Comsteel

23 July 2018

Mr Michael Kenna
Assistant Director
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Public File

Dear Mr Kenna

Re: Investigation No. 466 - Certain Railway Wheels exported from France and the People's Republic of China – Maanshan Iron and Steel Exporter Questionnaire Response

I. Introduction

I refer to the Maanshan Iron and Steel Co., Ltd ("Masteel") 2017 annual report ("the report") included as an attachment to the Exporter Questionnaire Response.

Masteel's 2017 annual report includes a number of items relevant to the countervailing investigation of the Anti-Dumping Commission ("the Commission") including details of grants received from the Government of China ("GOC") during the financial year and disclosures that evidence ongoing intervention by the GOC in the Chinese domestic steel industry.

II. Government grants

Section II of the Masteel 2017 annual report includes summary information on the "Company Introduction and Financial Indicators" for the reporting period. Section 9 "Non-operating Items and Amounts" includes disclosure of "Government grants related to the Company's normal operations" with an amount of RMB 238,868,248 identified (disclosed as "Other Income" in the Income Statement). This 2017 amount is more than double the amount disclosed in 2016.

It is noted that "Other Income" is reported differently to the 2016 year as required by "*Accounting Standards for Enterprises No. 16 – Government Grants (revised in 2017) (CK [2017] No. 15), government grants related to daily activities will be recorded in this account rather than in non-operating income and the government grants for transformation development recognized this year have increased than that of last year*.[1]" (sic).

The treatment and recording of government grants in Masteel's reports is therefore different in the 2017 year to previous years.

At Section III – Overview of the Company's Business – the report includes a summary of the key business areas with in Masteel's operations. For "Wheels and axles" it is stated:

> "*Major products include train wheels, axles and rings, which are widely used in railway transport, port machinery, petrochemical industries, aerospace industry, and so forth. Train wheel products are bestowed the honor of "Famous Brand of China*"."

The Commission is aware that the "Famous Brand of China" award attracts a GOC financial benefit (i.e. grant) that is countervailable.

[1] Maanshan Iron and Steel Company 2017 Annual Report, P. 20.

Section IX of the Masteel report includes the financial statements for the period. Masteel achieved an operating profit of RMB 2.358 billion (as per Statement of Profit and Loss) in 2017 confirming increased profit in the steel industry for the reporting period.

Notes 24 and 32 to the financial statement detail the basis for recording of government grants received by the entity. This reflects the change in recording to prior years as required by the accounting standard.

Note 40 identifies Deferred Income including amounts received in the form of government grants and the holding balances of funds received. These disclosures are relevant to the Commission's examination of grants received by Masteel during the investigation period and require determination as to the level of benefit received.

It is noted that the opening balance in the period for government grants received in aggregate by the entity was RMB 1.29 billion.

III. Government loans

Comsteel draws to the attention of the Commission the reference in Note 24 to the Financial Statements of the Masteel report, namely:

> "*For discounts appropriated to lending banks by the government, and the lending banks provide loans with policy preferential discounts, the Group accounts for the loans with the actual amount received, and calculates the relevant borrowing expenses based on principal and the preferential discounts of the loans*."

Note 24 confirms that Masteel is in receipt of preferential policy loans that have been provided by state-owned banks under the direction of the GOC. These loans are intended to aid participants in the re-structuring of the Chinese iron and steel industry and, in the absence of GOC intervention, would not provide Masteel (and others) with a financial benefit.

Comsteel requests the Commission to fully investigate and determine the benefits received by Masteel during the investigation period that relate to preferential discounted loans on borrowings from GOC lending banks.

IV. Government of China influence

From the outset, it should be recalled that Masteel is owned 45.54 per cent by Magang (Group) Holding Company Limited which in turn is 100 per cent owned by the GOC State-owned Assets Supervision and Administration Commission ("SASAC") of the People's Government of Anhui Province. As such, Masteel is a state-invested enterprise ("SIE") that operates under the influence and guidance of the GOC's SASAC.

In the Chairman's Statement at Section "IV Report of The Board" reference is made of "structural reform is further implemented in in steel industry at supply side. As a result, great achievements have been made in cutting over-capacity and "ground steel strip" has been completely banned." It is further referenced that "the Company responded to the government's policy to cut overcapacity in the iron and steel industry, heightened overall production efficiency, and shut off one blast furnace and one converter, involving 62,000 ton iron refining capacity and 64,000 iron steel refining capacity."

