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14 May 2012

Mr Geoffrey Gleeson
Director, Operations 3
International Trade Remedies Branch
Australian Customs and Border Protection Service
Customs House
5 Constitution Avenue
CANBERRA ACT 2601

Dear Mr Gleeson

Public File

ATM Correspondence 2012/15 - HSS exported from China, Korea, Malaysia, Taiwan and Thailand – Investigation No. 177 – Further comments on Alpine Pipe Manufacturing Sdn Bhd Exporter Visit Report

Further to OneSteel ATM's previous submission on Alpine Pipe Manufacturing Sdn Bhd ("Alpine"), OneSteel ATM seeks to make the following additional comments in relation to the Alpine Exporter Visit Report.

Normal Value Adjustments

1. Specification Differences

Customs and Border Protection's ("C&BP") visit report did not address the well-known differences between HSS sold domestically by Alpine and the goods exported to Australia by Alpine.

OneSteel ATM understands that the like goods sold by Alpine in Malaysia for RHS are not to the same standard as the goods exported to Australia.

Confidential Attachment 1 details a quotation supplied by Alpine for domestic supply in Malaysia whereby substitute product was offered instead of product to the requested specification of AS 1163. A couple of key observations can be made from this quotation:

- The substitute product offered by Alpine is to the specification ASTM A500;
- The Alpine offer details the nominal material thickness as well as the actual thickness of the material. It is noteworthy that the actual thickness of the material reflects Alpine producing the material to the minimum thickness allowable under ASTM A500 (i.e. -10 per cent). It should be noted the minimum tolerance for actual versus nominal thickness under the specification AS1163 is 4 per cent (based on mass tolerance) which is significantly less than that permitted under ASTM A500.

It should be noted that this approach is reflective of comments provided by Alpine as recorded in C&BP visit report (refer Section 3.6 of the Alpine Visit Report).

Confidential Attachment 2 provides a comparison on key characteristics between the specifications ASTM A500 and AS 1163. Key noteworthy differences are:

- ASTM A500 has a minimum yield strength of 270 MPa vs AS1163 RHS supplied by Alpine into Australia of 350 MPa or 450 Mpa;
- ASTM A500 has no minimum mass tolerance vs nominal. AS1163 has ≥ 0.96 of nominal mass;
- ASTM A500 has no requirements for Charpy impact (i.e. toughness) testing or ILAC accredited laboratories unlike AS1163;
- ASTM A500 has individual line marking and traceability of lengths optional whereas these are required under AS1163;
- ASTM A500 has no requirement for fully killed, fine grain continuous cast steel vs AS1163. Consequently ASTM A500 does not require impact property testing and is not considered suitable for dynamic loads.

OneSteel ATM therefore recommends that an upward adjustment to Alpine's normal value is required to account for the specification differences that are evident between sales of domestic HSS and the goods exported to Australia by Alpine.

OneSteel ATM submits that a positive specification adjustment to normal values for **all** HSS exporters of the goods under consideration ("GUC") in each of the exporting countries China, Korea, Malaysia, Taiwan and Thailand is warranted to account for the differences in price that can be attributed to the exported goods complying with Australian Standard 1163, and the domestic sales of like goods that are allegedly standard grade HSS (that are not to the same standard as AS 1163).

Recommendation

C&BP to make an upward adjustment to Alpine's normal value to account for the differences in specifications between ASTM A500 and AS1163. Similar adjustments are also required for all other HSS exporters to Australia of the GUC from the investigated countries.

It is noteworthy that Pacific Pipe Co. Ltd's price differences between oiled product used in the Thai domestic market (offered into Australia) vs Blue Painted to AS1163 C350 offered into Australia have consistently been A\$xxx/t (Please refer Confidential Attachment 8).

2. Inventory Carrying Cost, Export Warehousing Cost and Export credit cost

In Section 5.2 of the Alpine Visit Report it is claimed that Alpine produces orders for Australia in "most cases" makes to order.

In Section 6.4.5 Alpine submitted *"its finance costs are higher for domestic sales than for exports as domestic sales are predominately from stock while export sales are made to order"*.

Confidential Attachments 3 (a) and 3(b) contains copies of offers solicited by Alpine for sale in Australia detailing substantial range and quantity of products to AS1163 available ex-stock. Confidential Attachment 3(a) includes one stock list with xxxx tonnes of AS1163 RHS alone.

