



Australian Government
**Department of Industry,
Innovation and Science**

**Anti-Dumping
Commission**

INVESTIGATION 384

**ALLEGED DUMPING OF ALLOY ROUND BAR
EXPORTED FROM THE PEOPLE'S REPUBLIC OF CHINA**

VISIT REPORT - AUSTRALIAN INDUSTRY

OneSteel Manufacturing Pty Ltd

**THIS REPORT AND THE VIEWS OR RECOMMENDATIONS CONTAINED THEREIN
WILL BE REVIEWED BY THE CASE MANAGEMENT TEAM AND MAY NOT REFLECT
THE FINAL POSITION OF ANTI-DUMPING COMMISSION**

February 2017

CONTENTS

CONTENTS2

1 BACKGROUND AND PURPOSE3

1.1 BACKGROUND3

2 THE GOODS4

2.1 DESCRIPTION4

2.2 LIKE GOODS4

3 SALES.....6

3.1 VERIFICATION OF AUSTRALIAN SALES TO AUDITED FINANCIAL STATEMENTS.....6

3.2 VERIFICATION OF AUSTRALIAN SALES TO SOURCE DOCUMENTS.....6

3.3 SALES TO RELATED PARTIES6

3.4 CONCLUSION.....7

4 COST TO MAKE AND SELL8

4.1 VERIFICATION OF COSTS TO AUDITED FINANCIAL STATEMENTS8

4.2 CONCLUSION.....8

5 ECONOMIC CONDITION9

5.1 APPLICANT’S INJURY CLAIMS9

5.2 COMMENCEMENT OF INJURY, AND ANALYSIS PERIOD9

5.3 VOLUME TRENDS.....9

5.4 PRICE SUPPRESSION AND DEPRESSION10

5.5 REVENUE11

5.6 PROFIT AND PROFITABILITY11

5.7 OTHER ECONOMIC FACTORS12

5.8 FACTORS OTHER THAN DUMPING13

6 CAUSAL LINK.....14

6.1 PRICE EFFECTS14

6.2 VOLUME EFFECTS15

7 UNSUPPRESSED SELLING PRICE16

8 APPENDICES AND ATTACHMENTS17

1 BACKGROUND AND PURPOSE

1.1 Background

On 15 November 2016 an application was lodged with the Anti-Dumping Commission (the Commission) by OneSteel Manufacturing Pty Ltd (OneSteel) requesting that the Assistant Minister for Industry, Innovation and Science and Parliamentary Secretary to the Minister for Industry, Innovation and Science (Parliamentary Secretary)¹ publish a dumping duty notice in respect of alloy round bar exported to Australia from the People's Republic of China (China).

Public notification of initiation of the investigation (INV 384) was made on 10 January 2017 in Anti-Dumping Notice No. 2017/02.

Full details regarding the background of the case can be found on the public record for this investigation, which includes a copy of *Consideration Report 384* (CON 384).

¹ On 19 July, the Prime Minister appointed the Parliamentary Secretary to the Minister for Industry, Innovation and Science as the Assistant Minister for Industry, Innovation and Science. For the purposes of this decision the Minister is the Parliamentary Secretary to the Minister for Industry, Innovation and Science.

2 THE GOODS

2.1 Description

The goods the subject of the application (the goods) are:

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.

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 Customs Tariff Act 1995 ("the Tariff") as appearing on the date of this application.

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).

Goods excluded from this application are:

- *round or near-round hot rolled solid steel sections composed of:*
 - *'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.*

2.2 Like goods

Like goods are defined by section 269T of the *Customs Act 1901* (the Act) as:

goods that are identical in all respects to the goods under consideration or that, although not alike in all respects to the goods under consideration, have characteristics closely resembling those of the goods under consideration.

OneSteel stated in its application that it considers that the imported alloy round bar possesses the same essential characteristics as locally produced alloy round bar for the following reasons.

PUBLIC RECORD

i. Physical likeness:

OneSteel's locally produced alloy round bar and the imported goods have similar grades, weights and physical appearance.

ii. Commercial likeness:

OneSteel's locally produced alloy round bar competes directly with imported alloy round bar in the Australian market.

iii. Functional likeness

Both the locally produced and imported alloy round bar are used to perform the same function and have the same end-uses.

iv Production likeness

The alloy round bar manufactured by OneSteel is manufactured in a similar manner and via similar manufacturing processes to the imported goods.

