



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

**Anti-Dumping
Commission**

INVESTIGATION 495

**ALLEGED DUMPING AND SUBSIDISATION OF STEEL
REINFORCING BAR**

EXPORTED FROM REPUBLIC OF TURKEY

VISIT REPORT – AUSTRALIAN INDUSTRY

**LIBERTY ONESTEEL (NEWCASTLE) PTY LTD,
ONESTEEL NSW PTY LIMITED,
THE AUSTRALIAN STEEL COMPANY
(OPERATIONS) 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

March 2019

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1. BACKGROUND

On 16 December 2018, the Anti-Dumping Commissioner (the Commissioner) initiated an investigation into the alleged dumping and subsidisation of steel reinforcing bar (rebar or the goods) exported to Australia from the Republic of Turkey (Turkey). Public notification of the initiation of the investigation was published on the website of the Anti-Dumping Commission (the Commission). The background relating to the initiation of this investigation is contained in *Consideration Report 495 (CON 495)* and Anti-Dumping Notice (ADN) No. 2018/175.

The application was lodged by Liberty OneSteel (Newcastle) Pty Ltd (Liberty Steel)¹ and was supported by related producers OneSteel NSW Pty Limited and The Australian Steel Company (Operations) Pty Ltd, requesting that the Minister for Industry, Science and Technology (the Minister) publish a dumping duty notice and countervailing duty notice in respect of rebar exported from Turkey.

For the purposes of this report, the verification team assessed the Australian industry data by verifying data relevant to Liberty Steel and its related producers OneSteel NSW Pty Limited and The Australian Steel Company (Operations) Pty Ltd.

¹ Liberty Steel's application includes production data from two other related party rebar producers, OneSteel NSW Pty Ltd and The Australian Steel Company (Operations) Pty Ltd. Both related party producers provided letters of support for the application. The applicant and the related party entities are referred to collectively by the applicant in its application, and in this visit report, as the Australian industry for like goods.

2. COMPANY BACKGROUND

2.1 Corporate Structure and Ownership

Liberty OneSteel (Newcastle) Pty Ltd (Liberty Steel or the applicant) is a proprietary company. OneSteel was first listed on the Australian Stock Exchange in October 2000 following a spin-off from BHP. In 2009, OneSteel completed a merger with Smorgon Steel Group. In 2012, OneSteel became Arrium Limited with many of the steel businesses continuing to trade under the OneSteel brand. Arrium was placed into voluntary administration on 7 April 2016. On 5 July 2017, a binding arrangement was entered into for the sale of Arrium to GFG Alliance. On 1 September 2017, Arrium and its subsidiaries was acquired by the GFG Alliance. The GFG Alliance is an international coalition of companies founded by the Gupta family (in Britain).

Following this acquisition GFG Alliance grouped its fully owned subsidiaries into business units along functional lines. The business unit relevant to the applicant is the “Liberty Steel” business unit (LSBU)² which manufactures a wide range of finished long products including alloy round bar, steel reinforcing or deformed bar (rebar or the like goods), merchant bar and wire products. The two business activities within LSBU involve manufacturing or further processing of steel products. Within manufacturing is the rod and bar and wire divisions. The applicant Liberty Steel and related rebar producers OneSteel NSW Pty Limited (OneSteel NSW) and The Australian Steel Company (Operations) Pty Ltd (TASCO) are part of the rod and bar division and form the Australian industry for rebar. The upstream business units Liberty Primary Steel and Liberty Recycling and the downstream business unit Liberty Distribution are also relevant to this investigation.

The Australian industry produces steel long products including rebar and rod in coil. Rebar is used as a tension device to reinforce concrete in prefabricated and precast structures. The Australian industry’s corporate head office is in Sydney and it has rolling mills located in Laverton North, Newcastle and Rooty Hill in Australia.

2.2 Related Parties

The verification team examined the relationships between related parties involved in the manufacture and sale of the goods.

2.2.1 Related Customers

The verification team examined Liberty Steel’s ownership structure, Australian Securities & Investments Commission (ASIC) extracts and its sales data and found the Australian industry sold rebar to related fabricators within the LSBU and related distributors within the Liberty Distribution business unit. The verification team did not find any other relationships with other customers that would be considered not arms length.

2.2.2 Related Suppliers

The verification team examined Liberty Steel’s ownership structure, ASIC extracts and purchases of its main raw material inputs and found the Australian industry sourced billet from two sources. One source of billet was from a related supplier - the Whyalla Steelworks within the Liberty Primary Steel business unit. The other source of billet was from scrap metal purchased from a

² GFG Alliance have multiple business units and the applicant is part of the business unit referred to as “Liberty Steel” by GFG Alliance. For clarity, this report refers to this business unit as “Liberty Steel” business unit and refers to the applicant as Liberty Steel.

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number of sources including a related supplier within the Liberty Recycling business unit which the Australian industry converts to billet in their steel making mills at Laverton North and Rooty Hill. One mill also sourced labour from a related supplier within the LSBU. The verification team did not find any other relationships with other suppliers that would be considered not arms length.

3. THE GOODS

3.1 The Goods

The goods the subject of the application (the goods) are:

The goods are hot-rolled deformed steel reinforcing bar whether or not in coil form, commonly identified as rebar or debar, in various diameters up to and including 50 millimetres, containing indentations, ribs, grooves or other deformations produced during the rolling process. The goods include all steel reinforcing bar meeting the above description regardless of the particular grade, alloy content or coating.

