Comsteel

28 September 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 Submission of 11 September 2018

I. Summary

I refer to the submission by BHP Billiton Iron Ore Pty Ltd ("BHP") dated 11 September 2018 concerning Investigation No. 466 (EPR Document No. 49).

In its submission, BHP contends:

(i) It cannot be concluded that the applicant has suffered material injury due to the apparent 500 per cent increase in sales volumes and values;
(ii) Any decrease in profitability has been due to some "extraneous factor" such as a decline in the applicant's export sales; and
(iii) Iron ore railway wheels purchased from Masteel and Valdunes are not 'like goods' to the iron ore railway wheels supplied by Comsteel to BHP.

Whereas Commonwealth Steel Company Pty Ltd ("Comsteel") understands the basis for BHP's claims (as detailed at Section A-5 of Comsteel's application for anti-dumping measures), the 2014 base year is not a reliable benchmark that may be considered reflective of 'normal' sales levels of iron ore railway wheels ("the goods") for Comsteel.

II. Sales volumes and values

The 2014 year was an overall low-volume year, coinciding with the mining downturn and a time in which both BHP and Rio Tinto had new maintenance workshops built and commissioned, hence the capacity to maintain the upcoming demand was not available onsite. Downward cost pressures on the iron ore producers resulted in a reduction in maintenance expenditures, which included reduced purchases of the goods. Comsteel's sales of the goods, therefore, were lower than they otherwise would have been in the 2014 year, although it was supplying the majority of available demand.

Comsteel's sales of the goods remained depressed into 2015.

During 2016 a recovery in demand for the goods occurred with volumes improving and extending toward previous demand levels. It should be noted, however, that over this time the market for the goods was also increasing, although Comsteel was not participating in any of the market growth. Imports from China had emerged in 2015, increasing significantly in each of 2016 and 2017. In 2017, Comsteel lost sales volumes to imports at Rio Tinto as the iron ore producer awarded supply for two-thirds of its requirement to Masteel of China.

The BHP statements concerning Comsteel's lack of injury in respect of sales volumes and revenues do not take account of the abnormal demand that occurred in 2014 due to the downturn in the mining

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industry. Once full account of the reduced demand in 2014 is considered, it is evident that Comsteel has experienced a downturn in sales volumes and revenues in 2017 that is considered ‘material’ in nature.

III. Profitability

BHP also asserts that Comsteel’s reduced profitability in 2017 can be attributed to extraneous matters, such as “*Comsteel’s broader railway wheels or export business*”.

Comsteel’s broader railway wheels business has remained relatively stable across the injury review period. The decline in the 2017 year is reflective of the reduction in Comsteel’s sales of iron ore railway wheels and not the broader railway wheels business.

In terms of export sales, Comsteel did make sales in of the goods in 2015 and 2016 to assist in the reduced domestic sales volumes – although in late 2015 imports from China commenced and increased during 2016 at the expense of sales by Comsteel. Comsteel experienced further lost sales volumes in 2017 to imports from both China and France.

A careful analysis of the actual reduction in Comsteel’s domestic sales volumes and the emerging increase in imports from China and France in 2016 and 2017 confirms that Comsteel’s deterioration in profit and profitability can be readily linked directly to increasing import volumes from China and France at dumped prices.

The cause of injury as suggested by BHP due to declines in sales of the broader railway wheels business and the loss of export sales of the goods is, therefore, not substantiated.

IV. Like goods

BHP contends that Comsteel’s iron ore railway wheels are not like goods to imported iron ore railway wheels sourced from China and France.

Comsteel has demonstrated that it manufactures goods to the end-user’s specifications that are used interchangeably with the imported goods. Comsteel has not altered or swayed from this position. It is noted that in circumstances where the end-user is unable to secure imported goods in a timely manner, Comsteel has supplied locally produced like goods to the imported goods.

Comsteel therefore reiterates earlier representations that it manufactures like goods that possess the same essential characteristics as the imported goods from China and France.

V. PAD and provisional measures

It is noted that BHP is opposed to the Anti-Dumping Commission (“the Commission”) having made a preliminary affirmative determination (“PAD”) imposing provisional measures. BHP contests the legal basis for imposing the measures and requests the withdrawal of the measures.

Contrary to BHP’s assessment, the Australian industry has experienced injury that is material as a consequence of exports of the goods from China and France during 2017. The Commission’s assessment that provisional measures are required to prevent further injury to the Australian industry is justified as in the absence of such measures, further injury (in the form of lost sales volumes and price suppression) would have likely occurred.

VI. Recommendations

The BHP representations do not take full account of the impact of the mining industry downturn in the 2014 base year of the injury analysis period when sales volumes of the goods were at less than usual levels. Additionally, overall demand for the goods was low in 2014, with Comsteel supplying the majority of demand that was available. Comsteel’s deterioration in profit in 2017 was not due to reduced sales in the broader railway wheels business or the reduced export sales volumes but as a consequence of the loss of sales of the goods to dumped imports from China and France. BHP’s

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assertions that the injury experienced by Comsteel in 2017 is due to factors other than dumping is therefore incorrect.

Comsteel notes that the Commission has determined exports of the goods by Valdunes of France were exported at significant margins of dumping (i.e. 37 per cent) during 2017. Comsteel anticipates that significant dumping margins will also be assessed for exports from Masteel of China. The export of the goods from China and France during 2017 have resulted in lost sales volumes and reduced production for Comsteel, impacting profit and profitability.

Comsteel therefore requests the Commission to recommend in the forthcoming Statement of Essential Facts the imposition of dumping duties on exports from China and France, and the imposition of countervailing measures on exports from China, to prevent further material injury to Comsteel from the dumped and injurious exports from China and France.

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