



Australian Government
Department of Industry,
Innovation and Science

Anti-Dumping
Commission

Consideration report number: 384

Application for a dumping duty notice

Submitted by: OneSteel Manufacturing Pty Ltd (Subject to Deed of Company Arrangement)

In relation to alloyed round steel bar exported to Australia from the People's Republic of China

December 2016

Contents

Contents	ii
Abbreviations	3
1 Findings and recommendations	4
1.1 Findings	4
1.2 Recommendations	4
1.3 Legislative framework	5
2 The application and the Australian industry	6
2.1 Lodgement of the application	6
2.2 Compliance with subsection 269TB(4)	6
2.3 The goods the subject of the application	7
2.4 Like goods and the Australian industry	9
2.5 Australian industry information	11
3 Reasonable grounds – dumping	13
3.1 Findings	13
3.2 Legislative framework	13
3.3 Export price	13
3.4 Normal value	14
3.5 Dumping margins	20
4 Reasonable grounds – injury to the Australian industry	22
4.1 Findings	22
4.2 The applicant’s claims of injury	22
4.3 Approach to injury analysis	23
4.4 Volume effects	23
4.5 Price effects	25
4.6 Profit and profitability effects	26
4.7 Other injury factors	26
5 Reasonable grounds – causation factors	28
5.1 Findings	28
5.2 Cause of injury to the Australian industry	28
5.3 The Commission’s assessment	28
6 Conclusion	32
7 Appendices and Attachments	33

Abbreviations

Abbreviations/short form	Full reference
ABF	Australian Border Force
ABS	Australian Bureau of Statistics
ADN	Anti-Dumping Notice
alloy bar	alloy round steel bar, also “the goods”
Arrium	Arrium Limited
AUD	Australian dollars
China	the People’s Republic of China
the Commission	Anti-Dumping Commission
the Commissioner	Commissioner of the Anti-Dumping Commission
CTMS	cost to make and sell
the Customs Act	<i>Customs Act 1901</i>
DDP	delivered duty paid
Dumping Duty Act	<i>Customs Tariff (Anti-Dumping) Act 1975</i>
EXW	ex-works
FOB	free on board
GOC	Government of China
ISSB	International Steel Statistics Bureau
mm	millimetres
OneSteel	OneSteel Manufacturing Pty Ltd (Subject to Deed of Company Arrangement)
NIP	non-injurious price
SEF	statement of essential facts
SG&A	selling, general and administrative expenses
the applicant	OneSteel Manufacturing Pty Ltd (Subject to Deed of Company Arrangement)
the goods	the goods the subject of the application (also referred to as the goods under consideration)
the Parliamentary Secretary	the Assistant Minister for Industry, Innovation and Science and Parliamentary Secretary to the Minister for Industry, Innovation and Science
the Regulation	<i>Customs (International Obligations) Regulation 2015</i>
USD	United States Dollars
USP	unsuppressed selling price
VAT	value added tax
WTO	World Trade Organization

1 Findings and recommendations

This report provides the result of the consideration by the Anti-Dumping Commission (the Commission) of an application under subsection 269TB(1)¹ of the *Customs Act 1901* (the Act) by OneSteel Manufacturing Pty Ltd (Subject to Deed of Company Arrangement) (OneSteel, or the applicant) for the publication of a dumping duty notice in respect of alloy round steel bar (alloy bar) exported to Australia from the People's Republic of China (China).

OneSteel alleges that the Australian industry producing alloy bar has suffered material injury, caused by alloy bar exported to Australia from China at dumped prices.

The legislative framework that underpins the making of an application and the Commission's consideration of an application is contained in Divisions 1 and 2 of Part XVB of the Act.

1.1 Findings

In accordance with subsection 269TC(1), the Commission has examined the application and is satisfied that:

- the application complies with the requirements of subsection TB(4) (as set out in section 2.2 of this report); and
- there is an Australian industry in respect of like goods (as set out in section 2.4 of this report); and
- there appear to be reasonable grounds for the publication of a dumping duty notice in respect of the goods the subject of the application (as set out in Chapters 3, 4 and 5 of this report).

1.2 Recommendations

Based on the above findings, the Commission recommends that the Commissioner of the Anti-Dumping Commission (the Commissioner) decide not to reject the application and initiate an investigation.

The Commission further recommends that:

- exports to Australia during the investigation period 1 October 2015 to 30 September 2016 be examined to determine whether dumping has occurred; and
- details of the Australian market from 1 July 2012 be examined for injury analysis purposes.

If the Commissioner agrees with these recommendations, the Commissioner must give public notice of the decision (**Non-Confidential Attachment 1**) in accordance with the requirements set out in subsection 269TC(4).

¹ All legislative references in this report are to the *Customs Act 1901* unless otherwise specified.

1.3 Legislative framework

1.3.1 Authority to make decision

Division 2 of Part XVB of the Act sets out, among other matters, the procedures to be followed and the matters to be considered by the Commissioner in conducting investigations in relation to the goods covered by an application.

1.3.2 The role of the Commission

The Commission is responsible for preparing a report for the Commissioner examining an application for a dumping duty notice.

In this report, the following matters are considered in relation to the application:

- whether the application complies with subsection 269TB(4) of the Act;
- whether there is, or is likely to be established, an Australian industry in respect of like goods; and
- whether there appear to be reasonable grounds for the publication of a dumping duty notice in respect of the goods the subject of the application.

1.3.3 The role of the Commissioner

The Act empowers the Commissioner after having regard to the Commission's report, and to any other information that the Commissioner considers relevant, to reject or not reject an application for the publication of a dumping duty notice.

If the Commissioner decides not to reject the application, the Commissioner must give public notice of the decision providing details of the investigation.

2 The application and the Australian industry

2.1 Lodgement of the application

2.1.1 Legislative framework

The procedures for lodging an application are set out in section 269TB.

The procedures and timeframes for the Commissioner’s consideration of the application are set out in section 269TC.

2.1.2 The Commissioner’s timeframe

Event	Date	Details
Application lodged and receipted by the Commissioner under subsections 269TB(1) and (5)	15 November 2016	The Commission received an application from OneSteel that alleged the Australian industry is suffering material injury caused by the importation of alloy bar to Australia from China at dumped prices.
	25 November 2016	The Commission notified OneSteel that the application contained critical and important deficiencies which, if left unaddressed, create doubt on the reasonableness of the grounds for the publication of a dumping duty notice and a countervailing duty notice.
Applicant provided further information in support of the application under subsection 269TC(2A)	30 November 2016	Further information was provided by OneSteel in support of the application. The further information was lodged and received on 30 November 2016, which meant that the application was taken to be lodged and received on this date.
Consideration decision due under subsection 269TC(1)	20 December 2016	The Commissioner shall decide whether to reject the application within 20 days after receipt.

2.2 Compliance with subsection 269TB(4)

2.2.1 Finding

Based on the information submitted by OneSteel, the Commission considers that the application complies with subsection 269TB(4).

2.2.2 Legislative framework

Under subsection 269TC(1)(a), the Commissioner shall reject an application if not satisfied that it complies with all of the requirements outlined in subsection 269TB(4).

2.2.3 The Commission’s assessment

The table below summarises the Commission’s assessment of compliance with subsection 269TB(4).

PUBLIC FILE

Requirement for the application	Details
Lodged in writing under subsection 269TB(4)(a)	OneSteel lodged in writing confidential and non-confidential versions of the application.
Lodged in an approved form under subsection 269TB(4)(b)	The application is in the approved form, Form B108, for the purpose of making an application under subsection 269TB(1).
Contains such information as the form requires under subsection 269TB(4)(c)	OneSteel provided: <ul style="list-style-type: none"> • a completed declaration; • answers to all questions that were required to be answered by OneSteel; • completed appendices; and • sufficient detail in the non-confidential version of the application to enable a reasonable understanding of the substance of the information submitted in confidence.
Signed in the manner indicated under subsection 269TB(4)(d)	The (hard copy) application was signed in the manner indicated in Form B108 by a representative of OneSteel.
Supported by a sufficient part of the Australian industry under subsection 269TB(4)(e) as determined in accordance with subsection 269TB(6)	OneSteel provided information stating that the application is supported by a sufficient part of the relevant Australian industry in accordance with the requirements of subsections 269TB(6)(a) and 269TB(6)(b). As set out in section 2.4.1 the Commission is satisfied that there is an Australian industry producing like goods to the goods the subject of the application. One additional producer of like goods other than OneSteel is named in the application; no further such producers or manufacturers of alloy bar in Australia have been identified by the Commission.