C&BP appears to have calculated export credit cost from the date of invoice or bill of lading and as such considered sales to all but one of the export customers to be on a cash basis. However, this approach ignores the fact that export sales may typically wait several months for transport options to be finalised. It is OneSteel ATM's view this differential needs to be taken into account as it is not a delay applicable to Alpine domestic sales that can be invoiced shortly after production. C&BP's approach appears to accept that export sales are invoiced as soon as they are produced, however, this claim appears to be in conflict with the comment in the visit report *"Alpine stays in contact with the customers to update them on the order volumes accruing so the importer can arrange overseas"*

freight and "As the delivery orders are consolidated for shipment to Australia, Alpine raises a commercial invoice" (refer Section 5.2 of Alpine visit report).

C&BP also appears to have made a negative adjustment for credit terms on domestic sales despite acknowledgment that the prices used have contained credit notes received for early payment (specific invoices and products unknown).

3. Grade and Coating Differences

Alpine stated that it provides AS1163 C350 L0 at no extra charge (Refer Section 5.5 of Alpine Visit Report). This is directly contradicted by Alpine product offers into Australia. Confidential Attachment 4 highlights product offers from Alpine from different traders all charging a \$xx/t extra for L0 product characteristics. Confidential Attachment 5 highlights an offer directly from Alpine detailing a surcharge for material compliant with C350 L0 and wrapping of material.

Alpine also stated it sells 450Mpa at the same unit price as 350 Mpa. This is directly contradicted by correspondence in Confidential Attachment 5.

Alpine explained that very small volume of 450Mpa product is sold in Australia. However, the stock lists detailed in Confidential Attachment 3(a) details significant quantities (>430t) of product ex-stock to AS 1163 C450.

It should also be noted that Alpine stated to C&BP that 355 Mpa grade coil was "not much more expensive". It is unclear what this statement is relative to. However, it should also be noted Alpine made a similar statement on the relativity of Pre-gal coil vs HRC where there are clearly material differences in pricing.

OneSteel ATM regards the approach articulated by C&BP in the visit report for adjusting for differences in painting costs on Australian exports as inadequate. In OneSteel ATM's view adjustments need to recognize differences in:

- Pricing differences – Confidential Attachment 8 highlights ~ \$xxx/t differences in Pacific pricing into Australia for
 - C250 oiled product (typical of product supplied domestically in Thailand/Malaysia) vs C350 Painted product;
 - Both above products were for export to Australia under identical terms;
- Pricing differences – Confidential Attachment 8 highlights ~ \$xx/t differences in Saha Thai pricing into Australia on C350L0 and Blue Painted versus C350 oiled product;
- Costs of operational complexity – changing paint lines, grades, thicknesses;
- Impact of paint coatings on lower overall yields (e.g. product unsatisfactory due to poor coating);
- Costs of traceability and individual length line marking to comply with Australian Standards

4. Galvanized Coil (Pre-Gal)

Alpine stated that "pre-galvanized coil is roughly the same cost as HRC it purchases". This statement defies belief and credibility or is a reflection of a "Market Situation" in operation in Malaysia. Non-Confidential Attachment 6 details CRU benchmark pricing for Galvanized Coil vs HRC in every region internationally highlighting a typical differential between HRC and Galvanized Coil in FY11 of US\$xxx/t (or ~ 20%) in South & East Asia.

C&BP analysis (refer Section 6.3 of Report) in comparing pre-gal export sales with black domestic sales appears to have made no further adjustment for differences beyond negligible adjustments for coil based on information provided by Alpine.

Aside from the credibility of the coil information provided by Alpine, C&BP would appear to have made no allowance for additional costs associated with pre-gal HSS manufacture such as weld repair costs (typically \$xx/t), application of clear coat to aid white rust prevention and differential in yields on Galvanized HSS.

5. Other Costs

The Alpine Report appears to largely not address a range of other extra costs associated with export sales.

It should be noted a range of additional export costs have consistently been detailed in Alpine export offers to Australia (Refer Confidential Attachment 4):

- Non-Standard length extra's +\$xx/t;
- Wrapping +\$xx/t to \$xx/t;
- Container Shipment +\$xx/t.