Goods excluded from this application are plain round bar, stainless steel and reinforcing mesh.

3.1.1 Tariff Classifications

The goods can be classified to the following tariff classifications in Schedule 3 to the *Customs Tariff Act 1995*:

Tariff subheading	Statistical code
7213.10.00	42
7214.20.00	47
7227.90.10	69
7227.90.90	42 ³
7227.90.90	01, 02, 04 ⁴
7228.30.10	70
7228.30.90	40
7228.60.10	72

3.2 Model Control Codes (MCCs)

Liberty Steel provided sales and cost data for the Australian industry in its application in accordance with the MCC structure detailed in Table 1.

Category	Sub-category
Prime	Prime and non-prime
Minimum yield strength specified by product standard (Mega Pascals or "MPa")	Less than or equal to 300; Greater than 300 but less than or equal to 480; Greater than 480 but less than 550; and Greater than or equal to 550
Finished form	Rebar in length/straight and rebar in coil

³ Operative until 31 December 2014.

⁴ Operative from 1 January 2015.

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Category	Sub-category
Nominal diameter (millimetres or “mm”)	Less than 12; Greater than or equal to 12 and less than or equal to 16; Greater than 16 and less than or equal to 32; and Greater than 32
Length (metres or “m”)	Less than or equal to 6; Greater than 6 and less than or equal to 12; Greater than 12; and Coil product

Table 1 – Model control codes

With regard to the MCC structure outlined above, the verification team observed that Liberty Steel’s production cost data was summarised by finished form only. Liberty Steel produced immaterial amounts of rebar that was outside of the minimum yield strength of greater than 480 but less than 550 MPa and as a result its cost of production data did not need to be summarised by this MCC category.

However, Liberty Steel did produce rebar in various diameters and lengths although it did not report costs on the basis of either category. With respect to the cost of producing rebar in a particular diameter, the verification team understands that the cost of production may vary due to factors such as additional machine time, particularly in the case of rebar produced in diameters that fall within the lower range of less than 12 millimetres. However, the verification also established that rebar is generally sold on a per tonne basis. Separate prices for coil and straight rebar were observed. Surcharges were also found to apply in cases of non-standard lengths of straight rebar, e.g. longer than the standard offering, however, as a proportion of the net price such surcharges were not observed to result in a significant mark up.

On the basis that the value of finished goods is based on the cost of raw materials, i.e. steel billet, and the form, e.g. coil or straight, the verification team is satisfied that Liberty Steel’s cost of production data is satisfactory for assessing the economic condition of the Australian industry.

Liberty Steel’s sales data was sufficiently detailed to allow the verification team to identify all aspects of the MCC categories in Table 1.

4. THE AUSTRALIAN INDUSTRY

4.1 Manufacturing in Australia

Liberty Steel stated in its application that it and its related producers are the sole Australian producer of rebar in Australia. The Australian industry produces rebar at its facilities in Laverton North in Victoria, and Rooty Hill and Newcastle in New South Wales. The Commission is not aware of any other producer of rebar in Australia and therefore considers that the Australian industry for rebar is represented by Liberty Steel and its related producers.

4.2 Like Goods

Like goods are defined under Section 269T(1) of the Act 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.

In its application, Liberty Steel stated that imported rebar is manufactured in a similar manner to the like goods produced in Australia, is directly substitutable for rebar produced domestically by the Australian industry, and it possesses the same essential performance characteristics as locally produced rebar.

4.2.1 Physical Likeness

Liberty Steel submitted that the Australian industry produces rebar in straight or coil forms with a nominal cross-section ranging in diameter between 10mm to 50 mm.

Liberty Steel submitted that, like most imported rebar, the Australian industry produces rebar to meet the requirements of Australian/New Zealand Standard AS/NZS 4671:2001 (Australian Standard). The Australian Standard specifies requirements for chemical, mechanical and physical properties for three different strength grades (250 MPa, 300 MPa and 500 MPa) and three different ductility classes (low, normal and earthquake) for the reinforcing steel materials, i.e. reinforcing bars, coils and welded mesh for the Australian and New Zealand reinforcing markets.

The Australian industry's mills are certified by the Australasian Certification Authority for Reinforcing and Structural Steels (ACRS) which is an independent, not for profit production certification scheme. The ACRS 'mark' is internationally recognised as the means of showing conformity to the Australian Standard. Liberty Steel stated that imported rebar is compliant with the Australian Standard where made by ACRS certified exporters. Liberty Steel provided evidence at the verification visit of the ACRS accreditation held by exporters from Turkey.

Liberty Steel submitted that rebar is generally distinguished by minimum yield strength as defined in the Australian Standard. 500 MPa represents the minimum standard yield strength for rebar commonly specified for the Australian market. The 250 MPa rebar represents a small proportion of rebar produced by the Australian industry and is primarily used for swimming pool construction.

The Australian Standard specifies three ductility classes for rebar distinguished by the letters 'L' (low), 'N' (normal) and 'E' (earthquake). 'N' ductility class is the standard ductility class used by the Australian market. The 300MPa yield strength specified by the Australian Standard is only defined as an 'E' ductility class, for use in limited applications in the New Zealand market.

The product and availability guides that Liberty Steel provided indicated the rebar product range produced by the Australian industry. While the Australian industry's product guides for rebar

include 'rounds', 'plain round bar' is excluded from the description of the goods that are the subject of this investigation.

The verification team undertook an inspection of Liberty Steel's manufacturing facilities at Newcastle and is satisfied with the physical likeness between the locally produced goods and the goods the subject of the application.