2.3 The goods the subject of the application

The table below outlines the goods as described in the application (referred to as “the goods” throughout this report) and corresponding tariff classification information.

PUBLIC FILE

Full description of the goods				
<p>Hot-rolled solid sections of 'alloy steel', having round or near-round cross-sectional dimensions of not less than 9.5 millimetres (mm) and not greater than 98.5 mm, not in coil.</p> <p>For the purpose of the description of the goods the subject of this application, 'alloy steel' here means steel containing a chemical composition that at least meets or exceeds the minimum chemical element proportions specified in Note (f) "Other alloy steel" to Chapter 72 under Schedule 3 of the <i>Customs Tariff Act 1995</i> ("the Tariff") as appearing on the date of this application.</p> <p>Commonly identified as 'rod', 'round bar', 'engineering bar', 'spring steel', 'alloy bar', 'high alloy bar', 'silico-manganese bar', 'grinding rod' or 'bar used for the production of grinding media', the goods covered by this application include all round or near-round hot-rolled solid sections of alloy steel bar meeting the above description of the goods regardless of the particular grade, coating, or minor modification of bar-end finish (including but not limited to, painting or chamfering).</p> <p>Goods excluded from this application are:</p> <ul style="list-style-type: none"> • round or near-round hot rolled solid steel sections composed of: <ul style="list-style-type: none"> - 'stainless steel' as defined under Note (e) "Stainless steel" to the Tariff; or - 'high-speed steel' as defined under Note (d) "High speed steel" to the Tariff; • steel reinforcing bar containing indentations, ribs, grooves or other deformations produced during the rolling process; • steel rod in coil; • chromium plated steel; and • solid sections of steel which may be square, rectangular or hexagonal in cross-section. 				
Tariff classification (Schedule 3 of the <i>Customs Tariff Act 1995</i>)²				
<i>Tariff code</i>	<i>Statistical code</i>	<i>Unit</i>	<i>Description</i>	<i>Duty rate</i>
72282010	44	Tonnes	Alloy bars, silico-manganese steel, flattened circles	5% DCS ³ : 4% DCT ⁴ : 5%
72282090	47	Tonnes	Other alloy bars, silico-manganese steel	5% DCS: 4% DCT: 5%
72283010	70	Tonnes	Alloy bars, high alloy steel, flattened circles	5% DCS: 4% DCT: 5%
72283090 ⁵	41	Tonnes	Other alloy bars	5% DCS: Free DCT: Free
72286010	72	Tonnes	Other alloy bars, high alloy, flattened circles	5% DCS: 4% DCT: 5%
72286090	55	Tonnes	Other alloy bar	5% DCS: Free DCT: Free

² Current as of the publication date of this report.

³ 'DCS' denotes the rate for countries and places listed in Part 4 of Schedule 1 of the *Customs Tariff Act 1995*.

⁴ 'DCT' denotes the rate for Hong Kong, the Republic of Korea, Singapore and Taiwan.

⁵ Operative since 1 July 2015.

Previous investigations
None
Other administrations
None

The rate of duty applicable to goods exported from China under the above classifications is currently zero per cent as a result of the *China Australia Free Trade Agreement*.⁶

2.4 Like goods and the Australian industry

2.4.1 Finding

The Commission is satisfied that there is an Australian industry producing like goods to the goods the subject of the application on the basis that:

- OneSteel produces goods that have characteristics closely resembling the goods the subject of the application; and
- the goods produced by OneSteel are wholly manufactured in Australia.

2.4.2 Legislative framework

Subsection 269TC(1) requires the Commissioner to reject an application for a dumping duty notice if, *inter alia*, the Commissioner is not satisfied that there is, or is likely to be established, an Australian industry in respect of like goods. The term “like goods” is defined under subsection 269T(1). Subsections 269T(2), 269T(3), 269T(4), 269T(4A), 269T(4B) and 269T(4C) determine whether the like goods are produced in Australia.

2.4.3 Locally produced like goods

The following table summarises the Commission’s assessment of whether the locally produced goods are identical to, or closely resemble, the goods the subject of the application and are therefore like goods.

Factor	The applicant’s claims	The Commission’s assessment
Physical likeness	The goods produced by the Chinese exporters are in similar grades, weights, and physical appearance.	Based on information provided by the applicant, the Commission is satisfied that the goods the subject of the application and locally produced alloy bar as indicated in product brochures are physically like. In particular, the goods the subject of the application were imported under tariff classifications relevant to alloy bar.

⁶ <https://ftaportal.dfat.gov.au> refers.

PUBLIC FILE

Factor	The applicant's claims	The Commission's assessment
Commercial likeness	The imported goods compete directly with the locally produced goods and are interchangeable.	The Commission reviewed import pricing data from the Australian Border Force (ABF) import database in conjunction with the information within the application and is satisfied that price competition exists in the market between the imports of alloy bar and the Australian produced goods, which suggests low product differentiation. In this context, the Commission is satisfied that there is a close commercial likeness between the imported goods and the locally produced goods.
Functional likeness	The imported goods and the locally produced goods are used to perform the same function and have the same end-uses.	Based on its understanding of the grinding bar market (the largest segment of the alloy bar market), the Commission is satisfied that imported alloy bar and the alloy bar produced by the applicant perform the same functions and have the same or similar end uses.
Production likeness	the imported and locally produced alloy bar are manufactured via similar production processes.	Company websites and brochures indicate that alloy bar produced by the applicant in Australia and alloy bar in China: <ul style="list-style-type: none"> • were manufactured in a similar manner; and • had the same or similar raw material inputs. The Commission therefore considers that there is a production likeness between the goods, and the locally produced alloy bar.
The Commission's overall assessment		
Based on the analysis above, the Commission considers that locally produced alloy bar closely resembles the goods the subject of the application and therefore are like goods.		

2.4.4 Manufacture in Australia

The table below summarises the Commission's assessment of whether the goods are wholly or partly manufactured in Australia and whether the like goods are therefore considered to have been produced in Australia (subsection 269T(2)).

Applicant's claims
<p>OneSteel summarises its manufacturing processes for alloy bar as follows:</p> <ul style="list-style-type: none"> • Through the integrated Whyalla facility, molten iron from the blast furnace undergoes a desulphurisation treatment in the charging ladle and is then used as the primary ferrous input to the Basic Oxygen Furnace. • Scrap and fluxing agents constitute the balance of the input materials into the furnace. Following the reduction process through the high speed injection of pure oxygen, liquid steel is tapped into a ladle with the bulk of the required alloy additions being made during this tapping process. • Final alloy trimming additions and temperature corrections are made at the ladle furnace prior to casting. The liquid steel is continuously cast into square billets on a billet caster. • Following the continuous casting process, based on the hydrogen level measured in the liquid steel during the billet casting process, the grade chemistry and the end use application for which the steel will be used, the most appropriate process option available is selected. • Depending on the final cross-section required for the round bar, the dimensional tolerance and surface finish required by the end-use application and the bar mill design capabilities, the billets will then be hot-rolled into round bar through bar mills. • The rolling process involves charging the billets into a reheating furnace where the billets are heated to a temperature exceeding 1000°C. The hot billet is then fed through a series of rolling stands which effects a change in shape from square to circular while reducing the cross-sectional area. The alloy round bar produced through the rolling process are then cut to length and packed into bundles.
Commission's assessment
<p>Based on the description of the manufacturing process above and the fact that all of these processes take place at manufacturing facilities in Australia, the Commission is satisfied that alloy bar is wholly manufactured in Australia by the applicant.</p>

2.5 Australian industry information

The table below summarises the Commission's assessment of whether the applicant has provided sufficient information in the application to analyse the performance of the Australian industry.

Have the relevant appendices to the application been completed?		
A1	Australian production	Yes
A2	Australian market	Yes
A3	Sales turnover	Yes
A4	Domestic sales	Yes
A5	Sales of other production	Yes
A6.1	Cost to make and sell (and profit) – Domestic sales	Yes
A6.2	Cost to make and sell (and profit) – Export sales	Yes
A7	Other injury factors	Yes
General administration and accounting information – OneSteel		
Financial year	OneSteel's accounting period is 1 July to 30 June.	
Major Shareholders	OneSteel is a wholly owned subsidiary of Arrium Limited (subject to deed of company arrangement) ABN 63 004 410 833 (Arrium).	

