



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

**Anti-Dumping
Commission**

INVESTIGATION NO. 466

**ALLEGED DUMPING OF CERTAIN RAILWAY WHEELS
EXPORTED TO AUSTRALIA FROM THE
PEOPLE'S REPUBLIC OF CHINA AND FRANCE**

**ALLEGED SUBSIDISATION OF CERTAIN RAILWAY WHEELS
EXPORTED TO AUSTRALIA FROM THE
PEOPLE'S REPUBLIC OF CHINA**

VISIT REPORT - AUSTRALIAN INDUSTRY

COMMONWEALTH STEEL COMPANY 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**

JULY 2018

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2 BACKGROUND

On 18 April 2018, the Commissioner of the Anti-Dumping Commission (the Commissioner) initiated an investigation into the alleged dumping of certain railway wheels (the goods) exported to Australia from the People's Republic of China (China) and France and the alleged subsidisation of certain railway wheels from China.

The application was lodged by Commonwealth Steel Company Pty Ltd (Comsteel), requesting that the Assistant Minister for Science, Jobs and Innovation publish a dumping duty notice in respect of the goods exported from China and France, and a countervailing duty notice for the goods exported from China.

In the application, Comsteel alleges that the Australian industry has suffered material injury caused by the goods exported to Australia from China and France.

The background to the initiation of this investigation is contained in Consideration Report No. 466 (CON 466). Public notification of the initiation of the investigation was made on 18 April 2018 in Anti-Dumping Notice (ADN) No. 2018/59.

The public record version of the application, CON 466 and ADN 2018/59 are available on the Anti-Dumping Commission's (the Commission) website at www.adcommission.gov.au.

3 THE GOODS AND LIKE GOODS

3.1 The goods

The goods the subject of this investigation are:

Forged and rolled steel, high hardness, nominal 38-inch (or 966 mm to 970 mm) diameter, railway wheels, whether or not including alloys.

Further information regarding the goods is outlined below, as provided in Comsteel's application:

Axles and other components are excluded from the goods coverage.

The railway wheels are manufactured in accordance with the relevant user defined specifications and drawings, and are used on rail carriages used to transport iron ore.

The users of these type of railway wheels are:

- BHP Billiton Ltd (BHP);
- Rio Tinto Ltd (Rio Tinto);
- Fortescue Mining Group (FMG); and
- Roy Hill Holdings Pty Ltd (Roy Hill).

The railway wheels used in all user applications have the following typical characteristics:

- 38 inch or 966 mm to 970 mm diameter and of similar overall dimensional tolerances and shape;
- manufactured from a high carbon steel with the addition of micro alloying elements to achieve hardness and mechanical properties as defined in the user specifications;
- manufactured using a forging and rolling process in accordance with defined standards;
- suitable to operate at axle loads above 36 metric tonnes; and
- a multi-wear rim.

The wheels are manufactured in accordance with specifications established by the users listed above (and included as confidential attachments to the application). Comsteel highlights that the specifications may be slightly modified and renamed to suit the specific manufacturer's production process, however, all railway wheels will typically be in accordance with the iron ore producer's specifications.

3.2 Tariff classification

The goods are generally, but not exclusively, classified to the following tariff classification in Schedule 3 to the *Customs Tariff Act 1995*:

Tariff classification (Schedule 3 of the <i>Customs Tariff Act 1995</i>)				
Tariff code	Statistical code	Unit	Description	Duty rate
8607.19.00	20 ¹	number	PARTS OF RAILWAY OR TRAMWAY LOCOMOTIVES OR ROLLING-STOCK: -- Other, including parts: Wheels, whether or not fitted with axles	China: 2% from 1 January 2017 France: 5%

¹ This statistical code became active from 1 July 2015, and relates specifically to wheels. Previously, these goods were classified to statistical code 17, which was inclusive of a broader range of good types.

4 THE AUSTRALIAN INDUSTRY

4.1 Manufacturing in Australia

Comsteel claims to be the sole manufacturer of like goods in Australia. It manufactures grinding media and various types of railway wheels, axles and wheel sets at its site in Waratah, a suburb of Newcastle in New South Wales.

Comsteel uses scrap metal as the main raw material to produce billet and ingot in its 60MT electric arc furnace (EAF). To produce ingot for railway wheels, certain alloys are added to the scrap steel to achieve the desired metallurgy. The molten steel from the EAF undergoes a vacuum degassing process before being poured into ingot moulds.

The ingots produced in the steelmaking process are sawn into 'cheeses' and then heated in a rotary furnace. The cheeses are pre-formed in a slab press and then forged in the forging press. The wheel is then rolled using edge and pressure rollers before being 'dished' and centre hole-punched in a final press.

The wheel is heated and rim quenched and then tempered in a tempering furnace. The wheel is shot blasted, hardness tested and machined to its final specifications.

The wheel undergoes various tests for surface defects and internal inclusion defects before being stamped and packaged for shipment.

The verification team concludes that the goods can be taken to have been wholly or partly manufactured in Australia and that they are, therefore, produced in Australia.

4.2 Like goods

Subsection 269T(1) of the Act defines like goods 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.

Comsteel manufactures railway wheels for the iron ore carriage railway market according to the purchaser's required specifications. Comsteel considers that these railway wheels are like goods to the railway wheels that are exported to Australia from China and France. Specifically, Comsteel claims that the like goods it produces and the imported goods:

- are alike physically
- compete directly in the same market for each project;
- are manufactured in a similar manner; and
- have the same end-uses.

The verification team considers that the locally produced goods closely resemble the goods under consideration and are like goods given that:

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- the primary physical characteristics of the imported and locally produced goods are similar – being of similar shape and dimension, and being made from similar alloy steel;
- the imported and locally produced goods are commercially alike as they are sold to common customers;
- the imported and locally produced goods are functionally alike as they have the same or similar end-use – to be affixed to railway cars to transport iron ore; and
- the Commission understands that the imported and locally produced goods are manufactured in a similar manner – through the forming, rolling and treating of steel sections cut from an ingot or billet.