4.2.2 Commercial Likeness

Liberty Steel stated that the imported and locally produced goods are commercially alike as they are sold to common customers and compete in the same market. The verification team noted that the locally produced and imported rebar is commercially interchangeable and uses similar distribution channels. The verification team is satisfied with the commercial likeness between the locally produced goods and the goods the subject of the application.

4.2.3 Functional Likeness

Liberty Steel stated that the imported and locally produced goods are functionally alike as they have comparable or identical end uses. The verification team observed that the imported and locally produced rebar are used either 'as is', or are subject to post production processes such as bending, welding and cutting. The verification team notes that both the imported and locally produced goods are predominantly used to reinforce concrete and precast structures and are considered functionally substitutable when of the same diameter. The verification team is satisfied with the functional likeness between the locally produced goods and the goods the subject of the application.

4.2.4 Production Likeness

Liberty Steel stated that the imported and locally produced goods are produced in a similar way via similar manufacturing processes. The verification team observed that the Australian industry's mills and the mills from nominated exporters from Turkey hold ACRS certification, indicating they are subject to a comparable manufacturing and testing process that is prescribed by ACRS to meet the requirements of the Australian Standard. The verification team is satisfied with the production likeness between the locally produced goods and the goods the subject of the application.

4.3 Conclusion

The verification visit team are satisfied that:

- rebar manufactured by Liberty Steel are like to the goods⁵;
- at least one substantial process of manufacture of rebar is carried out in Australia⁶;
- the like goods were, therefore, wholly or partly manufactured in Australia by Liberty Steel⁷;
- there is an Australian industry, consisting of Liberty Steel and related producers, which produce like goods in Australia.

The verification team is satisfied that the Australian industry produces like goods to the goods the subject of the application, as defined in section 269(T) of the Act.

⁵ Section 269T(1)

⁶ Section 269T(3)

⁷ Section 269T(2)

5. AUSTRALIAN MARKET

5.1 Background

Liberty Steel submitted that the Australian market is supplied by itself (and related producers as the sole Australian manufacturers) and imports from a range of countries including Turkey, countries subject to measures and other countries not subject to measures during the investigation period. Liberty Steel also submitted that rebar is a commodity product and that end users can quickly change their source of supply between exporters and countries.

5.2 Market Structure

Liberty Steel submitted in its application that the Australian rebar market comprises the three Australian producers, exporters, importers and distributors or processors who process and sell rebar.

Liberty Steel stated that imported and locally produced rebar is primarily purchased by rebar processors and steel service centres who typically process it before supplying the rebar into the commercial, residential and engineering sectors. Rebar processors quote jobs to the construction sector, cut and bend locally manufactured or imported rebar to order and deliver to job sites. Steel service centres also purchase locally produced or imported rebar to stock for resale, primarily to smaller rebar processors for use as concrete reinforcement.

Final end use applications for rebar include (but are not limited to) concrete slabs and prefabricated concrete beams, columns, cages and precast products. The vast majority of rebar is further processed in some way prior to end use.

Third party reinforcing customers are supplied by Liberty Steel, downstream entities related to Liberty Steel, direct imports from exporters or overseas traders, or by imports through local steel trading houses.

The verification team considers that given the interchangeable nature of rebar it is regarded as a commodity product that competes primarily on price. Liberty Steel sells rebar straights and coils to external (unrelated) steel service centres (processors) and distributors and also has internal sales to Liberty Steel's related businesses.

5.2.1 Marketing and Distribution

Liberty Steel stated that rebar is sold nationally and is distributed by rail and road between the capital cities of Adelaide, Melbourne, Sydney and Brisbane, and dispatched by sea freight to Perth and Tasmania.

5.2.2 Demand

Rebar is used as a tension device to reinforce concrete as well as prefabricated and precast structures. Demand for rebar is Australia-wide with the majority demanded from the eastern states of Queensland, New South Wales and Victoria. Demand is driven by downstream activity in several market segments:

- residential construction, including swimming pool construction;
- non-residential construction; and
- engineering construction/infrastructure, including mining infrastructure.

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Liberty Steel stated that the commercial construction market is the main driver of demand for rebar. Liberty Steel stated that there is some seasonal fluctuation with a downturn at the end of the year around the Christmas holiday period and coinciding with the wet season in northern Australia.

5.3 Market Size

In its application, Liberty Steel estimated the size of the Australian market using import data obtained from an independent recognised international supplier of trade statistics via paid subscription. Liberty Steel also used its own sales data.

For the purposes of estimating the size of the Australian market for rebar, the verification team combined Liberty Steel and related producer's sales data with import data obtained from the Australian Border Force (ABF) import database. Data obtained from the ABF import database was cleansed by reference to tariff subheading and statistical code, the description of the goods provided in declarations and price., Line items where the free on board (FOB) price per tonne was outside a range of AUD\$400 to AUD\$1,000 (considered a reasonable price range for the goods based on observations from previous investigations, reviews and inquiries into rebar) were excluded.

Liberty Steel's sales data and data from related producers were verified during the Australian industry visit (see section 6 of this report). The verification team considers that the ABF import database is a reliable source for data relating to imported rebar. The verification team considers that this combined data is reliable, relevant and suitable for estimating the size of the Australian market for rebar.