PUBLIC FILE

History	On 7 April 2016, voluntary administrators were appointed to Arrium. OneSteel is a company within the administrator's authority. Subsequent to the Second Meeting of Creditors on 4 November 2016, a Deed of Company Arrangement was executed with respect to OneSteel appointing the Voluntary Administrators as Deed Administrators of the Arrium Group Companies (which include OneSteel).	
Annual reports	Arrium's annual report for financial year (FY) 2015 is provided with the application. Arrium is not currently obliged to produce an annual report for FY 2016.	
Production and sales information	Cost to make and sell information	Other injury factors
Confidential Appendices A2 and A4 to the application contain required data.	Confidential Appendix A6 to the application contains required data.	Confidential Appendix A7 to the application contains required data.
The Commission's assessment		
Based on the information in the application, the Commission is satisfied that there is sufficient data on which to analyse the performance of the Australian industry between 1 July 2012 and 30 June 2016.		

2.5.1 Market size

The applicant estimated the size of the Australian market for alloy bar using Australian Bureau of Statistics (ABS) import data, trade data from a known published source, and its own sales to external customers. The applicant completed Confidential Appendix A2 to the application, using the data obtained to estimate the size of the Australian market.

3 Reasonable grounds – dumping

3.1 Findings

Having regard to the matters contained in the application and to other information considered relevant, pursuant to subsection 269TC(1)(c), the Commission considers that there appears to be reasonable grounds to support the claims that:

- the goods have been exported to Australia from China at dumped prices;
- the estimated dumping margin for exports from China is greater than 2 per cent and therefore is not negligible; and
- the estimated volume of goods from China is greater than 3 per cent of the total Australian import volume of goods and therefore is not negligible.

3.2 Legislative framework

Subsection 269TC(1) requires that the Commissioner reject an application for a dumping duty notice if, inter alia, the Commissioner is not satisfied that there appear to be reasonable grounds for the publication of a dumping duty notice.

Under section 269TG, one of the matters that the Parliamentary Secretary must be satisfied of in order to publish a dumping duty notice is that the export price of goods that have been exported to Australia is less than the normal value of those goods, i.e. that dumping has taken place (to an extent that is not negligible). This issue is considered in the following sections.

3.3 Export price

3.3.1 Legislative framework

Export price is determined by applying the requirements in section 269TAB, taking into account whether the purchase or sale of goods was an arms length transaction under section 269TAA.

3.3.2 The applicant's estimates

In the absence of detailed import statistics from the ABS due to various confidentiality restrictions on commodity and country details, the applicant has relied upon a subscription based international trade database's free on board (FOB) prices to estimate the export price of alloy bar exported to Australia from China.

The Commission notes that the import statistics that the applicant relies on only contain two (72283000 and 72283090) of the six tariff class codes included in the application. In addition to that, the Commission also notes that, due to the broad, higher level goods descriptions in the database, the applicant assumes that only the products exported by Dongbei Special Steel Group, Shijiazhuang Iron and Steel Co., Ltd., and Suzhuo Suxin Steel Casing Co., Ltd. are the goods that are subject to this application. The applicant further assumes that all exports to Australia by these three exporters under tariff codes 72283000 and 72283090 are of alloy bar.

The applicant also relies on another commercial source of import statistics for Australia for 722830 and 722860 six digit tariff codes. The Commission notes that this source of import statistics does not provide any differentiation of type or shape of alloy bar. The applicant assumes that all commodities exported to Australia under the above six digit tariff codes are alloy bar such that it aligns to the goods description.

The table below summarises the approach taken by the applicant to estimate export prices and the evidence relied upon.

Basis of estimate	Details
Price payable by an importer other than any part of the price that represents a charge for transport or any other matter after exportation (269TAB(1)(a)).	FOB price for two of the relevant tariff classifications for alloy bar from an export statistics database which are exported by the three exporters named in this section. The applicant assumes that there is a one month lag between the export month and import month for its calculation.

3.3.3 The Commission's assessment

The Commission examined the data and supporting evidence provided by the applicant.

To verify the reliability of the export price calculated by the applicant, the Commission compared the export price in the application to data obtained from the ABF import database. In undertaking this comparison, the Commission applied the following methodology to calculate its own weighted average Australian dollar (AUD) / tonne FOB export price for the investigation period:

- extracted data from the ABF import database based on relevant tariff classifications and statistical codes;
- filtered the data based on the goods description to exclude import transactions that appeared not to be the goods under consideration; and
- applied a FOB price per tonne range of \$250 to \$3,500 AUD in order to filter out outlying data, noting that the goods description includes engineering bars, spring steel bars and strata bars which are significantly more expensive than bars used in production of grinding balls and grinding rods.

The Commission identified a significant variance between the applicant's estimated average FOB export price and the weighted average FOB export price observed from the ABF import data. Given the materiality of the variance, the Commission has relied on the ABF import data FOB export prices which were higher. The impact on dumping margin calculations is further outlined in section 3.5.

The Australian industry's calculation of export price and the Commission's comparison are at **Confidential Appendix 1 – Export Prices**.

3.4 Normal value

3.4.1 Legislative framework

Normal value is determined by applying the requirements of section 269TAC, taking into account whether the purchase or sale of the goods was an arms length transaction under section 269TAA, whether the goods were sold in the ordinary course of trade under section 269TAAD, whether there has been an absence or low volume of sales of like goods in the country of export, and whether the situation in the market of the country of export is such that sales in that country are not suitable for determining normal value.

3.4.2 The applicant's estimates

The application included calculations of constructed normal values under subsection 269TAC(2)(c). OneSteel claimed that it was inappropriate to calculate normal values under subsection 269TAC(1) for the reasons set out below.

3.4.2.1 Market situation and raw material claims

The applicant is claiming that there is a situation in the Chinese alloy bar market that renders domestic sales unsuitable for determining normal value under subsection 269TAC(1) (i.e. that a 'market situation' exists – see subsection 269TAC(2)(a)(ii)). The applicant therefore claims that constructed normal values should instead be used for determining whether alloy bar exported from China is sold at dumped prices (see subsection 269TAC(2)(c)(ii)).

The applicant submits that the domestic selling prices for alloy bar sold in China are artificially low due to the various influences of the Government of China (GOC).

The application includes references to findings in certain of the Commission's previous investigations involving steel products, in which it was found that a 'particular market situation' exists in China in relation to steel reinforcing bars, steel rod in coils and grinding balls as a result of the GOC's intervention in the Chinese iron and steel industry.⁷ The applicant contends that the GOC continues to influence the prices of the raw material inputs in the Chinese iron and steel industry through various forms of interventions, and make reference to the GOC's previous and current:

- macroeconomic policies and plans; and
- implementation measures aimed at executing the aims and objectives of the macroeconomic policies and plans. The implementation measures include export regulations that affect China's domestic prices of various steel products, import and export regulations that affect China's domestic price of raw material inputs into the production of billet, and subsidies paid to iron and steel producers.

To demonstrate the GOC influence on alloy bar input prices, the application includes a comparison of the United States dollar (USD) per tonne ex-works (EXW) domestic China, Pakistan, South Korea, Mexico and European Union steel billet prices.

The applicant contends that, because of the significance of this influence over the Chinese alloy bar market, the domestic price for Chinese alloy bar is likely to be substantially different to what it would have been without intervention by the GOC.

In the absence of available EXW domestic pricing which is specific to alloy bar, the applicant supports this claim through an EXW pricing comparison for another hot-rolled bar product (merchant bar) in Figure 1, below:

⁷ The Commission's *Final Report 300*, *Final Report 301* and *Final Report 316* refer.