Accordingly, the Commission is satisfied that the Australian industry produces like goods to the goods the subject of the application, as defined in section 269T of the Act.

Comsteel produces other types of steel wheels for railway applications. These include wheels for passenger and general freight carriages and locomotives. The Commission's preliminary view is that these other types of wheels are not like goods to the goods under consideration as:

- the primary physical characteristics of the imported and other wheels produced by Comsteel are different - being of different design and dimension;
- the imported and other wheels produced by Comsteel are not commercially alike as they are sold to different customers in different sectors of the rail market; and
- the imported and locally produced goods are not functionally alike as they have different end-uses.

Although the other steel wheels produced by Comsteel are manufactured using a similar production process, on balance the Commission considers that when assessed against its like goods framework,² such wheels are not like goods to the goods under consideration in this investigation.

4.3 Conclusion

The verification team is satisfied that:

- the goods produced by Comsteel for the iron ore carriage railway market are like to the imported goods;³
- at least one substantial process of manufacture is carried out in Australia;⁴
- the like goods were, therefore, wholly or partly manufactured in Australia by Comsteel;⁵
- there is an Australian industry, which consists solely of Comsteel that produces like goods in Australia;⁶ and

² See Chapter 2 of the Commission's Dumping and Subsidy Manual, available on the Commission's website.

³ Section 269T(1)

⁴ Section 269T(3)

⁵ Section 269T(2)

⁶ Section 269T(4)

PUBLIC RECORD

- railway wheels manufactured by Comsteel designed for applications other than iron ore railway carriages are not like goods to the goods under consideration.

5 AUSTRALIAN MARKET

5.1 Market structure, segmentation and distribution

The Australian market for railway wheels is supplied by Comsteel and imports from China and France.

The goods are used exclusively for use on ore carriages which run on proprietary railways owned by the manufacturers of iron ore in Pilbara region of Western Australia. The proprietors of the railways are BHP, Rio Tinto, FMG and Roy Hill. The Australian industry has supplied ore carriage railway wheels to all users except Roy Hill, which is the most recent entrant to the market.

Specification for railway wheels differ slightly between the Australian customers to reflect differences in railway track designs and load requirements of the ore carriages. There are no market substitutes for ore carriage railway wheels in Australia.

Demand for railway wheels is driven by the commissioning of new ore carriages and the replacement of wheels on existing carriages. The typical lifespan of an ore carriage railway wheel is between 8 and 12 years.

Purchases have traditionally been made by end users from pre-qualified suppliers through contract or tender arrangements. Supply arrangements typically establish pricing and supply quantities for a fixed period and/or quantity against which periodic orders are made. Delivery terms are typically to specified storage and workshop facilities either in Perth or the Pilbara.

There was suppressed demand for railway wheels in Australia in 2014 and 2015 due to a decline in iron ore prices, which placed cost pressures on iron ore producers. Demand increased significantly in 2016 and again in 2017 as iron ore prices rose and the iron ore miners increased their spending on maintenance programs, including the purchase of replacement railway wheels.

5.2 Market size and demand

The Commission's estimate of the Australian market, based on information provided by Comsteel, and exporters and importers of railway wheels, over the investigation period is depicted below in Figure 1.

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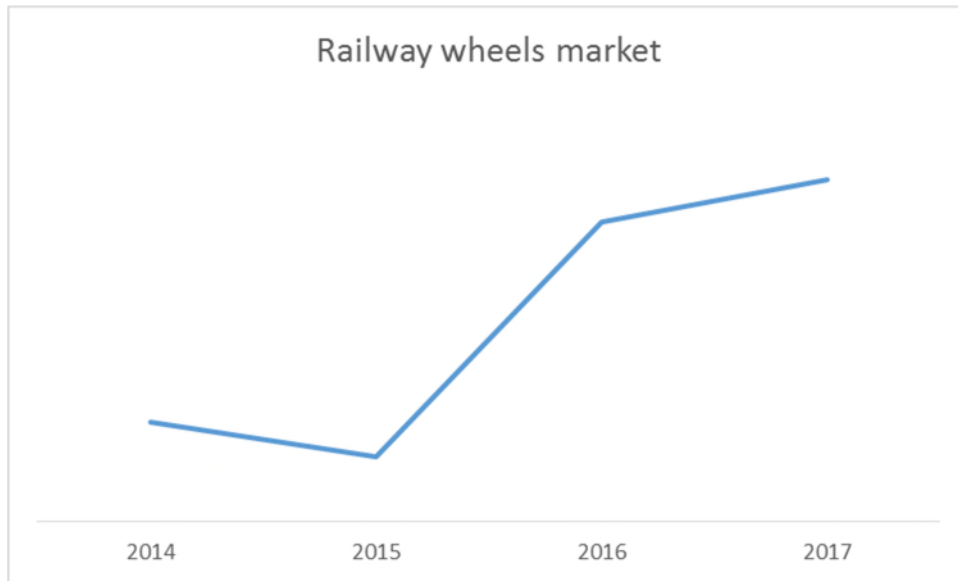


Figure 1: Australian railway wheels market – estimated number of wheels purchased

6 VERIFICATION OF SALES

6.1.1 Verification of Australian sales to financial statements

The verification team verified the completeness and relevance of Comsteel's sales listing by reconciling it to audited financial statements in accordance with ADN. No 2016/30.

Details of this verification process are contained in the verification work program at **Confidential Attachment 1**.

The verification team did not find any issues with the verification of the sales listing to Comsteel's financial statements.

6.1.2 Verification of sales data to source documents

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

Details of this verification process are contained in the verification work program at **Confidential Attachment 1**.

The verification team did not find any issues with the verification of the sales listing to source documents.

6.2 Verification of sales data – conclusion

The verification team considers that Comsteel's sales in Appendix A4 is a complete, relevant and accurate reflection of the sales of railway wheels during the period from 1 January 2017 to 31 December 2017.

Accordingly, the verification team considers Comsteel's sales data in Appendix A4 are suitable for analysing the economic performance of its railway wheels operations from 1 January 2017 to 31 December 2017.

