

14 August 2018

Mr Michael Kenna
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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 – BHP Billiton submission of 25 July 2018

I. Background

I refer to the BHP Billiton Pty Ltd ("BHP") submission dated 25 July 2018 concerning the supply of iron ore railway wheels ("the goods") by Commonwealth Steel Company Pty Ltd ("Comsteel") to BHP since the early 1990s.

BHP has detailed a timeline of events that details certain technical matters pertaining to the performance of the goods over the nominated timeframes.

Comsteel welcomes this opportunity to comment on the matters raised in the BHP submission of 25 July 2018.

II. Supply by Comsteel in 1990s

BHP claims that Comsteel was suspended from supply of the goods in approximately 1996. Comsteel strongly refutes that it was suspended from supply at this time and has records of supply from that decade confirming supply during each year of the decade (Please refer to Confidential Attachment 1).

III. Change to fluted ingot

BHP claims that Comsteel was reinstated as a supplier of the goods in 1998 along with the French manufacturer and supplier, MG Valdunes S.A.S ("Valdunes"). BHP further claims that "*Comsteel changes manufacturing process to use a fluted ingot aiming to improve steel cleanliness*".

Comsteel was never suspended as a preapproved supplier and the change in specification merely reaffirmed approved supplier status.

The change to the fluted ingots which occurred in 1996 was driven by a change in specification that was developed in conjunction with the Institute of Rail Technology, BHP and Comsteel. The new specification included 1 mm ultrasonic inclusions for which Comsteel was able to manufacture in accordance with, and continues to supply, to meet the BHP specifications up until the present time. This change in manufacturing process was a fundamental shift from AAR specification that was at 1.6 mm and is a key driver in reducing subsurface fatigue.

Comsteel has made considerable improvements and advancements to steel cleanliness since 1996 including but not limited to, process improvements in vacuum degassing, ingot setup and size, argon shrouding and forging techniques. Source material mix has continually been refined to include

appropriate levels of low residual scrap feed. As a result, fluted ingots are no longer used and wheels are manufactured from a round ingot which improve yield, micro and macro cleanliness.

Comsteel is a world class steel manufacturer, the like goods produced from Comsteel's ingot is comparable to products produced from continuous cast feed from other manufacturers. This is evidenced by the test results included in Confidential Attachment 2, comparing similar products from worldwide premium suppliers, including Chinese continuous cast feed.

IV. Alleged wheel fatigue

The BHP submission states that in early 2016, Comsteel supplied wheels experienced 'breaks' due to alleged 'non-metallic inclusions' in the goods. However, a subsequent investigation (not referenced in the BHP timeline of events) concluded that BHP iron ore carriages were experiencing a brake alignment and/or boggie issue resulting in uneven wear. Concerns raised via QRRS who built capital wagons provided documented evidence that the same issue was being experienced across all manufacturers of the goods, including Valdunes and the Chinese supplier Masteel. Confidential Attachment 3 details the testing across all suppliers of the goods. It should be noted that the bias to Comsteel was due to the population size and/or not the whole sample size being shared. The Masteel wheel failed within the initial 15 per cent of its life.

V. Supply from February 2016

The BHP document confirms that Comsteel continues as a 'pre-approved supplier' including during 2016 and that BHP purchases from Comsteel on two occasions during 2016. BHP's comments confirm that Comsteel is a supplier of the goods that conform to the requirements as detailed in the BHP specifications. BHP acknowledges that on the basis of one investigation and one report insufficient evidence was available to assign fault.

VI. Steel supply

BHP indicates that Valdunes was excluded from supply as it changed its sourcing for steel used in the manufacture of the goods. This change in supply was noted in September 2017.

The relevance of the competition changing steel supply is that prior to its pre-approval being reinstated Valdunes solely used ingot feed. The driver for change to continuous cast was not the quality of the output but the parent company Masteel being able to provide the grade steel from its continuous cast facility. Comsteel suggests that the recent bias and self-marketing by Valdunes and Masteel has influenced BHP's belief that continuous cast feed provides a better quality wheel. However, this point cannot be established based upon technical performance. Again, the relevant point here is that the wheel conforms to the standard and the manufacturing process is irrelevant where the finished goods meet the required outcome(s) as detailed in the specification. At this point in time (i.e. mid 2018) BHP would not likely have any wheels produced using continuous cast (as the wheels in operation have not operated sufficiently long enough to reach, or be close to, end-of-life) that are of the same age (as Comsteel supplied wheels) or experienced the same operating conditions.