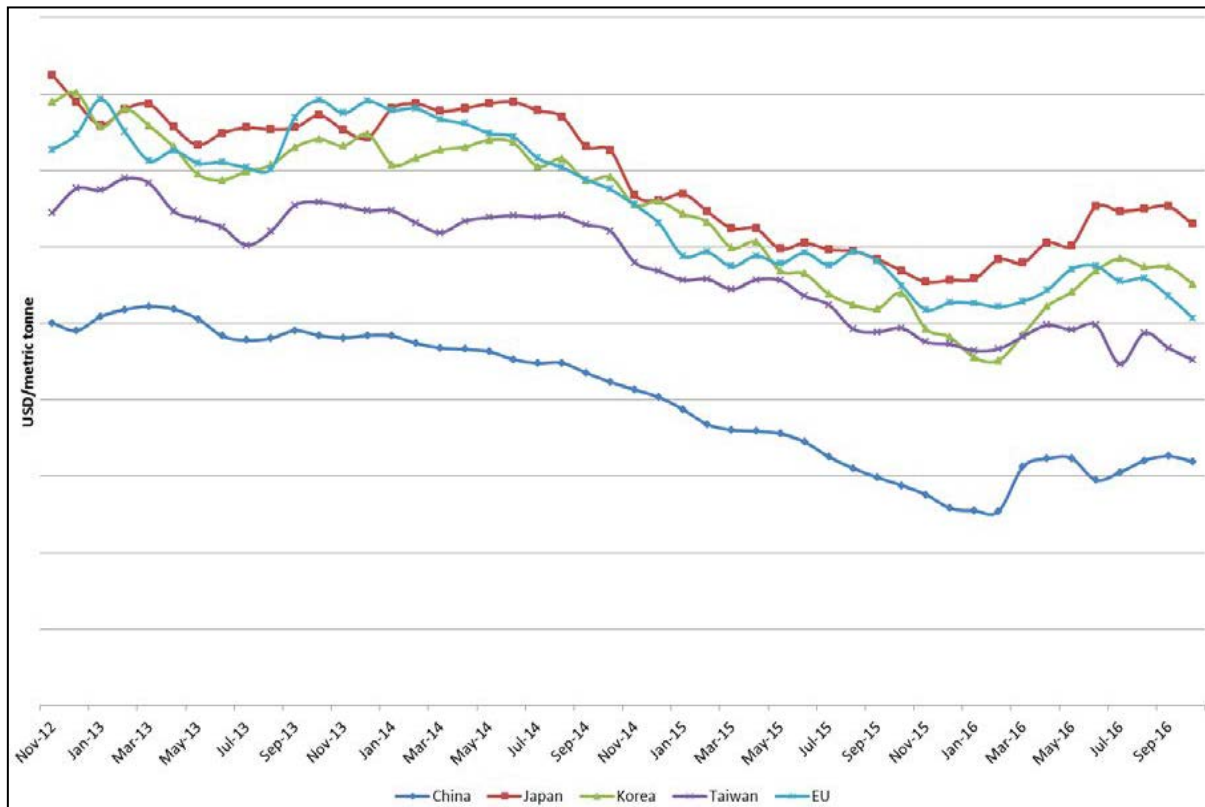


Figure 1: Merchant bar price comparison (EXW, domestic prices)

3.4.2.2 Constructed normal value methodology

The table below summarises the approach taken by the applicant to estimate normal values and the evidence relied upon.

Basis of estimate	Details
Constructed normal value	<p><u>Raw materials</u> Mexico domestic billet price (EXW).⁸ The applicant did not adjust the billet costs for the cost of alloys but comments in the application that an adjustment for alloying will need to be made to any benchmark billet price substitute as these are likely to be a commercial (non-alloyed) billet grade. The applicant did not calculate an adjustment for alloy costs in its application.</p> <p><u>Conversion costs</u> Production cost economics for two hot rolled steel producers in China. The cost economics data is sourced from a commercial database (data as of January 2015).</p> <p><u>Selling, general and administrative expenses</u> From a Chinese producer of hot rolled steel long products from its 31 December 2015 Annual Results Announcement filed with the Stock Exchange of Hong Kong Limited</p> <p><u>Profit</u> No profit has been allocated</p>

⁸ Independently sourced and included in application.

3.4.2.3 The applicant’s claims - adjustments

The applicant notes that the GOC provides a value added tax (VAT) export rebate for alloy round bar of 9 per cent. By comparison, Chinese domestic sales of round bar are entitled to a full rebate of input VAT, regardless of whether the bar is alloy or non-alloyed. Therefore, the applicant claims that the following adjustment needs to be made to the normal value:

Domestic sales (VAT refund)	Export sales (VAT rebate)	Adjustment to Normal value
Alloy round bar (17%)	Alloy round bar (9%)	Upward 8%

3.4.3 The Commission’s assessment

The Commission observes that the applicant relies on previous, recent dumping investigation findings in relation to steel products exported from China to support its claims concerning the existence of a market situation in the Chinese domestic market for raw material inputs into alloy bar. The application outlines certain factors, provides relevant evidence in support of its claims and draws reasonable conclusions as to how the factors may have affected the Chinese domestic selling prices of alloy bar.

Based on an assessment of the information set out in the application and the information gathered by the Commission in previous investigations concerning the Chinese iron and steel industries, the Commission considers that it is reasonable to preliminarily find that there is a particular market situation in the Chinese alloy bar market. The Commission considers it appropriate to examine the applicant’s market situation claims during the course of the investigation.⁹

As the Commission considers that there is a particular market situation in China, normal value may be determined on the basis of a cost construction¹⁰ or third country sales.¹¹ Notwithstanding the fact that the Commission is not in possession of third country export data from China, the Commission considers that the influence of the GOC in the Chinese alloy bar market would similarly affect the selling prices of alloy bar by Chinese exporters to third countries. As such, the Commission does not consider third country sales to be suitable for determining normal value.

Consequently, normal values were constructed under subsection 269TAC(2)(c) and in accordance with the conditions of sections 43, 44 and 45 of the *Customs (International Obligations) Regulation 2015* (the Regulation). Subsection 43(2) of the Regulation requires that, if an exporter keeps records in accordance with generally accepted accounting principles, and those records reasonably reflect competitive market costs associated with the production of like goods, then the cost of production must be worked out using the exporter’s records.

In *Final Report 300*, *Final Report 301* and *Final Report 316* the Commission established that the significant influence of the GOC has distorted prices in the general steel industry. The Commission also found that various plans, policies and taxation regimes have also distorted the prices of production inputs including (but not limited to) the raw materials used to make steel in China, rendering them unsuitable for cost to make and sell (CTMS) calculations as they did not reasonably reflect competitive market costs.

⁹ *ibid.*

¹⁰ Subsection 269TAC(2)(c).

¹¹ Subsection 269TAC(2)(d).

The Commission has formed the preliminary view that the GOC influence in the iron and steel industry and GOC-driven market distortions have resulted in artificially low prices for key raw materials relevant to the production of steel billet used in the production of alloy bar. Accordingly, to account for the effects of the GOC's influence, the Commission considers it reasonable to replace Chinese manufacturers' steel billet costs with an appropriate competitive market cost benchmark.

In light of the Commission's preliminary assessment of the market situation claims, the Commission considers it to be reasonable for the applicant to have submitted constructed normal values. The following sections examine the relevant components of the construction.

3.4.3.1 Cost to make

The Commission accepts the applicant's contention that there is no readily available independent source for alloyed billet or bar prices, and considers it reasonable to apply an alloy uplift and conversion cost to a published billet price in deriving an alloy bar price for the purpose of constructing normal values.

For the purposes of this calculation, the applicant substituted independently sourced Chinese billet prices with Mexican domestic steel billet prices at EXW level. The Commission notes that in the recent steel product investigations from China (mainly rebar (Investigation No. 300), rod in coil (Investigation No. 301) and grinding balls (Investigation 316), the Commission consistently substituted Chinese steel billet prices with Latin American steel billet export prices published by Platts Steel Bulletin Board.¹² Therefore, in constructing the normal values for alloy bar from China, the Commission does not consider that there is any compelling information presented in the application which would persuade it to deviate from its established approach. As a result, the Commission calculated the normal values by substituting Chinese steel billet costs with Latin American steel billet export prices.¹³

3.4.3.2 Conversion Costs

The Commission notes that the applicant estimated Chinese alloy bar manufacturers' cost of conversion of steel billets to alloy bar using subscription based production cost economics for two hot rolled steel producers in China. The applicant states that the cost economics data is sourced from a commercial database and the data was current as of January 2015.

At Investigation 316 into grinding balls exported to Australia from China, the Commission visited and verified the conversion costs, alloying costs and selling, general and administration (SG&A) costs of two Chinese exporters, namely Changshu Longte Grinding Ball Co., Ltd and Jiangsu CP Xingcheng Special Steel Co Ltd. The Commission notes that both of these Chinese exporters manufacture grinding bars, which is a substantial segment of alloy bar that is the subject of this investigation and the costs associated with production of grinding bars from steel billets are comprehensively documented and verified.