The reported responses to the GOC's directions to shutdown steel capacity in the domestic industry confirm the GOC's continued intervention in the industry. The report identifies Capacity Reduction as a risk to the company, stating:

> "*The iron and steel industry will reduce another 30 million ton capacity in 2018. However, investment in the iron and steel industry has grown recently, driven by a rebound in profit. More cases of new capacity installation, capacity swap and changing converters into electric furnaces are seen* ***and make overcapacity worse****.*

> *Countermeasure: As a highly responsible entity, **the Company will support capacity reduction by government at all levels** and the industry association resolutely, enforce capacity reduction and optimize the supply of the iron and steel industry. In 2018, the Company is going to decommission two shaft furnaces and two converters, involving 1,000,000 ton iron smelting capacity and 1,200,000 ton steel smelting capacity.*" (emphasis added).

Masteel is abiding by the GOC directives to shut-down excess capacity demonstrating that as a state invested enterprise ("SIE") it adopts the GOC's policies and programs for the iron and steel industry and its participants.

V. Masteel subsidiaries

The Masteel 2017 report also identifies the Group's holding in the wholly-owned subsidiary MG-Valdunes S.A.S. "Valdunes" – the French exporter of iron ore railway wheels to Australia. The disclosure confirms that Valdunes incurred net losses amounting to RMB 103 million in the 2017 year[2].

It is further noticed that the subsidiary Maanshan Iron and Steel (Australia) Proprietary Limited operated with a reported profit of RMB 27 million during the period. Where Maanshan Iron and Steel (Australia) has a role in the sale of iron ore railway wheel exports to Australia, the price paid by the end customer should include a margin for the importer (where Maanshan Iron and Steel Australia is involved).

VI. Government of China Questionnaire response

The GOC's Questionnaire response seeks to refute the allegations that a particular market situation exists in China for iron ore railway wheels, that Masteel is not a public body that exercises government authority, and that subsidies received by the entity are not subsidies and do not provide Masteel with any benefit.

The assertions of the GOC are incorrect and dismissive. Masteel's 2017 annual report confirms that as an SIE it is operating in accordance with the GOC's objectives to restructure and rationalize the Chinese iron and steel industry and implementing shutdowns of overcapacity in steel-making. Despite this, the Chinese iron and steel industry continues to suffer from over-capacity. Further, the policies and programs of the GOC through the range of import and export taxes, significantly influence the domestic prices for raw material inputs (most notably, coking coal) resulting in domestic selling prices for inputs that are artificially low.

The impact of the GOC's policies is that domestic selling prices for steel products (including steel billet and further transformed goods such as railway wheels) are lower in China than they otherwise would be in the absence of the GOC intervention.

The Masteel 2017 report further confirms that it is in receipt of government grants and discounted loans from government banks that have afforded the entity with a vast range of benefits during the investigation period (and in prior years). Additionally, certain subsidiary companies within the Maanshan (Group) Holding company have company tax rates that are discounted due to GOC determination as to the activities undertaken by the subsidiary.

The GOC questionnaire response, therefore is a complete contradiction to the information disclosed in the Masteel 2017 annual report that has been prepared in accordance with the required accounting polices and standards applicable in China. The Masteel 2017 annual report provides full disclosure as to the role of the GOC in guiding and influencing the iron and steel industry, the grants and subsidies that it provides industry members, and the subsequent impact of the intervention on the economic performance of Masteel.

[2] Ibid, P.36.

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VII. Conclusion

Comsteel submits that the Masteel 2017 annual report provides clarity surrounding the role of the GOC in influencing the Chinese iron and steel industry. The Masteel report identifies the assistance afforded to it by the GOC through the subsidies (including discounted loans from government-owned banks and reduced corporate tax rates) with full disclosure in the reporting period for each grant, subsidy, loan and tax rate for Masteel and its subsidiary companies.

Comsteel does not consider that the GOC's Questionnaire Response can be considered by the Commission to be an accurate explanation of the extent of the GOC influence in the domestic iron and steel industry in China. A more accurate and correct assessment of the extent of the GOC intervention in the steel industry is readily observable from the Masteel 2017 annual report.

Comsteel reaffirms its assertion as detailed in its application that the policies and programs of the GOC significantly influence raw material input prices in the Chinese iron and steel industry, such that they are artificially low when contrasted with market-determined prices. The policies and programs operate to render domestic selling prices unsuitable for normal value determination for further manufactured steel products – including the goods the subject of this investigation, iron ore railway wheels. As a consequence, Comsteel submits that a particular market situation for iron ore railway wheels exists in China. Additionally, the Chinese domestic iron and steel industry (including producers of railway wheels) is a beneficiary of a broad range of GOC subsidies – as evidence din the Masteel 2017 annual report - that are countervailable.

If you have any questions concerning this submission, please do not hesitate to contact me on (02) 4974 0346 or Comsteel's representative Mr John O'Connor on (07) 3342 1921.

Yours sincerely

Lindsay Reid
General Manager