If BHP's consideration as to the quality issues of Comsteel's wheels was initiated in November 2017, this matter was not brought to Comsteel's attention until July 2018. It should also be noted that although BHP claims that whilst it can take *two to three months to arrange and complete forensic testing and report the results (refer comments dated 10 Feb 2016 in timeline)* Comsteel was only provided with four weeks to respond and no primary evidence or artefacts to review the damaged goods. This affirms Comsteel's view that BHP is merely seeking to cast an element of doubt as to supply capability (which has never previously been at issue) in order to discredit Comsteel's reputation as a supplier of quality goods and avoid any dumping duties that may be imposed by the Assistant Minister.

This issue has only arisen some 100 days after the commencement of the anti-dumping investigation and approximately nine months after initial consideration. Comsteel again refers to the ALS report summaries included in the NCR forwarded to the Commission on 25 July 2018 which confirms that the product is within specification and that the likely causes was operational issues including reduced maintenance during the life of the wheels.

VII. 2018 Tender

Comsteel was again invited to tender by BHP in 2018 to supply wheels. BHP was well aware of the claimed wheel fatigue (identified in timeline as 7 May 2017), however, BHP did not rule Comsteel ineligible to quote for supply in the full knowledge of the apparent wheel fatigue issue. Comsteel engaged with BHP and actively worked on a new contract extension with the customer which included the base line non-injurious price for the goods. No mention of quality or non-like goods matters were raised by BHP during the tender process and no information was furnished to Comsteel concerning the claimed wheel defects until post contract extension. (see confidential attachments regarding correspondence on contract extension).

Comsteel were advised of the breakages and both requested to be involved in the investigation (for which Comsteel provided input into the metallurgical investigation scope) and requested the wheels so Comsteel could conduct its own investigation. From the summaries sighted and the full reports obtained it confirmed the wheels were within specification and maintenance operational issues were the likely cause of the malfunctioning wheels. Confidential Attachments 4, 5 & 6 relate to correspondence leading to only price being a factor.

VIII. BHP claims re 'like goods'

Comsteel rejects BHP's assertions that Comsteel-supplied goods are not alike to imported iron ore railway wheels sourced from Valdunes and Masteel. Comsteel has tendered and supplied conforming goods to the BHP specification since 1996. BHP continued to consider Comsteel a pre-approved supplier throughout investigation period.

There can be no doubt that the quality of the iron ore railway wheels supplied by Comsteel is fit-for-purpose and has not been questioned in any tender process leading up to the most recent 2018 tender exercised by BHP.

Comsteel has been a long-established supplier of locally manufactured iron ore railway wheels to the local iron ore industry. The goods manufactured and supplied by Comsteel are internationally recognised as of high-quality and performance and meet the specifications of BHP (along with the three other local iron ore mining companies in the Pilbara region of W.A.) for its heavy-haul iron ore carriages. Comsteel manufactures like goods to the imported iron ore railway wheels supplied by Valdunes of France and Masteel of China with the locally produced wheels having the same or similar essential characteristics to the imported goods.

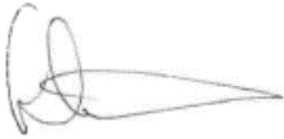
IX. Closing remarks

Comsteel rejects BHP's assertions that it does not manufacture goods that are alike to the imported iron ore railway wheels from China and France. Comsteel highlights with the Commission that it has remained a pre-approved supplier of the goods at BHP (and the remaining three iron ore companies) up to, and including, the 2017 investigation period, and continues to be a supplier to the industry.

Comsteel reiterates earlier representations that the alleged defects in wheels that have only recently been raised by BHP have been independently assessed as having occurred as a result of maintenance operational issues and do not relate to the integrity of the wheels as manufactured by Comsteel.

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

A handwritten signature in grey ink, appearing to read 'Lindsay Reid', with a long horizontal stroke extending to the right.

Lindsay Reid
General Manager