

31 August 2018

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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 – Constructed normal value for Chinese exporters

#### I. Introduction

Commonwealth Steel Company Pty Ltd (“Comsteel”) seeks to comment on the basis for normal value determination for iron ore railway wheels (the goods”) exported to Australia from the People’s Republic of China (“China”). Comsteel alleged in its application that a particular market situation applied to the goods sold on the Chinese domestic market. Comsteel maintains this view and considers that the recent findings of the Anti-Dumping Commission (“the Commission”) support this view.

The particular market situation in respect of the goods is due to artificially low prices for raw material steel inputs used in the manufacturing process. The Government of China’s (“GOC”) involvement in the Chinese domestic steel market has materially distorted competitive conditions such that selling prices for steel inputs used in the manufacture of the goods are lower than they otherwise would be.

The Commission has determined that Maanshan Iron and Steel Co., Ltd (“Masteel”) did not make any domestic sales of the exported goods on its home market in China<sup>1</sup>. Normal values therefore cannot be determined under subsection 269TAC(1) of the *Customs Act*. Comsteel also notes that where it is determined a particular market situation applies on the home market of the exported goods, normal values cannot be determined on the basis of market selling prices under subsection 269TAC(1). In the absence of domestic sales, normal values for Masteel will be determined under subsection 269TAC(2)(c) on a constructed basis. This will involve the addition of production costs plus amounts for selling, general administration and profit.

#### II. Masteel production cost

The Dumping and Subsidy manual provides guidance in the determination of a constructed selling price normal value. In respect of the cost of production, the Manual states:

*“Regulation 43 provides that if an exporter keeps records relating to like goods and the records are in accordance with generally accepted accounting principles in the country of export, and **reasonably reflect competitive market costs** associated with the production or manufacture of like goods, the Minister must work out the cost of production or manufacture using information set out in the records.”* (emphasis added).

The ‘reasonably reflect competitive market costs’ qualification is what Comsteel has identified as not being evident on the Chinese domestic market. That is, the steel feed costs used in the manufacture

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<sup>1</sup> Refer Maanshan Iron and Steel Co., Ltd Exporter Verification Report, EPR Document No. 45.

of the goods are influenced by the GOC through the broad range of policies and plans that result in artificially low steel feed prices for the goods (and other value-added steel products in China).

As a result, it is necessary for the Commission to refer to a benchmark price for steel feed used in the production of the goods. In previous inquiries involving grinding balls (Investigation No. 316) and alloy round steel bar (Investigation No. 384) the Commission substituted a Latin American steel billet price (at the FOB level) uplifted by an average cost across the investigation period for each alloy necessary to bring the billet to the chemical specification required for each grade of finished product. Similarly, for the goods the subject of this Investigation No. 466, the Commission must include a benchmark steel feed cost used in the manufacture of the goods.

The current investigation is unique in that it involves exports of the goods from another country in addition to the exports by Masteel of China (namely France). Comsteel notes from the French exporter M G Valdunes ("Valdunes") verification report that normal values were determined under subsection 269TAC(2)(c) using the constructed selling price methodology. The Commission therefore has at its disposal **verified** costs for the complete production cost break-down of the goods by a cooperative exporter in a country free of government influence (on the assumption that the steel feed is sourced locally and not from China at a influenced price).

For benchmark purposes, the Commission can readily use the market-determined steel feed costs incurred by Valdunes as the benchmark raw material steel feed cost to be substituted into the Chinese exporter Masteel's production costs. These verified costs for Valdunes would form the basis as a suitable external benchmark which, in Comsteel's view, would be considered a more accurate representation (as sourced directly from a manufacturer of the goods under investigation) than a steel billet price sourced from an industry newsletter that is further adjusted for various alloys and material costs.

Comsteel recommends that the Commission utilize the steel feed costs incurred by Valdunes that are for purchases of steel from independent third parties as the relevant benchmark cost to be used in the Masteel production costs.

### III. Selling, general administrative costs

Regulation 44(3) specifies the manner in which the selling, general and administrative expenses must be determined by the Minister by:

- (a) *Identifying the actual amounts of administrative, selling and general costs incurred by the exporter or producer in the production and sale of the same general category of goods in the domestic market of the country of export; or*
- (b) *Identifying the weighted average of the actual amounts of administrative, selling and general costs incurred by other exporters or producers in the production and sale of like goods in the domestic market of the country of export; or*
- (c) *Using any other reasonable method and having regard to all relevant information.*

For Masteel, the Commission must determine the selling, general and administrative expenses in accordance with regulation 44(3)(a) using the actual amounts from the same general category of goods (i.e. other railway wheel models) as sold by Masteel on the domestic market in China, there being no other cooperative exporter in China from which the applicable costs may be obtained.

### IV. Profit

The amount of profit to be included in Masteel's constructed selling price is determined by the principles contained in Regulation 45(3). The Minister is required to determine the amount of profit by:

- (a) *Identifying the actual amounts realized by the exporter or producer from the sale of the same general category of goods in the domestic market of the country of export; or*
- (b) *Identifying the weighted average of the actual amounts realized by other exporters or producers from the sale of like goods in the domestic market of the country of export; or*
- (c) *Using any other reasonable method having regard to all relevant information.*

The level of profit to be included in Masteel's constructed selling price normal value must be determined under Regulation 45(3)(a) based upon the profit achieved by Masteel for the same general category of goods produced and sold in China. In the absence of profit being determined based on Masteel's domestic sales of goods in the "same general category", Comsteel submits that the level of profit to be applied to Masteel's constructed selling price under Regulation 45(3)(c) using "any other reasonable method" and should include a level of profit that reflects a commercial and appropriate level or, as a minimum, an adequate return on investment.

## V. Recommendations

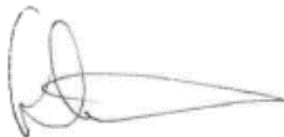
Comsteel reaffirms its earlier representations that due to the influence of GOC plans and policies impacting the domestic Chinese steel industry, raw material prices for inputs used in the production and manufacture of the goods are considered artificially low. As a consequence, the selling prices for the goods do not reflect competitive market prices and it is considered a particular market situation for iron ore railway wheels exists in China. Domestic selling prices for the goods, therefore, are not suitable for normal value purposes.

Masteel's normal values must therefore be assessed by reference to a constructed selling price methodology under subsection 269TAC(2)(c). The costs of production must be determined under Regulation 43, with a benchmark cost for steel feed sourced from the verified market costs of the French exporter, M G Valdunes substituted into Masteel's costs of production. Amounts for selling, general and administrative costs determined in accordance with Regulation 44(3)(a) and an amount for profit under Regulation 45(3)(a) or (c) for Masteel are to be added to Masteel's production cost for the goods.

The determined constructed selling price normal value determined for Masteel may then be compared with Masteel's weighted-average export prices for the goods exported to Australia during the investigation period to arrive at weighted-average dumping margin.

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