Chinese steel input prices and selling prices for steel products being artificially lower than they otherwise would be.

Comsteel considers that the available evidence confirms that the GOC continues to influence steel input and steel industry costs and prices through the broad range of policies, practices and directives that target the Chinese steel industry. The Commission's findings detailed in Report 466 concerning a particular market situation finding for iron ore railway wheels in Australia continue to apply in 2023 as they did in the original investigation period.

V. <u>Masteel EQR comments</u>

In its EQR Response at Section H, Masteel claims that "*the market for railway wheels in China is a competitive market where prices are set by market forces uninfluenced by the Government of China*". Masteel has not demonstrated that there has been a subsequent change in the GOC's policies and practices that were evident in the findings as published in Report 466 in July 2019. The policies and practices that result in the costs of steel inputs being approximately US$150 per tonne below steel prices determined in global competitive markets have not been removed over the four-year period since July 2019.

Comsteel has demonstrated that the GOC's policies, practices and directives targeted at the Chinese steel input and steel industry, continue to apply in 2023.

Further, and contrary to Masteel's claims, the policies and practices of the GOC in respect of the steel input and steel industries in China are not the same as the policies and practices of the Australian government. The ADC noted in Report 466 the Chinese steel industry overcapacity and the GOC's attempts to address the overcapacity[9]. Interestingly, the ADC identified Baosteel (Baowu Group) as one large Chinese steel producer with excess capacity that had 2.5 million tonnes of steel production mothballed whilst at the same time it was commissioning 9 million tonnes of new capacity at its Zhanjiang facility.

As part of further GOC directed rationalisation of the Chinese steel industry, Baowu Steel Group (a State-Owned Enterprise) is now the parent of Masteel. An examination of the Maanshan Iron and Steel Company Limited 2022 Annual Report confirms that SASAC was involved in the transfer of shares (government directed) in the Masteel Holding company, as part of the industry rationalisation[10].

It is further noted that a range of subsidies that Maanshan Iron and Steel receives, including as part of the ongoing support to the Baowu Steel Group – specifically Maanshan Iron and Steel - by the GOC[11]. Therefore, the key mechanisms that the Commissioner identified in Report 466 that the GOC has adopted to influence and distort the Chinese steel industry remain relevant in 2023:

[9] *Ibid,* Section A2 6.4, P.82.
[10] Maanshan Iron and Steel Company Limited, 2022 Annual Report, P.134.
[11] *Ibid,* Pp 267-271.

- the role and operation of the SOEs;
- industry planning guidelines and directives;
- the provision of direct and indirect support;
- taxation and tariff policies.

The Masteel EQR merely states that a particular market situation for railway wheels does not exist in China. The EQR provides not demonstrative evidence that the GOC's distortions in the form of policies and practices, grants and subsidies, etc have been withdrawn and no longer influence steel input costs and prices.

It is simply insufficient to assert the GOC influence has evaporated when in practice Chinese input costs for steel remain significantly lower than in any other country.

VI. EQR – Section - Chinese Domestic Market

Masteel has included commentary at Section I of its EQR concerning the market conditions in China for railway wheels and the conditions in the Australian market preclude a "proper comparison" between normal values and export prices.

Reference is made to the WTO Panel decision in 'Australia – Anti-Dumping Measures on A4 Copy Paper' (WT/DS529/R) (4 December 2019). It should be recalled that in the A4 Copy Paper investigation the exporter did have domestic sales of like goods and exported the similar goods to Australia.

In the original iron ore railway wheels investigation (Report 466), the exporter Masteel did not produce and sell iron ore railway wheels (or like goods) with the same specifications to the exported goods as depicted in the notice. A fair comparison therefore could not be undertaken. Comsteel considers that there are no domestic sales of like goods by Masteel in China. There is an absence of any change in circumstances as determined in the original investigation.

The ADC determined normal values for Masteel in China used a constructed cost methodology, with an adjustment to reflect the GOC's influence on the domestic Chinese steel inputs costs as disclosed in the exporter's records.

Comsteel does not consider that the Commissioner should alter the normal value methodology for Masteel in this continuation of measures investigation. There is an absence of information that supports a change in the GOC's influence on steel input and steel industry costs over the four-year intervening period from July 2019.

VII. Particular Market Situation - Conclusion

The particular market situation determination for iron ore railway wheels manufactured and sold in China as detailed in Report 466 of July 2019 is considered by Comsteel to be as relevant and reflective of GOC distortions in the Chinese steel input and steel industries in 2023 as it was in 2019.

In the period following publication of Report 466. the GOC has not altered its policies, practices or directives that have caused the costs and prices for steel inputs and steel prices to be distorted. Comsteel has demonstrated that the GOC continues to issue directives to influence production and supply within the Chinese steel industry, as well as providing subsidies that also assist in reducing costs and prices.

The analysis in this submission confirms:

- that the GOC's continued influence over the steel industry and raw material inputs used in the production of steel continues to create distortions and that the costs incurred by Masteel are not determined in competitive market conditions;

- that the GOC's influence is achieved via its directives, policies and practices (including the use of subsidies and taxation arrangements) into a an industry dominated by State-Owned Enterprises and State Invested Enterprises enabling the GOC to achieve its objectives that result in distortion of costs and prices in the Chinese steel industry;
- due to the GOC influence, the domestic prices for major steel production inputs are artificially low and therefore substantially different to what they otherwise would be in the absence of the GOC influence;
- due to the GOC's influences that result in distortions of input prices, Masteel's records relating to the production of steel billet do not reasonably reflect market costs (rendering them unsuitable for inclusion in a constructed cost normal value) and a particular market situation for the goods in China applies.

Masteel's normal value therefore must again be determined on a constructed basis (under sub-section 269TAC(2)(c)) utilising Masteel's verified costs of production, with an adjustment to uplift Masteel's steel billet costs based upon the difference between Masteel's cost of steel billet and Valdunes cost of steel billet, to remove the GOC distortions. To the adjusted production costs amounts for selling and general expenses and profit should be applied to reflect an appropriate proxy selling price for the goods sold by Masteel in China.

If you have any questions concerning this submission, please do not hesitate to contact the undersigned.

Yours sincerely,

NKojic

Nikola Kojic
Head of Finance - Australia