7 VERIFICATION OF COST TO MAKE AND SELL

7.1 Verification of cost to make and sell data to financial statements

The verification team verified the completeness and relevance of Comsteel's cost to make and sell (CTMS) spreadsheet by reconciling it to the company's audited financial statements in accordance with ADN. No 2016/30.

Details of the verification are contained within the verification work program at **Confidential Attachment 1**.

The verification team did not find any material discrepancies or issues reconciling data in the CTMS spreadsheet to Comsteel's financial statements.

7.2 Verification of production costs to source documents

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

Details of the verification are contained within the verification work program at **Confidential Attachment 1**.

The verification team did not find any discrepancies or issues reconciling data in the CTMS spreadsheet to source documents. The verification team consider that Comsteel's allocation methods are reasonable.

7.3 Relationship with suppliers

Comsteel advised that it has no relationship or association with its raw material suppliers. The verification visit team did not find any evidence of non-arms' length transactions with suppliers.

7.4 CTMS – conclusion

The verification team considers that Comsteel's CTMS data in the Appendix A6 is a complete, relevant and accurate reflection of the actual costs to manufacture and sell the goods during the period from 1 January 2017 to 31 December 2017.

Accordingly, the verification team consider Comsteel's CTMS data in the revised Appendix A6 is suitable for analysing Comsteel's economic performance of its railway wheel business over the injury analysis period.

8 ECONOMIC CONDITION

8.1 Approach to injury analysis

The verification team analysed Comsteel's financial data in support of its claims of injury as well as information relevant to the loss of tenders during the injury period. The verification team also reviewed trends in imports of railway wheels from subject countries for the corresponding period. As the loss of tenders to supply forms the basis of Comsteel's claims of injury, the verification team examined each tender individually.

8.2 Applicant's injury claims

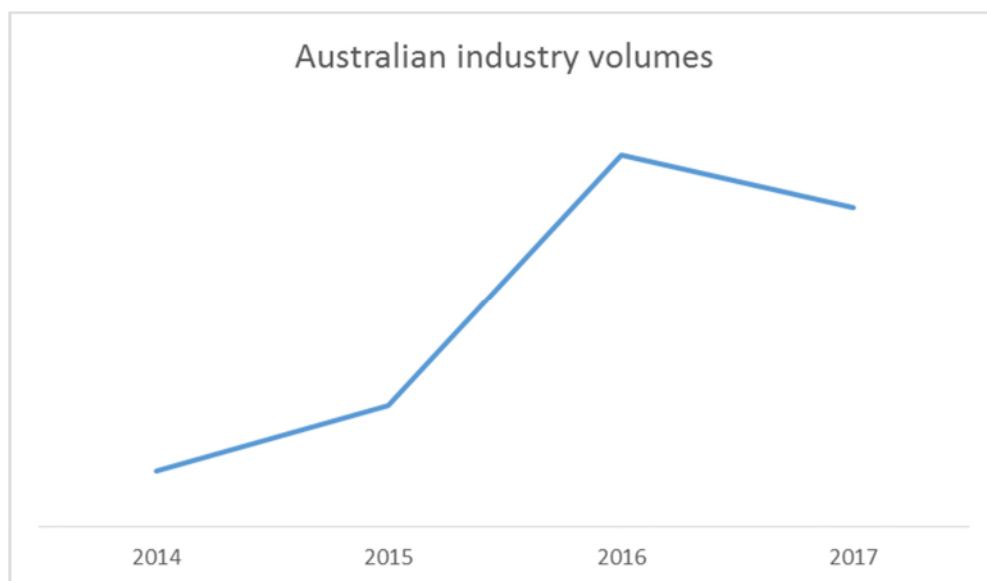
Comsteel claims that it has experienced injury in the form of:

- loss of sales volume;
- loss of market share;
- price suppression;
- loss of profits;
- reduced profitability;
- reduced return on investment (ROI);
- reduced attractiveness to reinvest;
- reduced employment numbers.

8.3 Volume injury

8.3.1 Sales volume

Figure 2 below depicts the annual volumes of railway wheels sold by Comsteel in the injury analysis period.



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Figure 2: Volume of railway wheels sold by Comsteel

Comsteel has experienced reduced sales volumes between 2016 and 2017.

The following are the tender processes that were relevant to the supply or potential supply of railway wheels in Australia during the investigation period:

Customer	Tender date	Result
BHP Billiton	November 2016	Awarded to a supplier of allegedly dumped goods
BHP Billiton	September 2017	Awarded to a supplier of allegedly dumped goods
Rio Tinto	mid-2017	Proportion of requirements awarded to a supplier of allegedly dumped goods
Fortescue Metals	mid-2017	Awarded to a supplier of allegedly dumped goods
Roy Hill	September 2017	Awarded to a supplier of allegedly dumped goods

Table 1: Tender processes

Comsteel supplied information in relation to its unsuccessful bids and claimed that it had lost sales in the investigation period to the allegedly dumped and/or subsidised imports from France and China. Based on the information provided, the verification team considers that Comsteel has suffered injury in the form of reduced sales volumes.

8.3.2 Market share

Figure 3 below demonstrates the proportion of the Australian market that was supplied by both the Australian industry and imports from the subject countries.