OneSteel further explained that within the wider alloy round bar market, there are distinct segments, between which the goods are not substitutable. These segments can be summarised as being for:

- Alloy round bar used as feedstock for grinding ball and grinding rod manufacture;
- Spring steel bar; and
- Engineering bar.

From information submitted in the application, gathered during the visit to OneSteel and responses from exporters and importers, the visit team observed that locally produced alloy round bar and imported alloy round:

- Are alike in physical appearance and other characteristics including grade and composition;
- Compete directly with each other in the Australian market;
- Have comparable or identical end-uses; and
- Are manufactured in a similar manner.

The visit team is satisfied that the Australian industry produces like goods to the goods the subject of the application, as defined in section 269(T) of the Act. The issue of like goods will continue to be assessed throughout the investigation.

3 SALES

3.1 Verification of Australian sales to audited financial statements

The visit team verified the completeness and relevance of OneSteel's sales spreadsheet by reconciling it to audited financial accounts in accordance with Anti-Dumping Notice (ADN) No. 2016/30.

The verification team noted minor discrepancies in the verification process, due to currency and rebate accruals. No other issues were identified. Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

3.1.1 Currency

In verifying the total revenue from the sales data provided by OneSteel up through the accounting system utilised by OneSteel, the verification team identified a variance of less than 1%. OneSteel explained that part of this discrepancy is as a result of export sales being reported in one system in the sale currency, while being reported in Australian dollars in another system. OneSteel provided the verification team with a reconciliation statement and the verification team were satisfied with this explanation.

3.1.2 Rebate

Further to 3.1.1 above, the verification team identified a further discrepancy between the accounting systems utilised by OneSteel. This discrepancy was less than 2%, and OneSteel explained that this variance was due to the timing of rebate accruals and actual payments in the general ledger. OneSteel provided a posting sheet to identify these items and the verification team were satisfied with this explanation.

3.2 Verification of Australian sales to source documents

The verification team verified the accuracy of OneSteel's sales spreadsheet by reconciling it to source documents in accordance with ADN No. 2016/30.

The verification team did not identify any issues during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

3.3 Sales to related parties

OneSteel explained that they have sales to both related and unrelated entities. The verification team found that selling prices to related entities were comparable to those offered to major unrelated customers, while there were minor differences in selling terms.

The verification team has not found any evidence to suggest that the related party transactions are not at arm's length.

3.4 Conclusion

The verification team is satisfied that the sales listing provided by OneSteel is complete, relevant and accurate. Details of the verification are contained within the verification work program at **Confidential Attachment 1**.

4 COST TO MAKE AND SELL

4.1 Verification of costs to audited financial statements

The visit team verified the completeness and relevance of OneSteel's costs spreadsheet by reconciling it to audited financial accounts in accordance with Anti-Dumping Notice (ADN) No. 2016/30.

The verification team noted that the costs spreadsheet provided by OneSteel did not contain cost to make and sell data for the final quarter of the investigation period. This was because the Commission selected an alternative investigation period at the time of initiation of the investigation to that proposed by OneSteel in its application.² The additional quarter of data was provided upon request at the verification visit. Besides this, the verification team did not identify any issues in relation to the costs presented.

Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

4.1.1 Verification of costs to source documents

The visit team verified the accuracy of OneSteel's cost to make and sell spreadsheet by reconciling it to source documents in accordance with ADN 2016/30.

The verification team did not identify any issues during this process.

Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

4.2 Conclusion

The visit team considers that OneSteel's cost to make and sell data are a reasonably complete, relevant and accurate reflection of the cost to make and sell alloy round bar.

² The OneSteel application had proposed 1 July 2015 to 30 June 2016 as the period of investigation; the Commission recommended the period of investigation as 1 October 2015 to 30 September 2016 in CON 384 with 1 July 2012 to be used as the start of the injury analysis period.

5 ECONOMIC CONDITION

5.1 Applicant's injury claims

OneSteel claimed that the alleged dumping of imports of alloy round bar had caused injury through:

- loss of sales volumes;
- loss of market share;
- price undercutting;
- price depression;
- price suppression;
- reduced revenues;
- reduced profits;
- reduced profitability;
- reduced return on investment; and
- reduced employment.