6. UPWARDS VERIFICATION OF SALES

6.1 Verification of Completeness and Relevance of Sales Data

Verification of relevance and completeness is conducted by reconciling selected data submitted "upwards" through management accounts up to audited financial accounts. The verification team verified the completeness and relevance of the domestic sales listings provided in the application by reconciling these to audited financial statements in accordance with ADN. No 2016/30.

The verification team compared the sales value reported in Liberty Steel's submission to the revenue in the rod and bar division's financial statement that feeds into the ultimate foreign owner's audited financial statement for financial year 2018. The verification team undertook a sampling approach by assessing the relevance and completeness of one month's sales data as a broader indicator of the relevance and completeness of the investigation period. The verification team compared net sales revenue for the rod and bar division by separately examining gross sales revenue, rebates and eliminations for intercompany sales. Gross revenue was verified to within less than one per cent to the rod and bar division's financial statement. Liberty Steel demonstrated how net sales revenue presented in their submission reconciled with the data from the rod and bar division's financial statement and ultimately their foreign owner's audited financial statement by tracing the data through their accounting and management systems. Throughout the demonstration, individual entity names and values were interrogated. Values within the systems matched the values during the demonstration.

The verification team identified the issues outlined below during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

6.1.1 Exceptions during Verification of Sales Completeness and Relevance

No.	Exception	Resolution	Evidence Relied On
1	Liberty Steel's application initially provided sales data to the period ending 30 June 2018. As noted in CON 495, the Commission recommended Liberty Steel provide sales data up to 30 September 2018 to ensure the investigation examines contemporary data.	As part of this verification, Liberty Steel submitted updated Australian sales data covering the investigation period 1 October 2017 to 30 September 2018.	Revised Appendix A4 sales of DBIC and DBIL was provided in support of section A-5 of the Liberty Steel application.
2	During the accounting and management systems demonstration, the verification team observed that the deductions for rebates were applied at the divisional level only rather than the product level.	Liberty Steel provided revised Australian sales data, however, due to Liberty Steel's accounting practices the revised data was limited in its application. For unrelated parties the revised Appendix A4 data was found to be reliable when summarised at the invoice number level for sales of DBIL and DBIC. A separate calculation file to reconcile the net invoice value paid by	Revised Appendix A4 sales of DBIC and DBIL was provided in support of section A-5 of the Liberty Steel application.

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No.	Exception	Resolution	Evidence Relied On
		related party customers was provided as a substitute for the Appendix A4 data.	
3	The verification team observed that the audited financial statement of the ultimate owner was presented in US dollars whereas the rod and bar division's financial statement was presented in Australian dollars.	Liberty Steel provided a demonstration to illustrate how they converted the US dollars to Australian dollars.	Updated trial balance showing the exchange rate.

6.2 Related Party Customers

The verification team observed that Liberty Steel sold rebar to related customers within the LSBU and Liberty Distribution business units. At the visit, Liberty Steel demonstrated how prices were set for related and unrelated customers and that sales in their financial accounts were recorded at market rates rather than at a transfer price.

The verification team analysed the prices for unrelated and related customers and did not find evidence of price discrimination between related and unrelated customers and consider the sales to related customers to be arms length.

The verification team is satisfied that Liberty Steel's selling prices for rebar to related customers can be relied upon in the assessment of the economic condition of the Australian industry.

6.3 Imports by the Applicant

Liberty Steel reported importing rebar during the investigation period and presented separate sales data for own production and imported rebar. As part of verification, Liberty Steel submitted a revised Australian sales listing from which sales of the imported goods were excluded.

The verification team verified the accuracy of the reported sales of imported rebar as part of the demonstration that traced net sales revenue via the accounting and managements systems from the rod and bar division's financial statement to the foreign owner's audited financial statement.

6.4 Completeness and Relevance Finding

The verification team are satisfied that the sales data provided by Liberty Steel, including any required amendments as outlined as an exception above, is complete and relevant.

Liberty Steel's revised and amended Australian sales of domestic produced DBIL and DBIC to unrelated customers are at **Confidential Attachments 1 and 2** and for sales to related customers at **Confidential Attachment 3**.

7. DOWNWARDS VERIFICATION OF SALES

7.1 Verification of Sales Accuracy

The accuracy of data is verified by reconciling selected data submitted "downwards" to source documents. This part of verification involves the process of agreeing the volume, value and other key information fields within the sales data and cost data down to source documents. This verifies the accuracy of the data (e.g. for sales data, the volume and value of the records for selected transactions are accurate and reflect sales that did occur). The verification team verified accuracy of the domestic sales listings submitted in the application by reconciling these to audited financial statements in accordance with ADN. No 2016/30.

The verification team identified the issue outlined below during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

7.1.1 Exceptions during Verification of Sales Accuracy

No.	Exception	Resolution	Evidence Relied On
1	Net invoice value for the sample of sales to related customers could not be reconciled to price lists and rebate structures. Uncertainty also existed with the accuracy of net invoice prices due to differences in the timing of the payment of rebates and date of sale. As a result the verification team was not able to calculate unit prices net of rebates for the transactions reported by Liberty Steel in Appendix A4 to its application. Gross invoice value, sales volume and product description for sales to related customers were found to be accurate. Net invoice values for sales to unrelated customers was observed to be accurate at the invoice number level.	Liberty Steel provided supplementary net invoice value data for each of its related party customers, summarised by product type, e.g. DBIL and DBIC, and aggregated at the monthly level. The provision of the supplementary net invoice value calculation is considered satisfactory to resolve this exception.	Revised Appendix A4 sales of DBIC and DBIL was provided in support of section A-5 of the Liberty Steel application. General ledger data pertaining to rebate transactions. Price list information. Supplementary net invoice calculation for related customers.