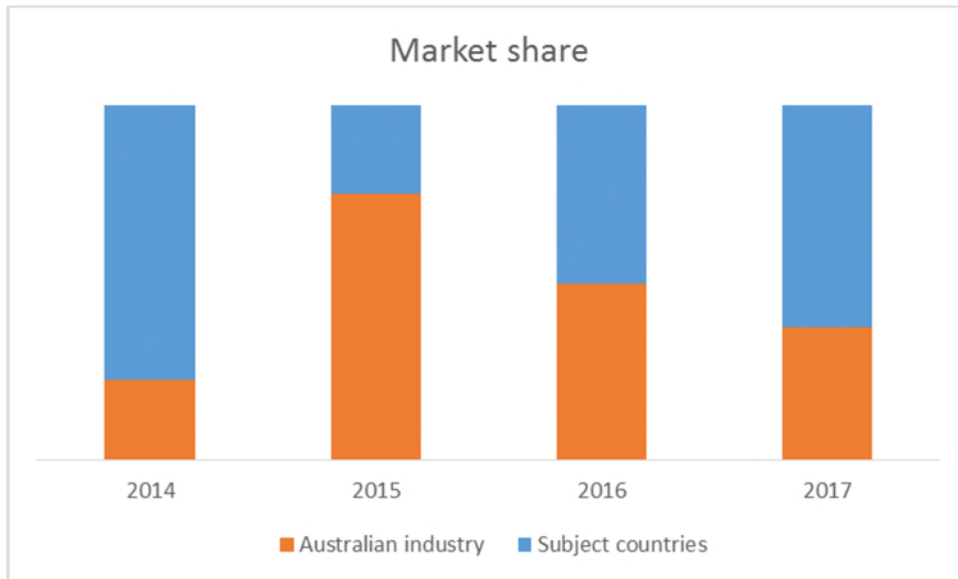


Figure 3: Shares in the Australian railway wheels market

Figure 3 depicts the loss of market share by the Australian industry between 2015 and 2017 and the proportional growth of the Chinese and French exporters' market shares during that time.

From the figures above, the verification team considers that Comsteel has experienced injury in the form of a loss of market share.

8.3.3 Conclusion – volume effects

Based on the information provided, the verification team considers that there is evidence to support Comsteel's claim that the Australian industry has experienced injury in the form of lost sales volume and lost market share.

Analysis of the verification team's assessment of volume effects is contained in **Confidential Attachment 1 – Verification work program.**

8.4 Price effects

8.4.1 Price suppression

Comsteel claims that it experienced injury in the form of price suppression.

Price suppression occurs when price increases for the applicant's product, which otherwise would have occurred, have been prevented. An indicator of price suppression may be the margin between revenues and costs.

Figure 4 demonstrates that during the investigation period, Comsteel experienced an increase in CTMS, resulting in a per unit loss position.

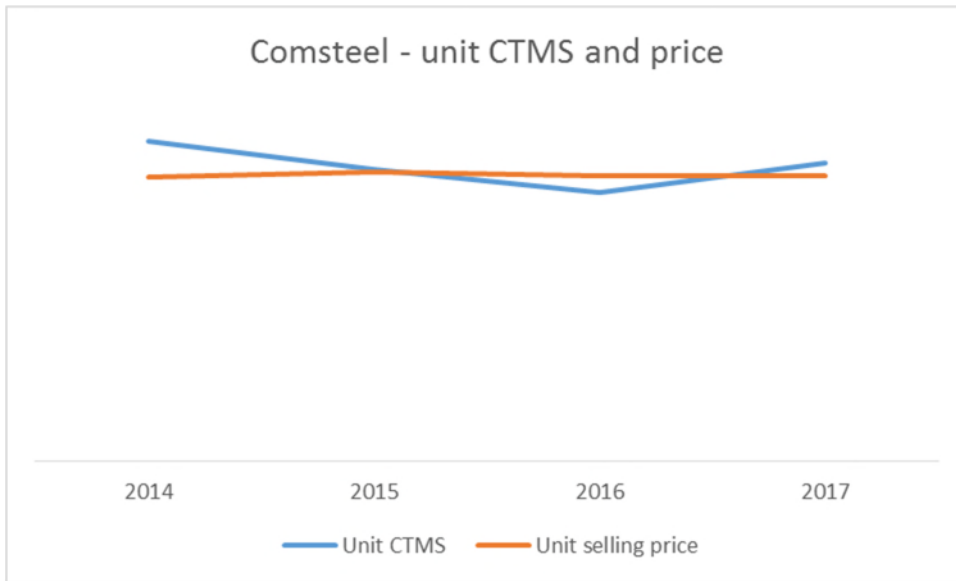


Figure 4: Comparison of Comsteel Unit CTMS and Unit Sales Revenue

The verification team reviewed cost and sales information supplied in the application. Comsteel claims it was unable to increase selling prices to address the increase in cost, due to lower price offers from overseas suppliers.

8.4.2 Conclusion – price effects

The verification team reviewed the information provided by Comsteel in relation to price suppression and is satisfied that the Australian industry suffered injury in the form of price suppression as it has not been able to increase prices to offset the increases in CTMS.

8.5 Profits and profitability

Figure 5 demonstrates Comsteel's profit and profitability for sales of like goods during the injury analysis period.

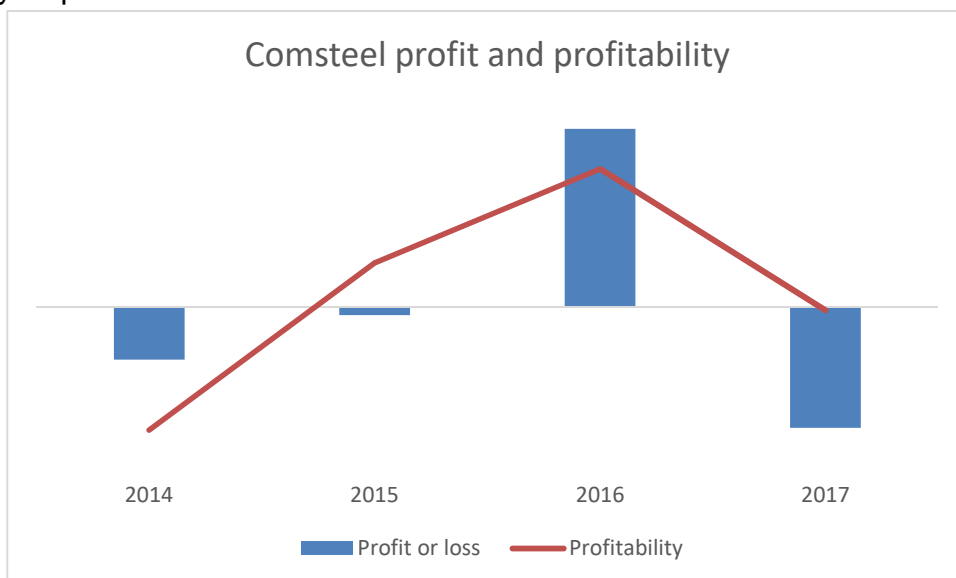


Figure 5: Comsteel profit and profitability

Comsteel has been unsuccessful in securing tenders for supply of railway wheels in competition with overseas suppliers. This has resulted in reduced sales volumes and price suppression which in turn have impacted Comsteel's profits and profitability.