5.2 Commencement of injury, and analysis period

In its application, OneSteel alleged that the Australian industry has suffered material injury caused by alloy bar exported to Australia from China from January 2013. As noted in section 1.4 above, the investigations team has set the injury analysis period from 1 July 2012. This chapter charts and examines OneSteel's performance over the injury analysis period, using data verified with OneSteel during the verification visit. Each figure represents analysis for a four year period commencing on 1 October each year and concluding on 30 September the following year.

5.3 Volume trends

5.3.1 Sales Volume

OneSteel's annual sales volume of its own production of alloy round bar is illustrated below in Figure 1. OneSteel's sales volume remained relatively consistent from 2013 to 2015 before suffering a sharp decline in sales volume during the investigation period.

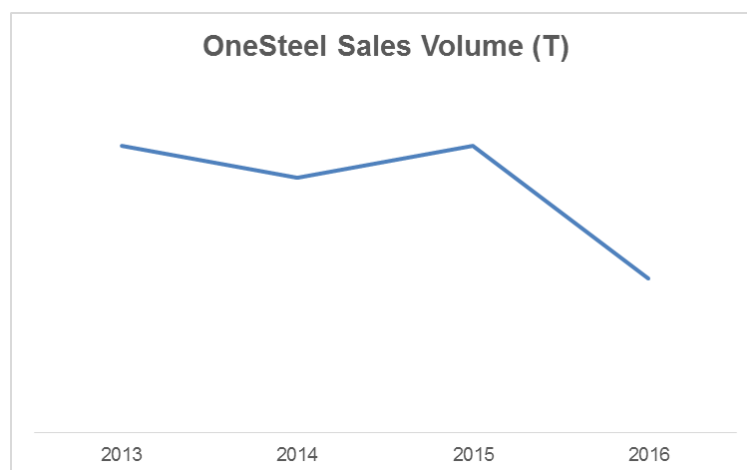


Figure 1: OneSteel's sales volume of alloy round bar (Oct-Sep each year)

5.3.2 Market Share

Figure 2 below shows the share of the alloy round bar market held by the Australian industry, and the shares which are represented by exports from China and exports from other countries.

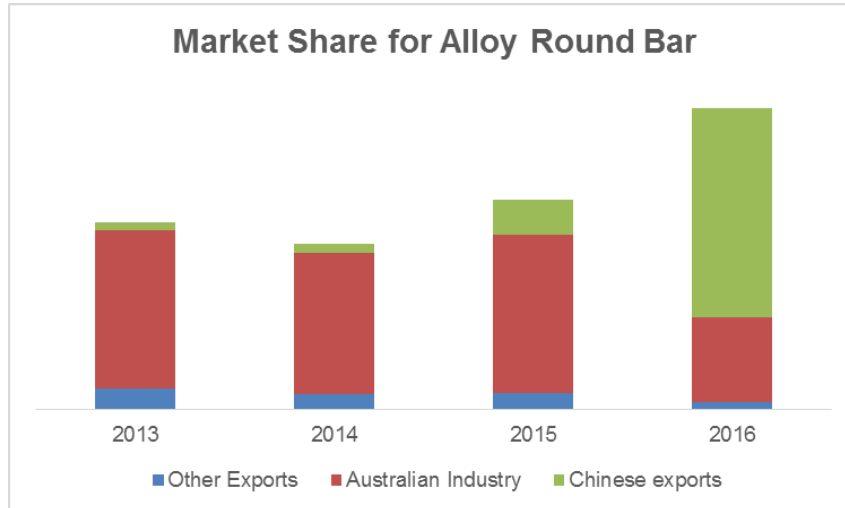


Figure 2: Alloy Round Bar Market Share

Figure 2 illustrates that during the injury analysis period, the share of the market held by OneSteel has significantly reduced, particularly during the investigation period. Exports of alloy round bar from other countries have also reduced, while the market share held by exports of alloy round bar from China have increased significantly.

5.4 Price suppression and depression

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

Figure 3 below illustrates the movements in and relationship between OneSteel's unit CTMS and unit selling prices for alloy round.

