

1 June 2018

Mr Rhys Piper
Director
Investigations 1
Anti-Dumping Commission
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Public File

Dear Mr Piper

Resumed Investigation – Alloy Round Bar

I. Introduction

I refer to recently published Australian Dumping Notice No 2018/73 (“ADN 2018/73”) advising all interested parties that the dumping investigation in respect of alloy round bar (“the goods”) exported to Australia from the People’s Republic of China (“China”) is to be resumed following the publication of a new Statement of Essential facts (“SEF”).

The resumed investigation will exclude exports by the Chinese exporter Jiangsu Yonggan Group Co. Ltd (“Yonggang”). On 27 April 2018, the Anti-Dumping Review Panel (“ADRP”) following a review of the Commissioner’s decision to terminate investigations into Yonganag, affirmed the Commissioner’s decision that the dumping margins of Yonggang were ‘negligible’ and that injury caused by the dumping was negligible. The ADRP also revoked (on 27 April 2018) the Commissioner’s termination decision in relation to all remaining exports of the goods to Australia from China.

Moly-Cop was identified as a manufacturer of like goods in Australia in Termination Report No. 384 (“Term Report 384”). Moly-Cop therefore makes this submission to the Anti-Dumping Commission (“the Commission”) following the publication of ADN No. 2018/73.

Moly-Cop notes that for a resumed investigation, the Commission must publish an SEF “*as soon as practicable after the reviewable decision has been revoked*”.

II. Relevant considerations by the Commission

(a) *Timing of application*

It is Moly-Cop’s view that in the construct of a new SEF, the Commission must consider recent relevant changes to the structure of the alloy round bar market in Australia.

On 10 January 2017, the Commission published ADN 2017/002 announcing the commencement of an investigation into the alleged dumping and subsidization of alloy round bar exported from China. The initiation notice followed an application for measures by OneSteel Manufacturing Pty Ltd (“OneSteel Manufacturing”) in November 2016.

The investigation period for the original inquiry was 1 October 2015 to 30 September 2016.

The timing of the application and the commencement date of the Commission's investigation are relevant milestones that impact the state and structure of the industry.

(b) Manufacturing capability of applicant company

As at the date of the application (i.e. November 2016) and throughout the investigation period, Commonwealth Steel Company (trading as "Moly-Cop") was part of the same business entity as the applicant, OneSteel Manufacturing under the parent business entity Arrium Limited ("Arrium"). At that time, OneSteel Manufacturing produced billet for grinding bars (and the other alloy bar 'like goods') at its Whyalla Steelworks and transferred the billet for rolling into grinding bar at the Moly-Cop Waratah NSW production facility. OneSteel Manufacturing sold the grinding bars to one customer only, Donhad Pty Ltd ("Donhad"). Donhad produced grinding media from the grinding bar and competed in the grinding media market against Moly-Cop and others.

Moly-Cop produced its own grinding bar billet from its own electric arc furnace ("EAF") at Waratah, NSW – purchasing scrap steel to produce billet. The billet was roll-formed into grinding bar in the same rolling mill as used to toll process OneSteel Manufacturing billet for the production of Donhad grinding bar (i.e. the Whyalla-transferred billet). Moly-Cop's grinding bar rolling mill was the only rolling mill available to OneSteel Manufacturing at the time it lodged its application for measures.

OneSteel Manufacturing does not have the combined steelmaking and bar rolling capability to make grinding bar to either the Donhad or Moly-Cop specification. The other steel producing assets of OneSteel Manufacturing did not, and cannot, produce grinding bar without significant modification and capital investment. Nonetheless for the period of investigation and injury analysis the ADC has reasonably determined that OneSteel Manufacturing and Moly-Cop were manufacturers of grinding bar during the relevant investigation period (as both were – at the time – fully-owned entities within the Arrium Group of companies).

The manufacturing status of OneSteel Manufacturing at the time of the application is not a concession that the supplied grinding bar met with Donhad's (its only grinding bar customer) requirements in full. Donhad submitted during the conduct of Investigation No. 384 (and the Commission acknowledged) that certain technical, value proposition circumstances, and new product development issues of OneSteel Manufacturing resulted in Donhad seeking alternative supply sources.