8.5.1 Conclusion – profit effects

Based on the information provided, the verification team considers that there is evidence to support Comsteel's claim that the Australian industry has experienced injury in the form of reduced profits and profitability.

8.6 Other injury factors

In its application, Comsteel claimed that it had experienced injury in the form of other injury factors, including:

- reduced ROI;
- reduced attractiveness to reinvest; and
- reduced employment numbers

8.6.1 ROI

The Comsteel application calculates ROI based on net profit or loss as a proportion of assets used in the production of the goods. The verification team examined evidence of Comsteel being unsuccessful on bids based on negotiations of price, resulting in price suppression affecting profits and profitability. Reduced profit consequently resulted in a reduced ROI. Figure 6 below demonstrates a sharp decline in ROI between 2016 and 2017.

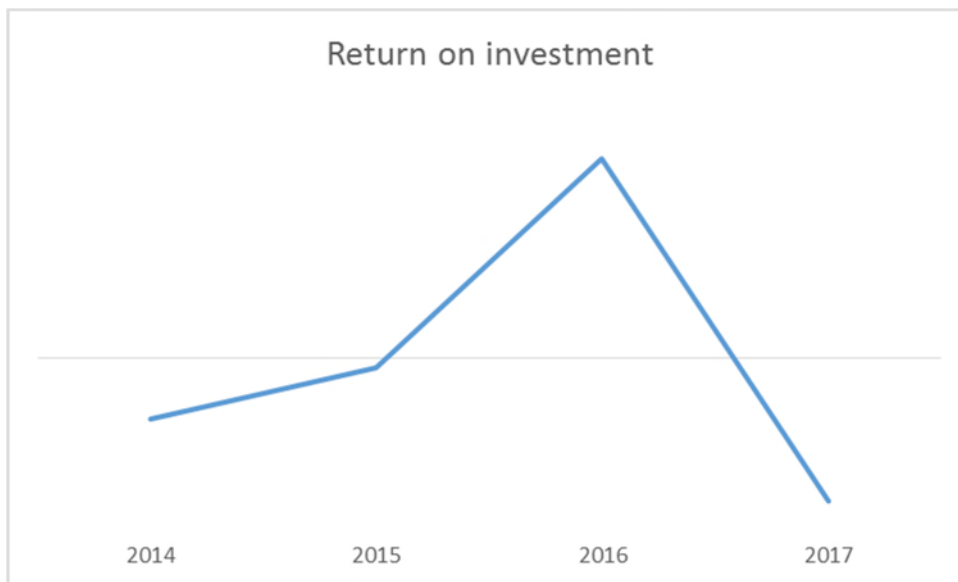


Figure 6: Comsteel ROI in Railway wheels division

8.6.2 Reduced attractiveness to reinvest

Comsteel clarified during the verification visit that reduced attractiveness to reinvest relates to the reluctance of its new parent entity to further invest capital in the railway wheels business when it is unable to secure tenders for future supply. Comsteel claimed that this was due to imports at dumped prices. The verification team requested evidence to support the claim that Comsteel has been unable to secure further capital investment due to its inability to secure tenders for future supply, which it was unable to provide. Following the meeting Comsteel advised that it did not put forward any capital project proposals during this period as it knew these would be unsuccessful.

8.6.3 Employment

Employment within the railway wheels business has followed a general downward trend during the injury analysis period. Between 2014 and 2015, Comsteel’s Rail Division reduced employment numbers by 30 percent. During the investigation period employment numbers were reduced by 10 percent. Comsteel claimed that the reductions in employment numbers in the investigation period were due to retrenchments caused by reduced sales volumes resulting from loss of railway wheel contracts.

Employment numbers provided by Comsteel were for the Rail Division which the verification team understands includes employees manufacturing all types of wheels produced by Comsteel. The verification team’s analysis of Comsteel’s production volumes indicated that production of wheels outside the goods description remained reasonably consistent over the injury period and the decline in total wheel production was primarily attributed to the decline in the production of the goods.

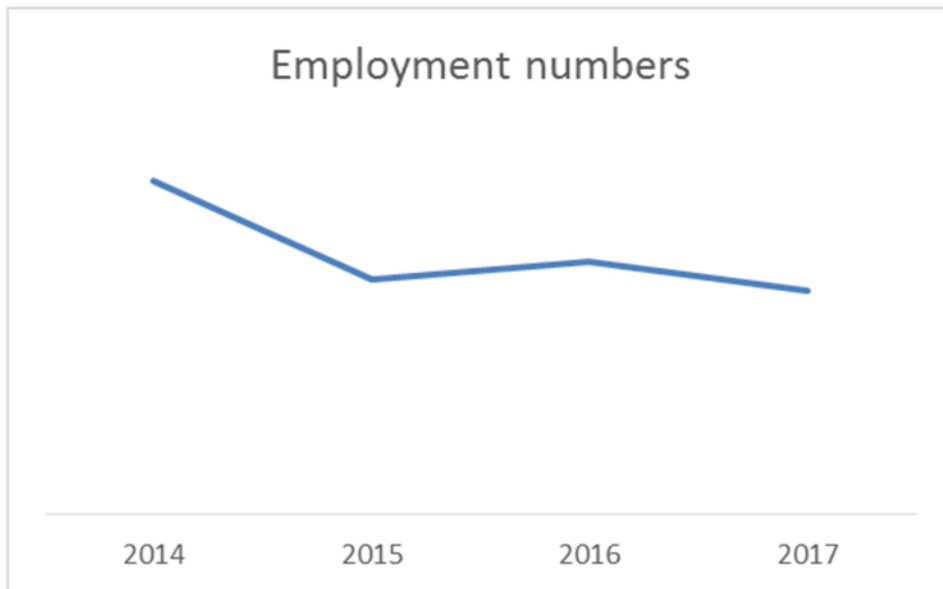


Figure 7: Comsteel employees in Railway wheel division

8.6.4 Capacity utilisation

While Comsteel’s capacity has remained stable during the injury analysis period, capacity utilisation has been negatively impacted during the investigation period.