¹² www.steelbb.com.

¹³ For a further explanation regarding the reasons for selecting Latin American prices as an appropriate benchmark, see section 5.7 of *Final Report 316*.

The Commission therefore considers it reasonable to rely on and utilise these verified conversion costs in constructing normal values of Chinese alloy bar instead of utilising the conversion costs of hot rolled steel product manufacturers as presented by the applicant. In doing so, the Commission relied on the higher of the two verified conversion costs from the Chinese manufacturers. The Commission notes that the higher of the verified conversion costs was still considerably lower than the conversion cost the applicant relied on in its application.

3.4.3.3 Costs of Alloys

The applicant has not added any costs for alloys added to steel billets in estimating the manufacturing costs of alloy bar in China. However, the applicant argues that manufacturing costs should be adjusted by adding the cost of additional alloys that would normally be consumed in the production process. As explained above, the Commission is in possession of comprehensive verified cost data pertaining to costs of alloys consumed in the production of grinding bars. The Commission included the verified cost of alloys in its calculations.

3.4.3.4 SG&A

The Commission notes that the applicant applied an SG&A amount from a Chinese producer of hot rolled steel long products that is derived from its 31 December 2015 Annual Results Announcement filed with the Stock Exchange of Hong Kong Limited.

As explained above, the Commission is in possession of more recent and verified SG&A costs from two Chinese manufacturers that actually produce alloy bar (in the form of grinding bars). Therefore, the Commission considers it reasonable to rely on and utilise these verified SG&A costs in constructing normal values of Chinese alloy bar instead of utilising the conversion costs of a Chinese hot rolled steel product manufacturer.

3.4.3.5 Profit

The Commission notes that, in constructing the normal value for the purposes of this application, the applicant did not apply a profit uplift onto the total constructed CTMS value. As explained above, the Commission is in possession of actual verified profit rates from the sales of grinding bar (a form of alloy bar) from two Chinese manufacturers. The Commission relied on the profit rate realised by the Chinese manufacturer whose conversion costs and SG&A costs are used.

3.4.3.6 Adjustments

The Commission considers that the claimed upward adjustment of 8 per cent for differences between domestic and export VAT rebates is reasonable, and applied this upwards adjustment in normal value calculations.

3.4.4 Overall assessment

The Commission is of the view that, while the applicant can only provide the information that it available to it, the applicant's sources of information for the purposes of estimating the export price and calculating the constructed normal value do not constitute the best available information in this case.

As comprehensively explained in this section, the Commission is in possession of more accurate, more reliable and more relevant information from its previous investigations and from its access to the ABF import database.

Accordingly, the Commission has replaced the billets costs, conversion costs and SG&A costs in the normal value calculations, and added the costs of alloys and the profit realised by a Chinese grinding bar manufacturer.

The verified conversion cost, alloy costs, SG&A costs and profit calculations are at **Confidential Appendix 2 – Verified Alloy Round Steel Bar Manufacturing Costs**.

3.5 Dumping margins

3.5.1 Legislative framework

Dumping margins are determined in accordance with the requirements of section 269TACB.

Whether the dumping margins and dumping volumes are negligible is assessed under section 269TDA.

3.5.2 The Commission's assessment

The Commission considers that amount of dumping should be calculated by carrying out the following changes to the applicant's methodology:

- the applicant's estimations for the export price is replaced by the weighted average export prices calculated from the cleansed ABF imports database, filtered for the goods the subject of this application;
- the Mexican domestic billet prices are replaced with Latin American steel billet export prices, consistent with the Commission's recent practices;
- the applicant's estimations of the billet to alloy bar conversion costs are replaced with the actual conversion costs of a Chinese grinding bar manufacturer that the Commission verified for Investigation 316;
- the applicant's estimations of SG&A costs are replaced with the actual SG&A costs of a Chinese grinding bar manufacturer that the Commission verified for Investigation 316;
- material costs are adjusted to include the cost of alloys consumed in production of alloy bar; and
- a verified profit rate is added in the CTMS for the purposes of calculating a normal value.

The Commission compared the applicant's dumping margin calculations for the period 1 July 2015 to 30 June 2016 with the dumping margins the Commission calculated using the ABF import data for export prices, and the Commission's own constructed normal values with amended billet costs, conversion costs, SG&A costs, alloy costs and profit as detailed above.

For the period 1 July 2015 to 30 June 2016, the Commission found a non-negligible dumping margin as defined in subsection 269TDA(1)(b)(ii). The Commission calculated a weighted average annualised dumping margin of **12.7** per cent.

A comparison of the applicant's dumping margin and the Commission's dumping margin calculations forms **Confidential Appendix 3 – Normal Values and Dumping Margins**.

3.5.2.1 Volumes

Based on the information in the application and the ABF import database, the Commission has determined that imports of alloy bar from China represent more than 3 per cent of the total import volume of alloy bar for the period 1 July 2015 to 30 June 2016, and are therefore not negligible as described in subsection 269TDA(4).

Analysis of the volume of alloy bar imports from China is available in **Confidential Appendix 4 – Import volumes**.

4 Reasonable grounds – injury to the Australian industry

4.1 Findings

Pursuant to subsection 269TC(1)(c), having regard to the matters contained in the application, and to other information considered relevant, the Commission considers that there appears to be reasonable grounds to support the Australian industry’s claims that injury has been experienced in the form of:

- loss of sale volumes;
- loss of market share;
- reduced revenue;
- price depression;
- price suppression;
- loss of profits; and
- reduced profitability.

Due to the limitations of the available data, the Commission does not, at this stage, have sufficient information to establish whether there appear to be reasonable grounds that the Australian industry has suffered injury in the form of the other injury factors claimed in Appendix A7 of the application.

During the course of the investigation, this data may become available to enable the Commissioner to make a determination regarding the above.

4.2 The applicant’s claims of injury

The table below summarises the applicant’s claims of injury.

Injury claims
<p><u>Price effects</u></p> <ul style="list-style-type: none"> • price depression; and • price suppression. <p><u>Volume effects</u></p> <ul style="list-style-type: none"> • lost sales volume; and • loss of market share. <p><u>Profit effects</u></p> <ul style="list-style-type: none"> • loss of profits; and • loss of profitability.
Other injury factors claims in Appendix A7
<ul style="list-style-type: none"> • Reduced revenue; • Reduced capital investment; • Reduced return on investment; • Reduced production capacity; • Reduced capacity utilisation; • Reduced employment; • Reduced productivity; and • Reduced wages

4.3 Approach to injury analysis

4.3.1 Legislative framework

The matters that may be considered in determining whether the industry has suffered material injury are set out in section 269TAE.

4.3.2 Evidence provided by the Australian industry

OneSteel provided production, cost and sales data for alloy bar on a quarterly basis for financial years between 1 January 2012 and 30 June 2016.

OneSteel also provided a summary of examples of where it has encountered pricing pressures from allegedly dumped imported alloy bar, including instances where it believes it had lost volumes to Chinese exporters through price undercutting and copies of correspondence reflecting negotiations with key customers.¹⁴

4.3.3 Commencement of injury

In its application, OneSteel alleges that the Australian industry has suffered material injury caused by alloy bar exported to Australia from China at dumped prices. The applicant contends that this material injury commenced about January 2013.

4.3.4 The Commission's approach

The following injury analysis is based on:

- the applicant's submitted costs, sales and other financial data; and
- ABF import data.

For the purposes of the following injury analysis, the Commission has analysed the applicant's injury claims from 1 July 2013 to 30 June 2016 (referred below as the injury analysis period). Any references to financial years are for the period 1 July to 30 June.

4.4 Volume effects

4.4.1 Sales volume

In its application, OneSteel submitted that the Australian industry has experienced lost sales volume due to growth in the volume of dumped imports of alloy bar from China.

Figure 2, below, illustrates the volume of OneSteel's sales of alloy bar over the injury analysis period.

¹⁴ Confidential Attachment A8.1.1, Confidential Attachment A9.5.1.1, Confidential Attachment A9.5.1.2 and Confidential Attachment A9.5.1.4.