(c) Structural change in the local alloy steel bar industry

It is well documented that in April 2016 Arrium was placed in administration by its directors and its sale was subject to approval by a committee of creditors. In January 2017, Commonwealth Steel Company (Moly-Cop) was acquired by American Industrial Partners ("AIP") from the administrators of Arrium completely removing the Commonwealth Steel Company (Moly-Cop) manufacturing assets from the Arrium portfolio.

This meant that OneSteel Manufacturing no longer had suitable assets to produce grinding media bar.

Similarly, OneSteel Manufacturing was unable to modify its other bar rolling assets to supply grinding media bar to meet Donhad's requirements. This development was of great concern to Donhad, the only customer of grinding bar.

Initially, the divestment of Moly-Cop by Arrium (and the then toll rolling arrangement) was of great concern to Donhad because Moly-Cop was now a separate business entity and OneSteel Manufacturing potentially would struggle with the commercial aspects of securing capacity, competitive pricing, the resolution of non-conformances and holding an acceptable overall lead time. As a consequence, Donhad elected to alter its steel purchasing strategy to secure ongoing supply of grinding bar.

For the calendar year 2017, Donhad purchased approximately (*volume*) tonnes of steel. OneSteel Manufacturing, toll rolling bar at the Moly-Cop Waratah facility, produced (*volume*) tonnes of Donhad's grinding bar requirements.

In May 2017 a (*agreement*) was established between Donhad and OneSteel Manufacturing. The detail of the agreement remains confidential but in broad terms, in order for OneSteel Manufacturing to supply grinding bar to Donhad, it would require significant capital expenditure and plant modification in order to manufacture grinding bar/rod. Even if OneSteel Manufacturing was capable of producing grinding bar, the size would be constrained to less than 50mm bar. The time frame for deployment once capital was approved was greater than (*time period*). It became clear to Donhad that, given the still unresolved technical issues of the past, OneSteel Manufacturing was a very unlikely partner in the manufacturing of grinding media bar.

The next industry change made the situation of supplying Donhad grinding bar for OneSteel Manufacturing even more difficult.

In August 2017, AIP (the owner of Moly-Cop) and Valmont Industries, Inc. (the owner of Donhad) agreed to the sale of Donhad. With Donhad becoming part of the Moly-Cop business, OneSteel Manufacturing is left with no Australian customer for grinding media bar. Donhad's grinding media bar requirements will mostly be manufactured at the Moly-Cop, Waratah facility. It is Moly-Cop's view that it is not commercially plausible for OneSteel Manufacturing to invest capital in a process for which there is no end customer. Neither is it commercially plausible for the Moly-Cop business to sell toll-rolled grinding bar to OneSteel Manufacturing only to buy back the grinding bar for its own, recently-acquired Donhad business. Given the scale of these industry changes and the shift in the ownership of the manufacturing assets for grinding bar, it seems the foreseeable future is set.

In the future, the most likely scenario is that OneSteel Manufacturing does not participate in the grinding bar market. This is because OneSteel Manufacturing does not have the plant and equipment necessary to produce grinding bar. In order to invest the necessary capital to do so OneSteel Manufacturing will require a return on that investment. For the foreseeable future there is no customer from which to secure that return.

(d) Impact of structural change on OneSteel Manufacturing

Moly-Cop considers that it is a producer of alloy steel bar, including grinding bar and grinding rod, with "a small volume of grinding rod sold to external customers". OneSteel Manufacturing stated that the alloy steel bar market comprises key segments including engineering bar, spring steel bar, strata bar and bar used for grinding media.

Moly-Cop therefore concurs with the Commission's assessment in Term Report No. 384 that it is a member of the Australian industry producing like goods. Moly-Cop does not agree with the assessment of the ADRP that Moly-Cop's production of grinding bar that is used in grinding balls manufacture does not fully consider that Donhad (a purchaser of grinding bar from Moly-Cop via OneSteel Manufacturing) had dual sourced grinding bar during the investigation period.