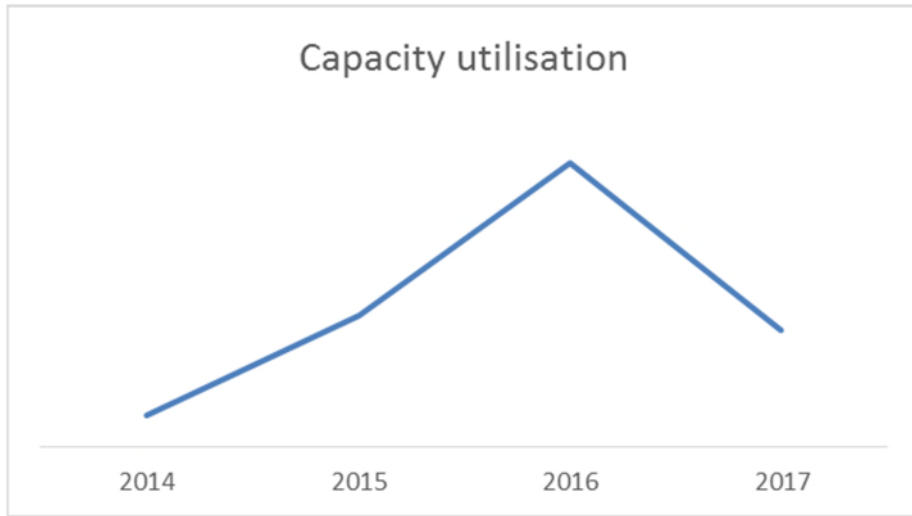


Figure 8: Comsteel capacity utilisation of Railway wheels division

As Comsteel equipment may be used to produce wheels that are not like goods to the goods subject of this investigation, the verification team analysed volumes of wheels that are not like goods and found that these volumes remained relatively stable (Confidential Attachment 4 refers). The reduced volumes of railway wheels resulted in injury in the form of reduced capacity utilisation.

8.6.5 Revenue

Figure 9 demonstrates an increase in revenue between 2014 and 2016, and then reduced revenue in the investigation period. Reduced sales volumes (refer section 7.3.1) and an inability to increase prices (section 7.4) has resulted in injury in the form of reduced revenue.

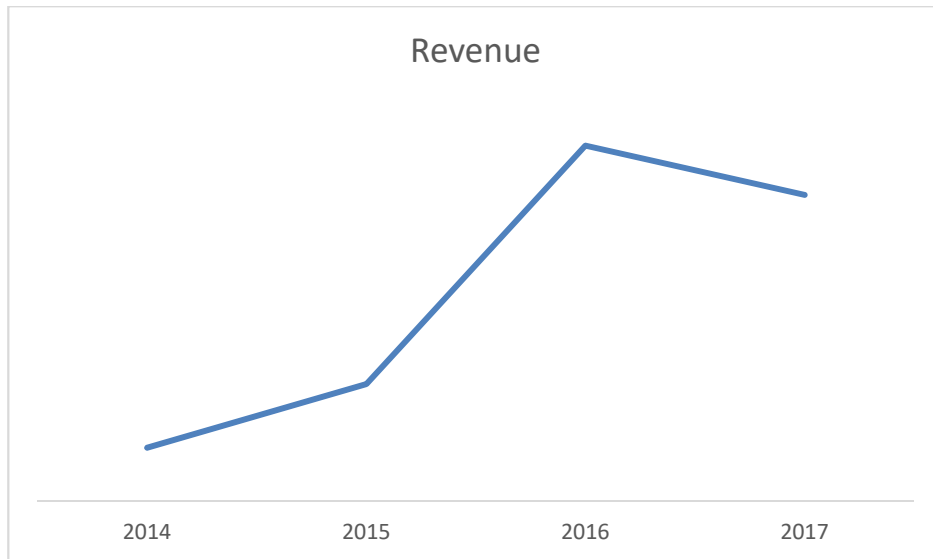


Figure 9: Comsteel revenue from railway wheels

8.6.6 Other indicators

The verification team also reviewed the following indicators during the visit:

Assets – assets are used collectively for the rail division, and a proportion has been allocated as relevant to the production of railway wheels. The value of assets provided did not demonstrate injury in the form of reduced asset values.

R&D - the information provided is not apportioned for the production of the goods and was not used by the verification team to draw any conclusions concerning injury in the form of reduced R&D investment.

Capacity – Comsteel's capacity to produce the goods has remained stable during the injury analysis period.

Productivity – Productivity is measured using 'overall equipment effectiveness'. Productivity has remained stable during the injury analysis period.

Wages – Average wages have increased during the injury analysis period, which may be partly a result of reduced employment numbers in the same period.

8.6.7 Conclusion – other injury factors

The verification team considers that there is evidence that Comsteel has suffered injury during the investigation period in the form of:

- reduced ROI;
- reduced employment numbers;
- reduced capacity utilisation;
- reduced revenue.

The verification team was unable to ascertain that there has been injury in the form of reduced attractiveness to reinvest.

8.7 Conclusion on injury

Based on an analysis of the information contained in the application and obtained and verified during the visit, the verification team considers that Comsteel has experienced injury in the form of:

- loss of sales volume;
- loss of market share;
- price suppression;
- reduced profits;
- reduced profitability;
- reduced ROI;
- reduced employment numbers;
- reduced capacity utilisation;
- reduced revenue.