7.2 Sales Accuracy Finding

The verification team are satisfied that the sales data provided in the application by Liberty Steel, including any required amendments as outlined as an exception above, is accurate.

8. COST TO MAKE AND SELL

8.1 Verification of Completeness and Relevance of CTMS Data

The verification team verified the completeness and relevance the cost to make and sell (CTMS) information provided in the application by reconciling it to audited financial statements in accordance with ADN No. 2016/30.

The verification team compared the costs reported in Liberty Steel's submission to the costs in the rod and bar division's financial statement that feeds into the ultimate foreign owner's audited financial statement for financial year 2018. The verification team undertook a sampling approach by assessing the relevance and completeness of one quarter's cost data for one mill's production of rebar straights as a broader indicator of the relevance and completeness of the investigation period. The verification team assessed individual elements such as raw materials costs, direct labour, variable and fixed overheads and selling, general and administration costs (SG&A) which together represented approximately 95 per cent of the CTMS for rebar straights. Liberty Steel demonstrated how costs presented in their submission reconciled with the earnings before interest and tax (EBIT) data from the rod and bar division's financial statement and ultimately their foreign owner's audited financial statement by tracing the data through their accounting and management systems. Throughout the demonstration, individual cost accounts, entity names and values were examined. Values within the systems matched the values during the demonstration.

The verification team identified the issues outlined below during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

8.1.1 Exceptions during Verification of Completeness and Relevance of CTMS Data

No.	Exception	Resolution	Evidence Relied On
1	Liberty Steel provided CTMS data up until 30 June 2018. As noted in CON 495, the Commission recommended Liberty Steel provide CTMS data up to 30 September 2018 to ensure the investigation examines contemporary data.	As part of this verification, Liberty Steel submitted updated CTMS data covering the extra quarter.	Revised CTMS data for domestic and export sales provided in support of section A-7 of the Liberty Steel application.
2	During the verification visit, Liberty Steel identified corporate overheads which had been incorrectly allocated to the rod and bar division's SG&A cost base.	The verification team established with Liberty Steel that the overheads subject to the exception were not relevant to the rod and bar division operations so they were removed from the CTMS data. Revised CTMS data, omitting the included corporate overheads, was supplied.	Revised CTMS data for domestic and export sales provided in support of section A-7 of the Liberty Steel application. Accounting and finance presentation CTMS cost allocation methodology spreadsheet

8.2 Related Party Suppliers

8.2.1 Raw Materials Costs

The verification team observed that Liberty Steel sourced raw materials from related suppliers within the Liberty Primary Steel and Liberty Recycling business units. At the visit, Liberty Steel demonstrated how costs for billet from a related supplier in the Liberty Primary Steel business unit were set with regard to an external commodity benchmark price adjusted for absorbed costs, indicating that costs in their financial accounts were recorded at market rates rather than at a transfer price. Liberty Steel also purchased scrap metal to make billet at their own melt shops. Liberty Steel demonstrated how costs for scrap from a related supplier in the Liberty Recycling business unit were set with regard to export prices for scrap indicating that costs in their financial accounts were recorded at market rates. The verification team consider the costs paid to related suppliers to be arms length.

8.2.2 Labour Costs

The verification team observed that Liberty Steel sourced labour from a related supplier within the LSBU. At the visit, Liberty Steel demonstrated that a contractual agreement existed between Liberty Steel and the related supplier that specified applicable labour costs. Liberty Steel also demonstrated how labour costs were recorded in the accounting systems for both Liberty Steel and its related supplier. The verification team could clearly see the type, breadth and value of the costs that existed between these two entities. The verification team consider the costs paid to related suppliers to be arms length.

8.3 Completeness and Relevance Finding of CTMS data

The verification team are satisfied that the revised CTMS data provided in relation to Liberty Steel’s application, including any required amendments as outlined as an exception above, is complete and relevant.

Liberty Steel’s amended and verified CTMS data is provided at **Confidential Attachment 4**.

8.4 Verification of CTMS Allocation Methodology

The verification team verified the reasonableness of the methodology used to allocate the CTMS information provided in the application to the relevant models, in accordance with ADN No. 2016/30.

Cost Area	Methodology Applied	Evidence Relied On⁸
Raw Materials	<p>Raw material costs for billet sourced from related suppliers within Liberty Primary Steel are based on the actual production costs adjusted for transfer pricing, freight and administration costs. The unit cost allocated is based on a weighted average value for the quarter.</p> <p>Raw material costs for billet sourced from within Liberty Steel are the actual production costs of the billets from the relevant Liberty Steel cost centre and divided by the total volume of billets produced for the month. The unit cost allocated is based on a weighted average for the quarter.</p>	<p>Accounting and finance presentation Cost and allocation presentations CTMS cost allocation methodology spreadsheet Revised CTMS data for domestic and export sales provided in support of section A-7 of the Liberty Steel application.</p>
Scrap Allocation	Scrap costs are allocated on a per usage basis for each furnace.	<p>Accounting and finance presentation Cost and allocation presentations</p>

⁸ Specific evidence relied on is referenced at the relevant procedure in the Work Program at Confidential Attachment 1.