Alpine statements re export/stock rebates on coil

Alpine has stated (refer Section 6.3.1) that "stock rebates" accrued in the period prior and including FY09 have been in effect written-off. The clear implication being that Alpine expected payment of these rebates but did not actually receive payment from their supplier.

This is directly contradicted by the documents in Confidential Attachment 7.

Conclusions on Alpine Visit Report

It is OneSteel ATM's view that the nature of statements and positions articulated by Alpine to C&BP are so substantially discredited and /or unclear that they cannot be regarded as a co-operating with this investigation and their information should be disregarded.

Further, OneSteel ATM believes the poor transparency and/or accuracy of the information provided by Alpine on matters such as:

- Domestic credit notes/discounts and whether they relate to the goods or not;
- HRC "stock rebates" and claims from Alpine they have never been paid;
- Domestic credit notes for early payment vs claims for terms differences on domestic vs export sales;
- Inability to distinguish shipping methodologies actually used;
- Production costs "shearing" and "forming" etc. and whether they even relate to the GUC;
- Warehousing cost errors;
- Apportioning of HDG costs;
- Apportioning of overhead costs;
- Posting of HRC sales;
- Theoretical vs Actual weight submissions;
- Raw material costs;
- Previous Anti-Dumping investigations.

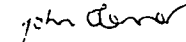
Supports and confirms that Alpine's information and claims cannot be relied upon by C&BP.

C&BP is requested to re-examine adjustments afforded to Alpine's normal values and to adequately consider that matters raised in this submission as they reflect cost/price differences between Alpine domestic HSS sales and export sales of the GUC to Australia.

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If you have any questions concerning this submission please do not hesitate to contact me on (07) 3342 1921.

Yours sincerely



John O'Connor
Director

Cc **Stephen Porter, General Manager Sales – OneSteel Manufacturing**

Asia

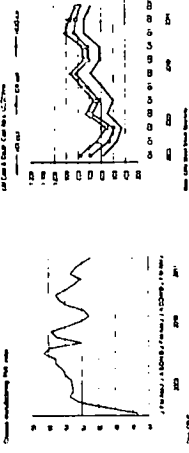
Bad to worse

Security concerns in Southeast Asia, which are now spreading to the rest of the world. Spot prices have fallen below their one-month, quarterly, and yearly averages, and are under significant margin pressure.

The Chinese domestic steel sheet market has been plagued by excess supply for some time. Crude steel output remains strong in June, and despite some downward adjustments through Q2, sheet stocks are still excessive. Rising inflation and resulting policy responses have, however, begun to take their toll on the domestic lead. The June JFE PMI (China) fell to 50.9, its lowest level in 18 months, while a number of smaller manufacturing subsectors have begun to suffer from cash flow issues as the cost and availability of credit have become even less favorable. Some sheet-consuming subsectors, however, also were heavily hit by heavy rains from the removal of peak support. Demand growth in the automotive sector, for example, has waned as a result of the withdrawal of purchase incentive schemes. In other related consumer confidence and some vehicle stocking. Reduced consumer confidence has also weighed down domestic goods sales. Meanwhile, sheet stocks have continued on a downward path, the recent 1.2% decline to 10.7 million metric tons, but in line with end user demand. Stockholders are exercising more caution in the face of higher finance costs and will likely limit their sheet orders until they see more signs of net export to purchase from mills in any week or two. As prices declined and the overall supply demand balance has deteriorated, steel makers in the first month of the first month, led by more than the usual seasonal response as we enter the third quarter. As a consequence, spot hot rolled coil prices have fallen month-on-month again to RMB4,800/tonne, a 5.7% year-on-year increase, in the case of the rolled coil. This is a notable reflection, however, as although market fundamentals are weak, reduced steelmaking raw materials prices are beginning to drive a line under price falls. With poor profitability levels, domestic mills are certainly very reluctant to drop prices further, and (Kamari) have held out for coal fire prices for August delivery while indicating a wait-and-see for downstream sheet products.

In the rest of Asia, market conditions are also a little more than last month, with lead prices about flat or down on low capacity rates and higher confidence levels. In terms of growth, Japan is still slow

Iron and steel prices in Asia (US\$/tonne) - 1000 metric tons



Hot Rolled Coil (HRC) prices in Asia (US\$/tonne) - 1000 metric tons