9 CAUSAL LINK

9.1 Background

The verification team assessed the claims made by Comsteel that there is a causal link between injury it has suffered and alleged dumping from China and France and alleged subsidisation from China during the investigation period.

The verification team also examined factors other than dumping and subsidisation to consider whether these may be causing injury, such as non-price related factors in the assessment of tenders.

9.2 Volume effects

Figure 10 depicts the sales volumes of the Australian market commencing 2014.

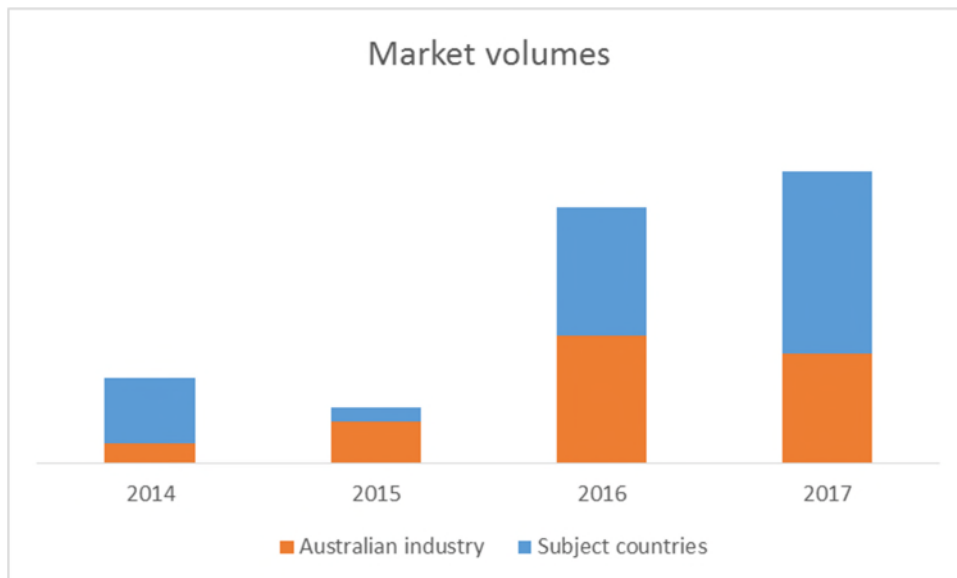


Figure 10: Volumes of the Australian market for railway wheels

Figure 10 demonstrates that the railway wheels market in Australia expanded in overall terms since 2015. However, while volumes from countries the subject of this investigation have increased between 2016 and 2017, Australian industry's volumes declined in the same period.

Table 1 (refer section 7.3.1) details the tenders that impacted on sales or potential sales of the goods in the investigation period. Comsteel has been unsuccessful in all of these tenders. Comsteel provided the verification team with feedback it had received following tenders advising that it had been unsuccessful as its price was above its competitors. The successful competitors in all of these tenders were Valdunes or Masteel.

In addition to tenders, Comsteel supplies some of its customers through a Vendor Managed Inventory (VMI) system where stock is supplied by Comsteel in order to keep inventory above an agreed level. The customer's inventory requirement is based on a 12 month forecast reviewed and regularly updated by the customer.

Comsteel claimed that one of its VMI customers reduced its ongoing arrangement in 2017 to a third of the quantity previously sourced from Comsteel. It claimed that while it has received orders for this reduced quantity, the bulk of supply is now sourced from Masteel in China, due to its lower price. Comsteel provided sales data to support its claim of reducing volumes over the year. This reduced sales volume coincides with increased exports from Masteel for this customer. The verification team also analysed ABF data and found prices from both Valdunes and Masteel were below Australian industry prices during the injury analysis period (**Confidential Attachment 1 refers**).

9.3 Price effects

Comsteel claims that its prices were undercut by allegedly dumped import prices of railway wheels from China and France.

As requested by the verification team, Comsteel provided evidence of price pressure in order to establish a causal link between the allegedly dumped imports and the injury suffered as a result of price undercutting and price suppression. The verification team was provided with communications from customers informing Comsteel that it has been unsuccessful in tender bids due to lower prices from overseas sources.

As Comsteel is the only manufacturer of railway wheels in Australia, all offers from other suppliers are from overseas sources. ABF data of imports analysed by the verification team demonstrates that tenders for which Comsteel bids have been unsuccessful were awarded to suppliers of allegedly dumped goods, and prices have been consistently below that of Australian industry.

The communications provided by Comsteel, combined with the verification team's analysis of ABF price data, support Comsteel's claim that it has suffered injury in the form of price suppression, as it has experienced pressure to maintain pricing at a time when it was experiencing rising unit costs (as demonstrated in Figure 4 above).

The Commission will further examine Comsteel's claims of the impact on prices during the course of the investigation.

9.4 Profits and profitability

Comsteel alleges that injury to profit and profitability occurred through a combination of lost volumes during the investigation period to allegedly dumped imports and Comsteel's inability to increase prices in line with unit CTMS increases due to price pressure.

The verification team considers that there are reasonable grounds to support Comsteel's claim of a causal link between injury in the form of reduced profits and profitability and the allegedly dumped imports from China and France.

9.5 Return on Investment

Figure 6 demonstrates Comsteel's injury in the form of reduced ROI during the investigation period. The calculation of ROI is based on Comsteel's net profit or loss position and its volumes. Comsteel has provided evidence to support its claim that it lost volumes due to lower priced import offers to customers/end users. Comsteel's profit

position has been impacted by lower volumes (section 8.2) and its inability to increase prices (section 8.3) due to price pressure from dumped imports. These factors in turn have resulted in reduced ROI. The verification team considers that dumped imports have caused injury to the Australian industry in the form of reduced ROI.

9.6 Capacity utilisation

Figure 8 demonstrates Comsteel's capacity utilisation rates during the injury analysis period.