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Cost Area	Methodology Applied	Evidence Relied On⁸
		CTMS cost allocation methodology spreadsheet CTMS feed cost reports spreadsheet Revised CTMS data for domestic and export sales provided in support of section A-7 of the Liberty Steel application.
Manufacturing Overheads	Manufacturing overhead costs are allocated through variable and fixed costs. Overhead costs are recorded for each mill, and are allocated to each product on a weighted average basis.	Accounting and finance presentation CTMS cost allocation methodology spreadsheet CTMS feed cost reports spreadsheet Revised CTMS data for domestic and export sales provided in support of section A-7 of the Liberty Steel application.
Direct Labour	Labour costs are recorded for each mill, and are allocated per product on a weighted average basis.	Accounting and finance presentation Cost and allocation presentations CTMS cost allocation methodology spreadsheet CTMS feed cost reports spreadsheet Revised CTMS data for domestic and export sales provided in support of section A-7 of the Liberty Steel application.
Depreciation	Depreciation costs are recorded for each mill, and are allocated to each product on a weighted average basis.	Accounting and finance presentation CTMS cost allocation methodology spreadsheet CTMS feed cost reports spreadsheet Revised CTMS data for domestic and export sales provided in support of section A-7 of the Liberty Steel application.
Packaging	Packaging costs are included under variable overheads.	Accounting and finance presentation CTMS cost allocation methodology spreadsheet CTMS feed cost reports spreadsheet Revised CTMS data for domestic and export sales provided in support of section A-7 of the Liberty Steel application.

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Cost Area	Methodology Applied	Evidence Relied On⁸
Selling, Distribution, and Administration	The monthly costs are extracted from the accounting software for the whole of the rod and bar division. The total monthly costs are then divided by the total production for the division to produce a unit cost. The unit costs are then multiplied by the production quantity for each product to allocate the total cost.	Accounting and finance presentation CTMS cost allocation methodology spreadsheet Revised CTMS data for domestic and export sales provided in support of section A-7 of the Liberty Steel application.
Freight	The monthly costs are extracted from the accounting software for the whole of the rod and bar division (including export). The total monthly costs are then divided by the total dispatch tonnes for the division to produce a unit cost. The unit cost is then multiplied by the production quantity for each product to allocate the total cost. Export freight costs are allocated by multiplying the freight unit costs by the export tonnes of rebar.	Accounting and finance presentation CTMS cost allocation methodology spreadsheet Revised CTMS data for domestic and export sales provided in support of section A-7 of the Liberty Steel application.

8.5 Verification of CTMS Methodology Finding

The verification team are satisfied that the allocation methodology for the CTMS data provided in the application by Liberty Steel, including any required amendments as outlined as an exception above, is reasonable.

8.6 Verification of Accuracy of CTMS Data

The verification team verified the accuracy of the CTMS information provided in the application by reconciling it to source documents in accordance with ADN No. 2016/30.

The verification team identified the issue outlined below during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Appendix 1**.

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8.6.1 Exceptions during Verification of Accuracy of CTMS Data

No.	Exception	Resolution	Evidence Relied On
1	Inaccurate production volume data reported for DBIC. The verification team observed a material variance between the production volume initially reported by Liberty Steel and production volume derived from closing stock inventory data.	Relying on closing stock inventory data provided by Liberty Steel in support of its claim regarding injury in the form of increased closing stock levels, and the sales volume reported in Appendix A-6.1 (CTMS) data, the verification team recalculated the production volume for DBIC reported over the injury analysis period. As a result, variable and fixed manufacturing costs were also updated to ensure the correct unit costs were applied to the revised production volume.	Revised CTMS data for domestic and export sales provided in support of section A-7 of the Liberty Steel application. Closing inventory stock levels reported in revised Appendix 7 (Other Injury Factors) to section A-8.3 of its application. Accounting and finance presentation. CTMS cost allocation methodology spreadsheet.
2	Additional overhead costs were included which were not applicable to the rod and bar division.	Appendix A6.1 data was re-submitted on 24 December 2018 with the unrelated costs removed (refer to section 8.1.1 at Item 2).	Revised CTMS data for domestic and export sales provided in support of section A-7 of the Liberty Steel application. Accounting and finance presentation CTMS cost allocation methodology spreadsheet

8.7 Accuracy Finding of CTMS Data

The verification team are satisfied that the CTMS data provided in the application by Liberty Steel, including any required amendments as outlined as an exception above, is accurate.

Liberty Steel's amended and verified CTMS data is provided at **Confidential Attachment 4**.

9. ECONOMIC CONDITION

9.1 Applicant's Injury Claims

Liberty Steel claimed in its application that the Australian industry has experienced injury through:

- loss of market share;
- price suppression;
- loss of profits;
- reduced profitability;
- reduced return on investment (ROI);
- reduced investment in R&D and value of assets deployed;
- reduced capacity utilisation;
- increased stock levels of finished goods;
- reduced cash flow; and
- lost revenue.

9.2 Commencement of Injury and Analysis Period

Liberty Steel claimed that material injury in relation to price was caused by the dumped or subsidised imports of rebar from Turkey commenced in or around the September 2017 quarter and in relation to volume in or around the December 2017 quarter. The injury analysis period is from 1 October 2014, with an investigation period of 1 October 2017 to 30 September 2018.

Liberty Steel's application seeking the imposition of anti-dumping and countervailing measures provided its analysis of the relationship between the injury and the alleged dumping and subsidisation for all of its rebar products generally, and at the product segment level, i.e. DBIC and DBIL.

As outlined previously, the Australian industry is comprised of Liberty Steel and two related party producers. This chapter analyses the consolidated economic performance of the Australian industry as a whole. The verification team utilised the verified data from the Australian industry and data obtained from the ABF import database to perform volume, price and profitability analysis for the injury analysis period and investigation period. All graphs in the chapter are for years ending 30 September.