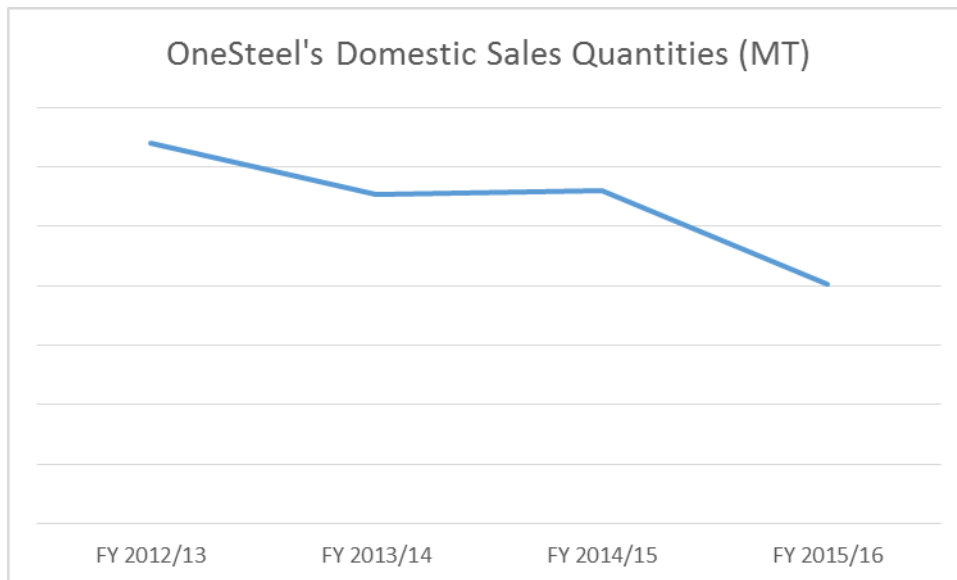


Figure 2: OneSteel's domestic alloy bar sales (metric tonnes)

The Commission observes that OneSteel's sales volumes of alloy bar has declined consistently between 2012/13 and 2105/16 financial years.

4.4.2 Market share

The applicant notes that the increase in volume of Chinese imports during financial year 2015/16 has displaced sales from other sources. The applicant asserts that the Australian industry has responded to price pressures from China by lowering prices to maintain sales volumes and market share. The applicant contends that further growth in Chinese imports at dumped prices will place further price pressure on the Australian industry and will likely result in lost sales and market share in future years.

Figure 3 below, depicts the yearly market shares (measured by reference to volume in tonnes) for the injury analysis period.

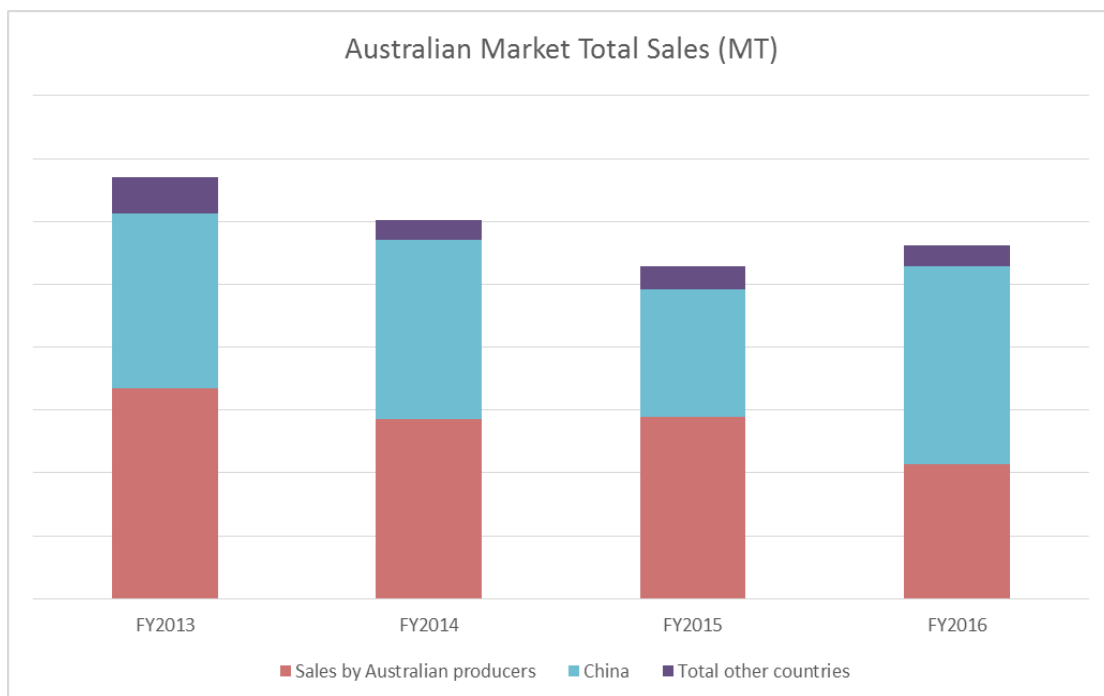


Figure 3: Australian market for alloy bar (metric tonnes)

Figure 3 is supportive of the applicant's claims that Chinese imports have displaced market share of the Australian industry.

The Commission's market share analysis is at **Confidential Appendix 5**.

4.4.3 Conclusion – volume effects

Based on the information available, the Commission considers that OneSteel has lost sales volumes and market share.

4.5 Price effects

4.5.1 Price depression and price suppression

Price depression occurs when a company, for some reason, lowers its prices. Price suppression occurs when price increases, which otherwise would have occurred, have been prevented. An indicator of price suppression may be the margin between prices and costs.

Figure 4 below, illustrates the movements in and relationship between the applicant's unit CTMS and unit sales revenues for alloy bar.

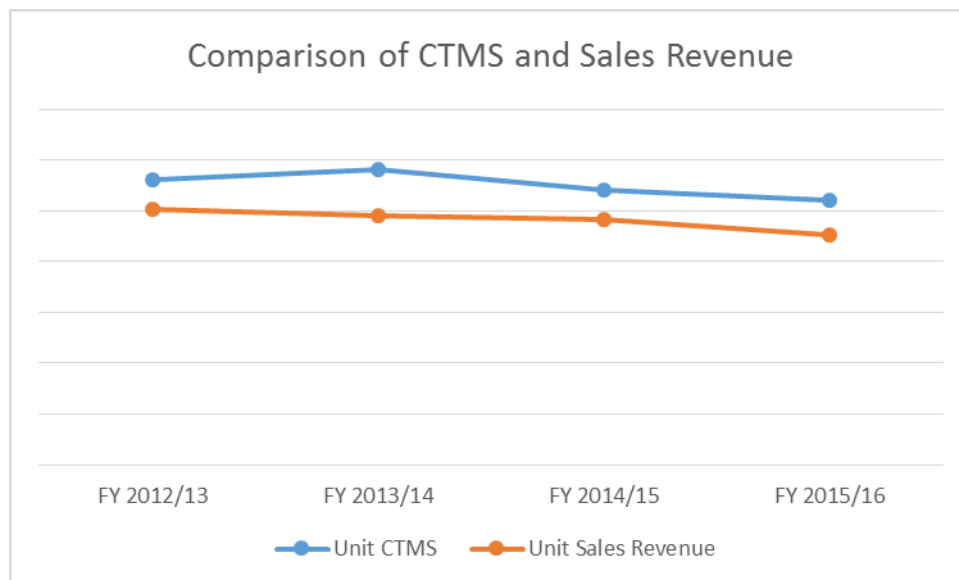


Figure 4: OneSteel's unit selling price and unit CTMS for alloy bar

Figure 4 demonstrates that OneSteel's per unit revenue has declined. The Commission also notes that over the injury analysis period, per unit revenue declined (-10.4 per cent) to a greater extent than per unit CTMS (-7.2 per cent). OneSteel claims this is because it has been forced to reduce selling prices in an attempt to maintain sales volumes.

4.5.2 Conclusion – price effects

Based on the above analysis, there appear to be reasonable grounds to support the claim that the applicant has suffered injury in the form of price depression and price suppression.

4.6 Profit and profitability effects

The applicant contends that the pricing pressures and lost sales volume experienced as a result of the dumped imports from China has had a flow-on effect in relation to profit and profitability. The applicant also argues that despite the lower CTMS, its profits and profitability have nonetheless declined due to achieving lower unit selling prices and reduced sales volumes in the investigation period.