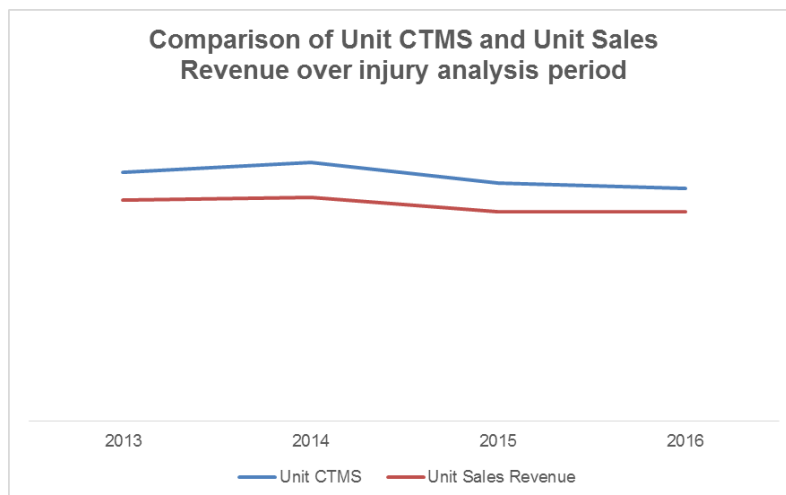


Figure 3: OneSteel's unit selling price and unit CTMS

PUBLIC RECORD

Figure 3 above shows that OneSteel's unit selling price has declined slightly over the injury analysis period. The decline in unit selling price over the injury analysis period is supportive of OneSteel's claims of price depression.

Figure 3 shows that OneSteel's unit selling prices did not exceed the unit CTMS for any year in the injury analysis period. This supports the claim that OneSteel faced price pressure which has not allowed unit selling prices to exceed unit CTMS or allowed OneSteel to increase its prices generally. For this reason, OneSteel appear to have suffered injury in the form of price suppression.

5.5 Revenue

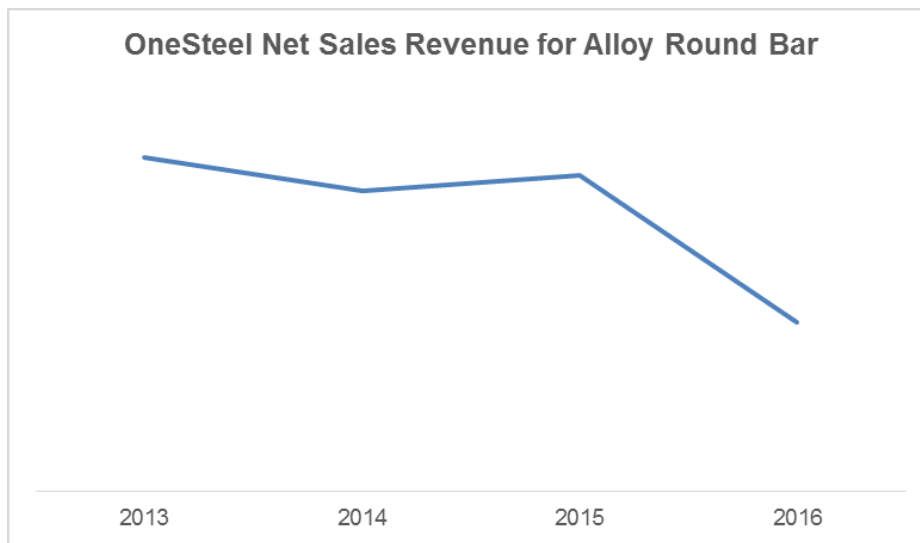


Figure 4: OneSteel's net sales revenue for alloy round bar

Figure 4 above illustrates that there was a slight decrease in sales revenue between 2013 and 2015, before a sharp decrease during the investigation period. This supports OneSteel's claim that they have suffered injury in the form of reduced revenue.

5.6 Profit and profitability

OneSteel outlined that they have not made a profit on the sale of alloy round bar during the injury analysis period. Figure 5 below highlights the level of loss that OneSteel have made, together with the unit profit.