9.3 Volume Trends

9.3.1 Sales Volume

In assessing the sales volume for the Australian market, the verification team notes that sales of rebar consist of two product sub-categories, DBIC and DBIL. For the purpose of this report, the verification team has aggregated both product categories for estimating the size and volume of the Australian market. Figure 1 illustrates the Australian industry's domestic sales volume of rebar for the injury analysis period.

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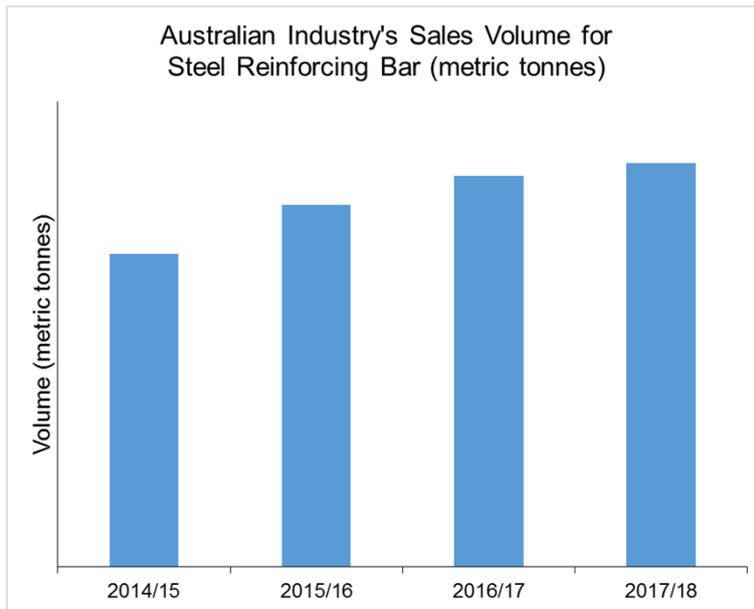
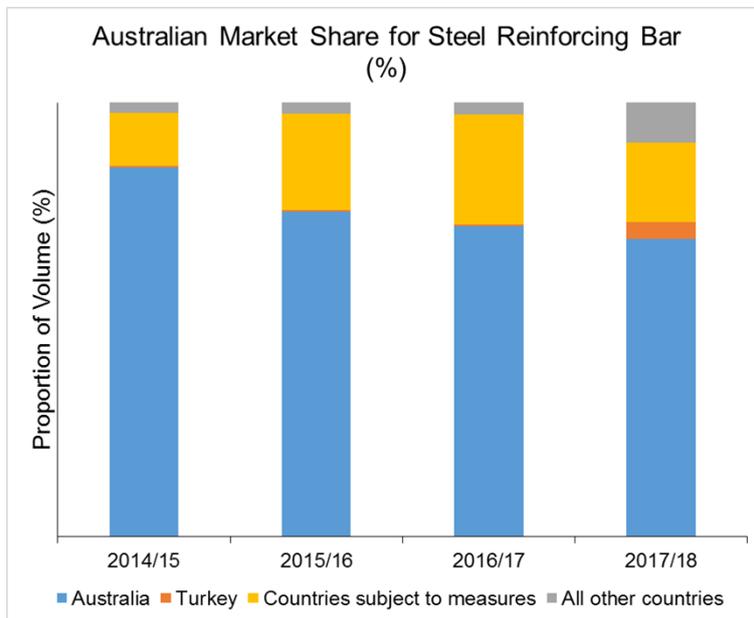


Figure 1 – Australian industry's sales volume of rebar⁹

The verification team observes that the Australian industry's domestic sales volume increased in each year of the injury analysis period. In its application, Liberty Steel did not claim injury in the form of lost sales volume. Based on Figure 1, the Australian industry does not appear to have experienced injury in the form of lost sales volumes.

9.3.2 Market Share

Figure 2 illustrates the market share of rebar for the injury analysis period.



⁹ Liberty Steel Application Appendix A6

Figure 2 – Australian market for rebar¹⁰

The verification team observes that the Australian industry experienced a decline in market share for each year of the injury analysis period. The Australian industry’s market share was at its lowest in the investigation period.

The verification team considers that the market share of imports from Turkey, at less than one per cent, was immaterial in the period between 2014/15 and 2016/17. However, the market share of imports from Turkey increased substantially in the investigation period, albeit from a low base.

Over the injury analysis period, the market share of imports from countries not subject to anti-dumping measures almost doubled, with a noticeable increase in the investigation period. In contrast, the market share of imports from countries that are subject to anti-dumping measures reduced in the investigation period, after increasing in the three years prior.

Based on the above, the verification team considers there appears to be sufficient grounds to support Liberty Steel’s claim that it has experienced injury in the form of reduced market share.

9.4 Price Suppression and Depression

Price depression occurs when a company, for some reason, lowers its prices.

Price suppression occurs when price increases, which otherwise might have occurred, have been prevented. An indicator of price suppression may be the margin between prices and costs. In its application, Liberty Steel claimed that the Australian industry has experienced price suppression, but not price depression.

Figure 3 shows the movement in Liberty Steel’s unit cost to make and sell (CTMS) and unit selling prices for the injury analysis period.