The applicant further contends that lost sales translate to lower levels of production of the like goods, which in turn increases the Australian industry applicant's unit fixed costs. The applicant commented that in the absence of the dumped imports from China, it would be in a position to increase prices and revenue.

Figure 5, below, charts the relationship between the applicant's combined total profit and unit profitability over the injury analysis period.

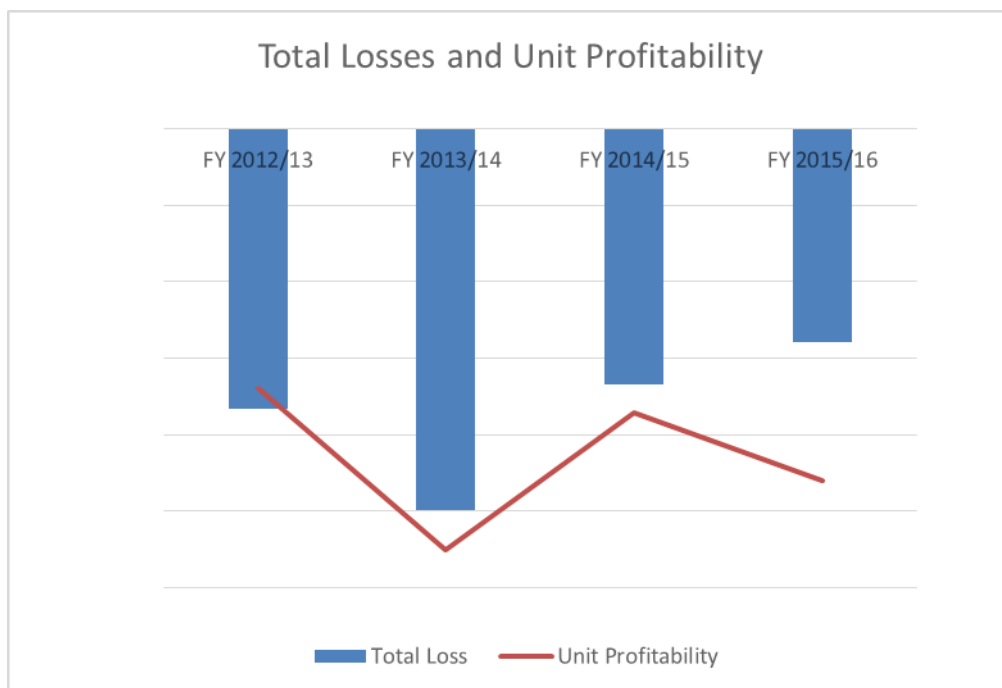


Figure 5: Total losses and unit profitability of OneSteel's alloy bar sales

The Commission considers that a combination of reduced selling prices and the impact of reduced sales volumes appear to have led to the applicant's injury in the form of loss of profits and profitability.

The Commission's assessment of the Australian industry's profit and profitability effects are at **Confidential Appendix 5**.

4.6.1 Conclusion – profit and profitability effects

Based on the above analysis, there appear to be reasonable grounds to support the claim that the Australian industry experienced injury in the form of loss of profits and profitability.

4.7 Other injury factors

The applicant completed Confidential Appendix A7 for each of the financial years from 2013 to 2016. In relation to the other injury factors, the applicant identified a decline in the following economic indicators:

PUBLIC FILE

- reduced capital investment;
- reduced asset utilisation;
- reduced return on investment;
- reduced capacity;
- reduced revenue; and
- reduced wages and employment.

The applicant's performance in relation to the other injury factors will be further examined during the course of the investigation.

5 Reasonable grounds – causation factors

5.1 Findings

Having regard to the matters contained in the application and to other information considered relevant, the Commission considers that there appears to be reasonable grounds to support the claims that the Australian industry has suffered injury caused by dumping, and that the injury is material.

5.2 Cause of injury to the Australian industry

5.2.1 Legislative framework

Subsection 269TC(1) requires that the Commissioner reject an application for a dumping duty notice if, *inter alia*, the Commissioner is not satisfied that there appear to be reasonable grounds for the publication of a dumping duty notice.

Under section 269TG, one of the matters that the Parliamentary Secretary must be satisfied of in order to publish a dumping duty notice is that injury suffered by the Australian industry was caused by dumping, and that the injury is material. This issue is considered in the following sections.

5.2.2 The applicant's claims

The table below summarises the causation claims of the applicant.

Injury caused by dumping
<p><u>Volume effects</u></p> <ul style="list-style-type: none"> • Volumes have been lost to Chinese exporters due to price undercutting. <p><u>Price effects</u></p> <ul style="list-style-type: none"> • Chinese exports consistently undercut the prices of other sources of the goods, including the prices of the applicant; and • The applicant has reduced prices in response to price undercutting by Chinese exporters in an attempt to retain sales volumes. <p><u>Profit effects</u></p> <ul style="list-style-type: none"> • Reduced sales volumes and revenues have had a direct impact on profits and profitability; and • Reduced utilisation of production capacity and reduced sales have contributed to an increase in unit CTMS, thus impacting profitability.
Injury caused by other factors
<p>The applicant contends that China is the main source of the injury and states that other factors did not contribute to the applicant's injury.</p>

5.3 The Commission's assessment

5.3.1 Price effects

The Commission understands that it is possible for alloy bar customers to purchase either from the applicant or from an import supply source. The Commission also understands that import offers and movements in the price of import offers are used to negotiate prices with the applicant. The Commission considers that the applicant is obliged to respond to the price of imports in order to remain price competitive.

5.3.1.1 Price undercutting

Price undercutting occurs when imported product is sold at a price below that of the Australian industry.

The evidence in the application supporting price undercutting predominantly relies on market intelligence gathered by the applicant. The applicant claims that the price undercutting information it has obtained supports its claim that it has lost sales volumes to imported alloy bar sourced from China.

Figure 6, below, shows the weighted average delivered duty paid (DDP) price over the injury analysis period compared with the Australian industry’s per unit sales revenue. The DDP price was estimated by adding relevant post exportation expenses to FOB export prices as reported in the ABF import database. For the purposes of the analysis, the Commission used the most efficient verified post exportation costs from Investigation 300 for fair comparison.¹⁵

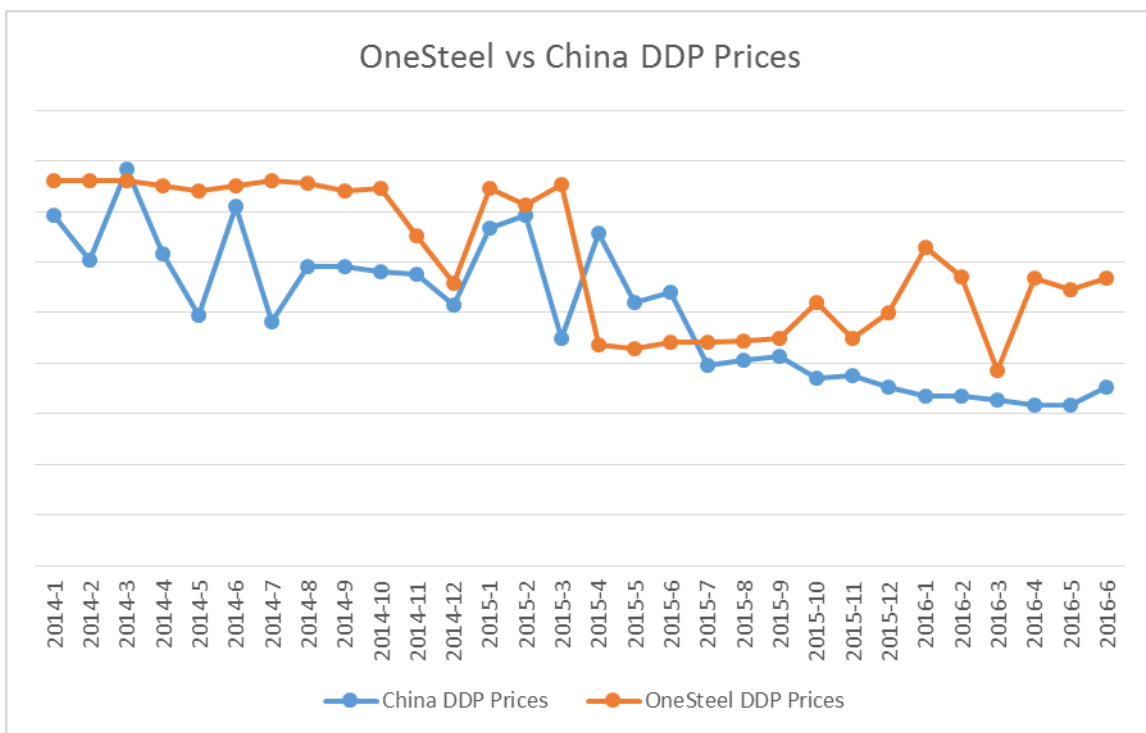


Figure 6: OneSteel vs Chinese DDP prices of alloy bar

Based on this analysis, there appears to be reasonable grounds to support the claim that the Australian industry has experienced price undercutting by exports of Chinese alloy bar.