During 2014 through to 2016, Comsteel's capacity was under-utilised, particularly between 2016 and 2017. The under-utilisation of Comsteel's facilities in the investigation period can be attributed to contracts lost at tender in 2016 and 2017 to allegedly dumped imports and its impact on volumes. As Comsteel is able to use its capacity to manufacture other wheels that are not the goods, the verification team analysed volumes of other wheels produced in the period, which remained stable while volumes of railway wheels (the goods) declined. Due to the loss of tenders to dumped imports, Comsteel has produced lower volumes causing injury in the form of reduced capacity utilisation.

9.7 Employment numbers

The reduction in employment numbers during the injury period coincided with reduced capacity utilisation and total production volumes in Comsteel's Rail Division.

The verification team's analysis of Comsteel's production volumes in the Rail Division indicated that production of wheels outside the goods description had remained reasonably consistent over the injury period and that the decline in total wheel production was primarily attributed to the decline in the production of the goods, which had in turn been caused by the loss of contracts to overseas suppliers. Consequently, the verification team accepts that the decline in employment levels were due to the loss of volumes in the railway wheels business.

There are reasonable grounds to support the claim that the Australian industry suffered injury in the form of reduced employment numbers due to allegedly dumped imports.

9.8 Revenue

The verification team's preliminary view is that Comsteel's loss of revenue in the investigation period was caused by the loss of sales to the allegedly dumped goods.

9.9 Injury caused by factors other than dumping

The verification team collected information and Comsteel's views in relation to whether injury was caused by factors other than the exportation to Australia of the allegedly dumped goods.

9.9.1 The impact of the iron ore market

The verification team sought information about the impact of the decline in iron ore prices in 2014-2015 as well as the increased iron ore production volumes in 2016-2017 in Pilbara and the impact of these factors on orders for railway wheels.

The verification team was advised that while more maintenance may be performed by customers in their own facilities in an attempt to minimise costs, ultimately wheels that have worn to a minimum thickness and cannot be machined again, are replaced. This maintenance market forms the bulk of railway wheel purchases. Customers forecast their requirements and tender for supply of railway wheels.

It is the verification team's view that the quantities of iron ore mined and the price of iron ore are factors that have the potential to impact on the overall demand for railway wheels. As more iron ore is sold and hauled, more railway wheels are required for maintenance of an increasing number of the carriages. Lower iron ore prices, such as those experienced by Australian mining companies in 2014 and 2015, resulted in cost pressures on Australian iron ore producers. During this time, customers reduced maintenance spend, consumed contingent wheel stocks and used second-hand redundant wheels in general maintenance.

In 2016, rising iron ore sales quantities and prices saw railway wheel demand increase significantly compared to 2014 and 2015. Total annual demand rose again in 2017, compared to 2016. The verification team's view is that the iron ore market is not a factor that has caused injury to the Australian industry producing like goods in the investigation period.

9.9.2 Non-price related factors in the assessment of tenders

The verification team questioned Comsteel regarding non-price factors such as quality and timeliness. Comsteel advised that it has always satisfied the qualification standards of the customers it supplies. Comsteel also advised the verification team that it continues to review its production process and has recently invested in equipment that further strengthens its quality checks of wheels.

The verification team recommends that non-price related factors be investigated further, taking into account information supplied by the Australian end-users of the railway wheels.

9.9.3 Exports by Comsteel

In the injury analysis period, Comsteel exported like goods to be fitted to new iron ore railway carriages, with the new carriages subsequently imported into Australia. The verification team understands that demand for such exports by Comsteel is irregular, being dictated by the mining companies' new iron ore carriage requirements and Comsteel being successful as the supplier of wheels for the new carriages built overseas.

The verification team recommends that the Commission investigate this factor further, as it is evident that any loss of export volumes is a factor in increasing unit costs as fixed production costs are spread over a smaller number of units. However, at this stage, the verification team is of the view that the pattern of exports experienced by Comsteel is not

a factor that would diminish the injury that appears to have been caused by the allegedly dumped imports.

9.9.4 Sales of wheel sets

In some cases, Comsteel supplies customers with a 'wheel set', consisting of a new or reconditioned axle and two wheels. The verification team does not consider that a wheel set is a like good but recognises the sale of wheels in sets has the potential to impact on sales of like goods. For example, an increase in demand for 'wheel sets' could reduce the demand for sales of loose wheels.

Comsteel provided information to the verification team on its sales of wheel sets over the injury analysis period. The verification team observes that the pattern of sale of wheel sets by Comsteel does not appear to be a factor that is causing injury to the Australian industry and is not a factor that would diminish the injury that appears to have been caused by the allegedly dumped imports.

9.9.5 Production and sale of other types of wheels

Railway wheel manufacturing involves significant fixed costs and changes in overall throughput have the potential to significantly impact on unit costs across all production, including like goods. The verification team compared Comsteel's production volumes of wheels that are not like goods to the goods under consideration and found that the production volumes of wheels that were not like goods were reasonably consistent through the injury analysis period. The verification team accepts that the production volumes of other goods did not contribute to injury to the Australian industry producing like goods.

10 UNSUPPRESSED SELLING PRICE

As part of the investigation, the Commission will usually establish an unsuppressed selling price (USP). The USP is generally established by using the following hierarchy:

- Market approach: industry selling price at a time when the Australian market was unaffected by dumping;
- Construction approach: the Australian industry's CTMS, plus a reasonable rate of profit; or
- Selling prices of un-dumped imports in the Australian market.

Having calculated the USP, the Commission then calculates a non-injurious price by deducting costs incurred in getting the goods to the FOB point at export (or another point if appropriate). The deductions normally include overseas freight, duty, insurance, into store costs and amounts for other importer expenses and profit.

During the visit, Comsteel advised that its selling price of wheels should be used as a basis for the USP. The verification team considers Comsteel was suffering price suppression and will consider the need to modify the USP to take into account this factor as the investigation continues.

11 APPENDICES AND ATTACHMENTS

Confidential Attachment 1	Verification work program
Confidential Attachment 2	Injury analysis
Confidential Attachment 3	Other injury factors
Confidential Attachment 4	Analysis of other railway wheels sold