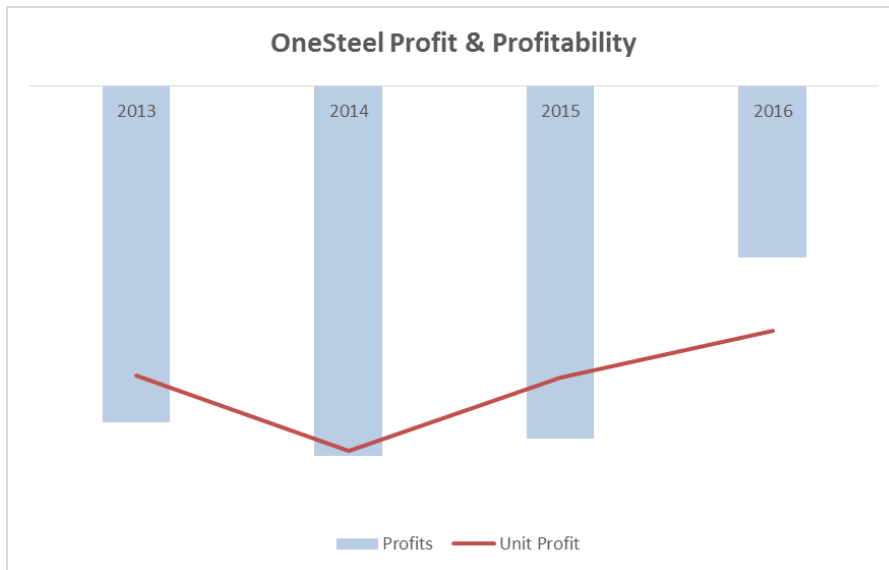


Figure 5: OneSteel profit & profitability over injury analysis period

Figure 5 demonstrates that OneSteel remained unprofitable throughout the injury analysis period, although during the investigation period the level of loss and unit profit had improved.

5.7 Other economic factors

OneSteel completed Confidential Appendix A7 for the injury analysis period to support its claims in terms of certain other injury factors. The Commission provides the following observations in relation to other injury factors.

5.7.1 Employment numbers

OneSteel reported a decline in their employment numbers across the injury analysis period, noting that from 2015 to 2016 the level remained consistent. The verification team were able to verify these figures to headcount totals from OneSteel's financial reporting system. The verification team noted that the total headcount figure was not specific to alloy round bar, as OneSteel stated that employees produce different goods.

5.7.2 Reduced Capital Investment

OneSteel provided data from their Business Planning and Consolidation (BPC) system highlighting a reduction in their capital and investment expenditure over the course of the injury analysis period. The verification team noted that, following allocation of this total expenditure amount to the production of like goods, there had been a considerable decline in capital investment, particularly over the investigation period.

5.7.3 Reduced Asset Utilisation

OneSteel provided data highlighting their property, plant and equipment asset total from their BPC system. When allocated to the production of like goods the verification team noted a decline in asset utilisation over the injury analysis period, with a sharper drop during the investigation period.

5.7.4 Return on investment

OneSteel provided two calculation methods to demonstrate their claim of reduced return on investment. One method took into account cost movements (taking into account cost reductions including variable costs per tonne, fixed costs and selling & administration costs) while the other method did not. For both methods, OneSteel divided their net gain or loss by the “like goods” asset (which had been calculated by taking the total Rod & Bar asset amount and allocated it to like goods based on production). The verification team noted that over the injury analysis period the return on investment had reduced overall, with an improvement in 2015 before regressing during the investigation period.

5.7.5 Reduced Capacity & Capacity Utilisation

OneSteel presented three scenarios to demonstrate the reduced capacity in production of alloy round bar over the injury analysis period. The first scenario is where the capacity of like goods is equal to the capacity of the Sydney and Laverton rolling mills. The second scenario is where the capacity of like goods is equal to the period where the highest tonnes of alloy round bar were produced – the 2012 calendar year. The third scenario is where the capacity of like goods is equal to the billet capacity out of Whyalla. The Commission noted that in utilising each method, the production total of alloy round bar was significantly lower than the capacity, particularly during the investigation period.

5.7.6 Conclusion

The verification team has considered the other injury factors outlined above and there appear to be reasonable grounds to support the claim that the Australian industry has suffered injury with respect to:

- reduced capital investment;
- reduced asset utilisation;
- reduced return on investment; and
- reduced capacity and capacity utilisation

5.8 Factors other than dumping

In their application, OneSteel identified the following other possible causes of injury:

- 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.

At the visit, OneSteel did not provide further information beyond that provided in their application in relation to these claims.

6 CAUSAL LINK

The verification team discussed with OneSteel whether the alleged dumping of imported alloy round bar can be demonstrated to be causing material injury to the Australian industry.

6.1 Price effects

Price undercutting occurs when an imported product is sold at a price below that of the Australian industry. During the verification visit OneSteel provided evidence of how their prices had been undercut during the injury analysis period, and how this had impacted on their negotiations and ultimately sales (or lost sales) to customers. Following the verification visit, OneSteel provided the verification team with this information and analysis in support of its claim.

The verification team compared OneSteel's verified unit selling prices over the injury analysis period with reasonable estimates of the selling prices of alloy round bar from China into the Australian Market at free into store prices (FIS).