In Figure 7, below, the Commission has further charted the volume of imports from China against the weighted average FOB export price per tonne for China over the injury analysis period.

¹⁵ The importation costs were verified by the Commission as part of Investigation 300, a recently completed investigation involving steel long products from China.

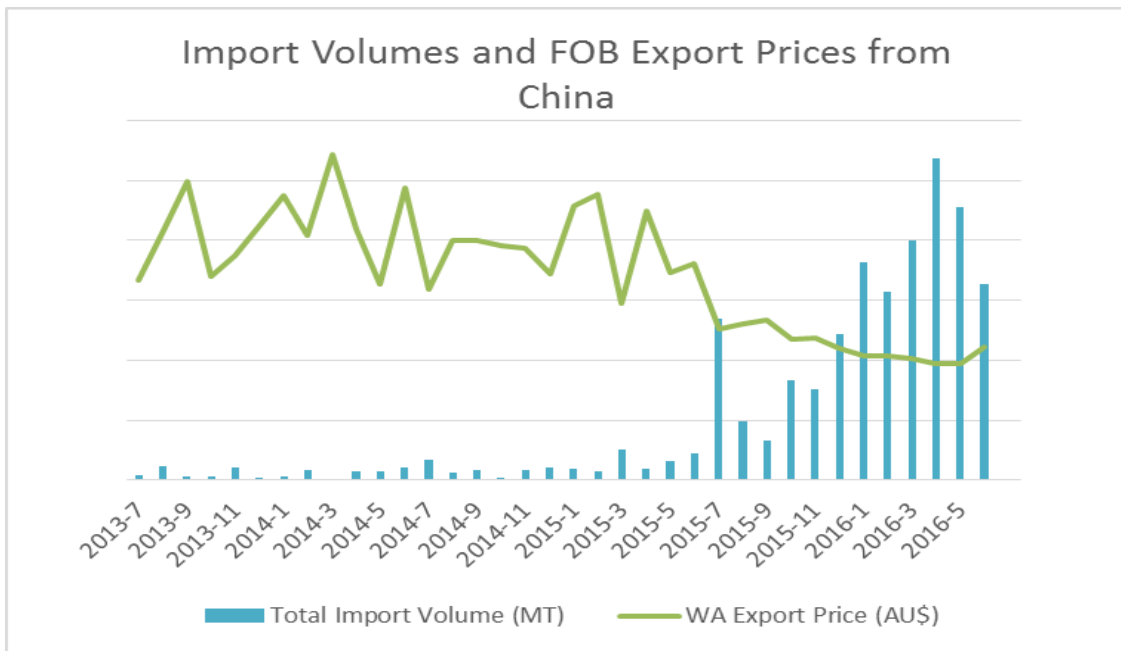


Figure 7: Imports of alloy bar from China – volume and FOB export price

Figure 7 indicates that the increase in imports of Chinese alloy bar in financial year 2015/16 coincides with a reduction in FOB export pricing. This tends to support the applicant’s claim that it has been compelled to reduce its prices in response to an increasing volume of lower priced Chinese imports, and has therefore suffered injury in the form of price depression caused by dumped exports from China.

Furthermore, the Commission notes that the applicant has not been able to increase the margin between unit price and unit costs due to price reductions exceeding the rate of cost reduction (see section 4.5.1). The Commission considers it is therefore reasonable to conclude that the applicant has suffered injury in the form of price depression and price suppression caused by dumped exports of alloy bar from China.

The Commission will further evaluate price undercutting claims during the course of the investigation process, through verification of actual selling prices in Australia by importers and comparing these with the selling prices of the applicant, for sales transactions made under the same conditions.

5.3.2 Volume effects

As discussed in sections 4.4.1 and 4.4.2, the Commission found that the applicant has lost sales volumes and market share in the Australian alloy bar market. Figure 3 in section 4.4.2 shows that in the 2016 financial year, Australian industry has lost market share to Chinese imports of alloy bar. Figure 7 above depicts the relationship between the export prices and increase in importation volumes of alloy bar. Taking into account the findings of the price undercutting analysis in section 5.3.1, the Commission considers that imports of alloy bar from China at dumped prices has caused injury to the Australian industry in the form of loss of sales volumes and market share.

5.3.3 Profit effects

As explained above, the Commission considers that the applicant has experienced injury in the form of loss of sales volumes and market share. As discussed in section 5.3.1 of this report, it appears that dumping of alloy bar from China has caused injury to the applicant in the form of price depression and price suppression as well. As profit is a function of volume and profit margin, the Commission considers that the dumping of alloy bar has also caused the applicant to experience injury in the form of reduced profit and reduced profitability.

5.3.4 Other possible causes of injury

The applicant identified the following other possible causes of injury in its application:

- effect of imports from countries other than China;
- declining demand from downstream domestic customers affected by dumped and subsidised finished products produced from alloy bar; and
- the Australian industry's pricing model.

The applicant, however, contends that China is the main source of the injury and argues that these other potential injury causes have not materially contributed to the injury it has experienced.

Additional possible causes of injury will be considered during the investigation.

5.3.5 Comparison of export price and non-injurious price

As an additional test to establish whether there is a causal link between the alleged dumping and material injury, the Commission sought to compare export prices from China with estimates of a non-injurious price (NIP) for financial year 2015/16.

To calculate the NIP, the Commission estimated the unsuppressed selling price (USP) for alloy bar for financial year 2015/16 using the weighted average CTMS of the Australian industry. At this stage, the Commission has not applied a profit to this CTMS.

The Commission then deducted amounts from that USP for importer SG&A and profit, including into-store costs, Customs duty and overseas freight, using amounts verified in the course of Investigation 300. These calculations provided for a NIP at the FOB level.

The weighted average export price for the period 1 July 2015 to 30 June 2016 was below the NIP. The Commission considers this finding is consistent with OneSteel's claim that the allegedly dumped goods have caused material injury.

The Commission's calculations of the NIP and the comparison with export price are at **Confidential Appendix 5**.

5.3.6 Conclusion – material injury caused by dumping

The Commission considers that:

- the level of the dumping indicated in the application and the Commission's revised calculations;
- the preliminary finding of loss of sales volumes and market share;
- the preliminary assessment of price depression and price suppression, particularly demonstrated through the price undercutting analysis; and
- the preliminary finding of loss of profits and profitability,

reasonably support a conclusion that dumping of alloy bar exported from China has caused material injury to the Australian industry.

6 Conclusion

The Commission has examined the application and is satisfied that:

- the application complies with subsection 269TB(4);
- there is an Australian industry producing the like goods;
- there appears to be reasonable grounds to conclude that imports of alloy bar from China have been at dumped prices; and
- there appears to be reasonable grounds to conclude that dumping of alloy bar from China has caused material injury to the Australian industry.

Accordingly, the Commission recommends that the Commissioner decide not to reject the application. If the Commissioner agrees with these recommendations, the Commissioner must give public notice of the decision (**Non-Confidential Attachment 1**) in accordance with the requirements set out in subsection 269TC(4).

The Commission recommends that the Commissioner also examine whether the trade in the dumped goods provides a basis for any dumping duty notice to apply retrospectively, pursuant to section 269TN.

7 Appendices and Attachments

Appendices	Confidentiality	Title
Appendix 1	Confidential	Export Prices
Appendix 2	Confidential	Verified alloy round steel bar manufacturing costs
Appendix 3	Confidential	Normal Values and Dumping Margins
Appendix 4	Confidential	Import Volumes
Appendix 5	Confidential	Profit and profitability analyses
Appendix 6	Confidential	Price undercutting

Attachments	Confidentiality	Title
Attachment 1	Non-confidential	Instrument to not reject the application