Despite this, however, Moly-Cop does not consider that the composition of the Australian industry producing like goods during the investigation period is the key consideration for the Commission in the resumed investigation. Rather, what is for consideration is whether the requirements of subsection 269TG have been met, notably that the Parliamentary Secretary must be satisfied that in publishing a duty notice that because of the dumping, material injury has been, or is being caused, or has been threatened to the Australian industry producing like goods.

Following the recent structural changes to the Australian industry producing like goods it cannot be concluded that OneSteel Manufacturing will suffer, or is threatened, with material injury following the acquisition of Moly-Cop by AIP and, more recently, by Moly-Cop's acquisition of OneSteel Manufacturing's sole grinding bar customer, Donhad.

It is evident that Moly-Cop's acquisition of Donhad removes a significant transaction from the alloy bar (that includes grinding bar) market. OneSteel Manufacturing's involvement in the alloy round bar market as a producer is significantly smaller in 2018 than what it was in the investigation period.

It is Moly-Cop's view that OneSteel Manufacturing (now trading as Liberty OneSteel) will unlikely commit to capital expenditure to include roll-forming of a kind necessary to supply all of the like goods. Irrespective of this, it is now clear that Donhad will secure its raw material grinding bar requirements from Moly-Cop, thereby removing any supply from OneSteel Manufacturing.

OneSteel Manufacturing, therefore, is limited to the supply of engineering bar, spring steel bar, strata bar and heat-treated alloy round bar, now that all grinding bar requirements will be supplied by Moly-Cop.

(e) Additional matters

It is Moly-Cop's understanding that the imported goods that were at dumped prices during the 2015/16 investigation period were 95 per cent grinding bar. Further, Grinding bar accounts for more than three-quarters of production of the total the Australian alloy round bar market (refer Figure 1 at Section 4.5 of Term Report 384). In terms of sales of alloy round bar (i.e. excluding Moly-Cop's captive production) the market for alloy round bar was estimated at 119,000 tonnes¹ in the investigation period. Approximately two-thirds of this volume was grinding bar². The remaining one-third is accounted for sales of engineering bar, spring steel bar, strata bar and heat-treated bar.

Excluding volumes for grinding bar, the Australian market for remaining alloy round bar is approximately 45,000 tonnes.

During the investigation period, OneSteel Manufacturing supplied billet to Moly-Cop for alloy round bar production. Following the structural changes identified in 2017, Moly-Cop will divert its production capacities to grinding bar production for internal use (for its own production and Donhad production facilities). OneSteel Manufacturing, therefore, will be limited in its ability to supply the remaining alloy round bar market with its requirements.

Moly-Cop submits that anti-dumping measures are not required on imported alloy round bar as the Australian industry manufacturing like goods is not exposed to future injury that is material, as OneSteel Manufacturing currently does not possess the production capacity to supply the alloy round bar (excluding grinding bar) requirements.

III. Summary

Moly-Cop concurs with the Commissioner's decision to terminate Investigation No. 384 as the level of injury experienced by OneSteel Manufacturing as evidenced for the investigation period was negligible. The Commissioner's decision was the correct and preferable decision as OneSteel Manufacturing was unable to supply grinding bar (which accounted for 95 per cent of import volumes from China) to the technical specifications required by Donhad for grinding ball production.

The remaining import volumes from China did not result in injury to OneSteel Manufacturing that could be considered 'material'.

With the recent structural change in the Australian industry (i.e. Moly-Cop's acquisition of Donhad), the opportunity for OneSteel Manufacturing to supply remaining alloy steel bar requirements to the Australian market is limited (as Moly-Cop will now supply all of Donhad's grinding bar requirements from its rolling-bar facilities). OneSteel Manufacturing's ability to source alloy round bar from Moly-Cop is now sufficiently reduced and will necessitate the need for import volumes.

¹ Term Report No. 384, P.24.

² Figure 2, Term Report No. 384, P.25.

Moly-Cop recommends that the Commission re-affirm its decision to terminate the investigation into imports of alloy round bar from China.

If you have any questions concerning this submission, please do not hesitate to contact me on (02) 4974 0414 or Moly-Cop's representative Mr John O'Connor on (07) 3342 1921.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'M. Voigt', with a stylized, cursive script.

Matthew Voigt
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Moly-Cop Australasia