To estimate the FIS price from China, the Commission added verified post exportation and importation costs from a previous investigation to the FOB export prices from the ABF import data base.³

Figure 6 below compares the FIS prices of alloy round bar from China with the FIS price from OneSteel.

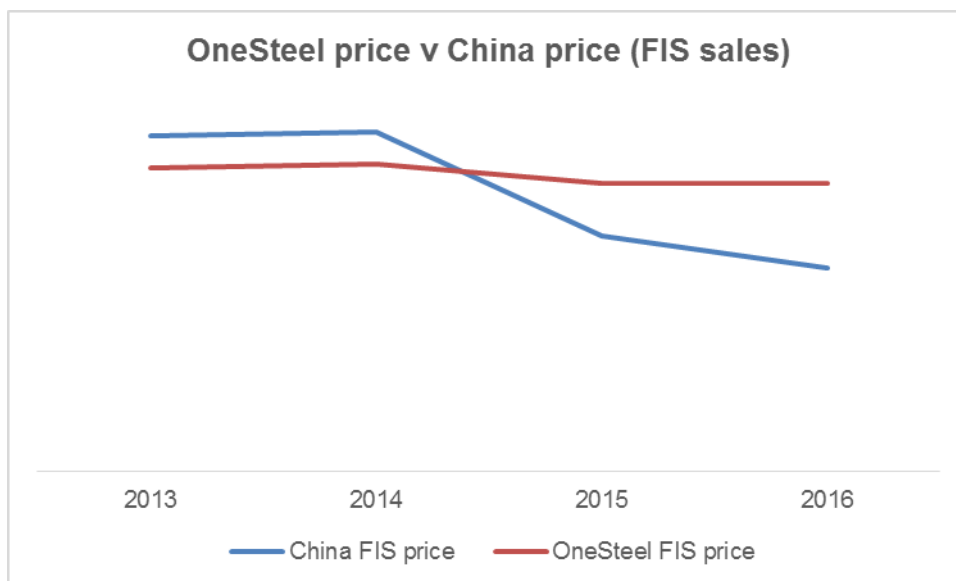


Figure 6: Comparison of China FIS price with OneSteel FIS price

³ Importation costs were verified by the Commission as part of Investigation 300 into steel reinforcing bar exported from China.

Figure 6 demonstrates that from midway through the 2014 year the prices of OneSteel have been undercut, with the margin of undercutting growing considerably through the investigation period.

6.2 Volume effects

OneSteel claim that they have lost sales volume as a result of dumped imports from China. This verification team has outlined the analysis regarding lost sales volume and loss of market share in section 5.3 above. During the verification visit, and following the visit, OneSteel provided the verification team with confidential information regarding their lost sales volume to support their claim that dumped imports had caused injury.

7 UNSUPPRESSED SELLING PRICE

During the verification visit, the verification team outlined the Commission's approach to establishing an Unsuppressed Selling Price (USP), through the following hierarchy:

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

Having calculated the USP, the Commission then calculates the Non-Injurious Price by deducting the importer costs incurred in getting the goods from the free on board point at export (or another point if appropriate) to the relevant level of trade in Australia. The deductions normally include overseas freight, duty, insurance, into store costs and amounts for importer expenses and profit.

OneSteel expressed their view that dumping duties did not need to be reduced by reference to a non-injurious price. OneSteel stated that a reduction in the dumping rate by any amount would impact both the Australian industry and legitimate exporters of un-dumped goods. OneSteel noted their opinion that Australia exceeded its obligations under the World Trade Organisation by requiring mandatory consideration of the Lesser Duty Rule, and noted several other comparative jurisdictions which did not apply this rule. OneSteel further noted that if a particular market situation is found in respect of the Chinese alloy round bar market, then reference to subsection 8(5BAAA) of the *Dumping Duty Act*, should be made and the recommendation made to the Parliamentary Secretary that it is not desirable to fix a lesser rate of interim dumping duty under subsection 8(5BA) of the *Dumping Duty Act*.

OneSteel stated that if the Commission was to apply the Lesser Duty Rule the preferred approach should be a constructed industry price plus a level of profit. OneSteel provided confidential reports outlining the rate at which they consider profit should be calculated.

The commission noted the concerns raised by OneSteel and will consider this in the Statement of Essential Facts.

8 APPENDICES AND ATTACHMENTS

Confidential Attachment 1

Verification Work Program