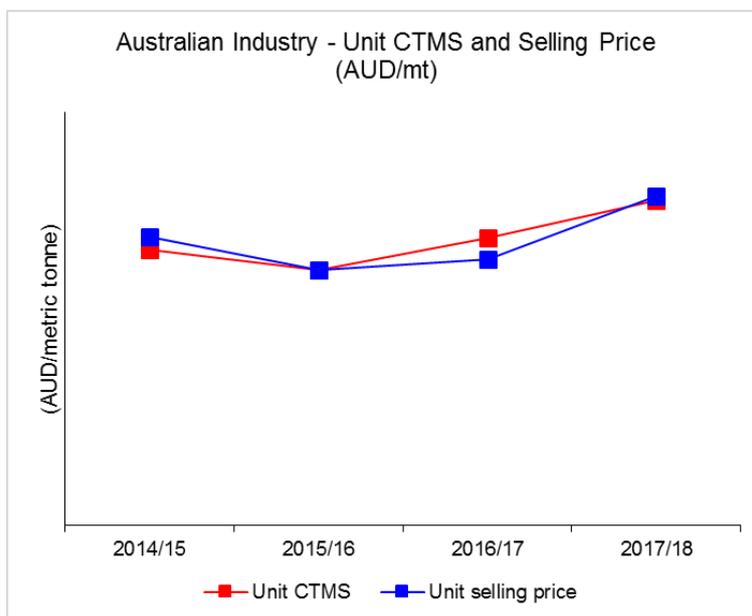


Figure 3 – Australian industry unit CTMS and unit selling prices

¹⁰ Source: Liberty Steel Application Confidential Appendix A6 and ABF Import Database

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The verification team observes that, in relation to the Australian industry:

- unit selling prices increased in the three year period from 2015/16. However, the rate of increase in 2017/18 exceeded that of the prior year;
- unit selling prices in 2017/18 were the highest of all years in the injury analysis period;
- unit CTMS increased steadily from 2015/16; and
- with the exception of the 2016/17 period, unit selling prices exceeded unit CTMS by a small margin.

The verification team considers that the Australian industry has experienced injury in the form of price suppression. Liberty Steel's claims in its application that unit selling prices would likely have been higher during the investigation period, had it not have been for the existence of lower priced imports from Turkey appears to be supported.

The verification team's analysis of price suppression is at **Confidential Attachment 5**.

9.5 Price Undercutting

During the verification visit, Liberty Steel discussed how the prices for rebar are set in the Australian market. Liberty Steel explained how import offers in relation to rebar produced by overseas steel mills and movements in the price of imports are used by customers to negotiate prices with the Australian industry. Liberty Steel has also claimed that its prices in the Australian rebar market generally settle at or near the lowest offers in the market.

During the visit, Liberty Steel provided evidence to support its position that Turkish import prices were a key consideration in its price setting practices. Relying on Liberty Steel's verified data in relation to its sales of the rebar during the investigation period, the verification team was able to establish that the price of rebar being imported from Turkey undercut Australian industry's price offers.

The assessment of Liberty Steel's price undercutting evidence is provided in the Verification Work Program at **Confidential Appendix 1**.

9.6 Profits and Profitability

Figure 4 shows the Australian industry's total profit and unit profitability over the injury analysis period.

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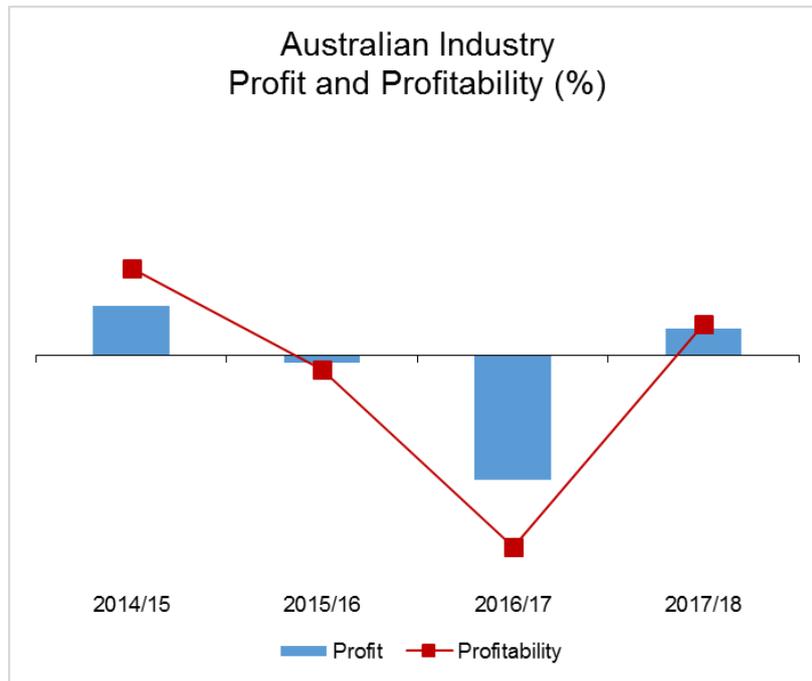


Figure 4: Australian Industry Profit and Profitability

Figure 4 shows that the total profit and profitability reported in 2014/15 was the highest of the injury analysis period before decreasing in the 2015/16 and 2016/17 periods. The Australian industry's sales of rebar returned to profitability in the investigation period after incurring losses in the 2016/17 period.

The verification team established the Australian industry's profit in the investigation period was marginal however reflected a significant improvement compared to the prior year. Liberty Steel's application claims that its profit and profitability would have been 6.1 per cent higher during the investigation period in the absence of imports of allegedly dumped and subsidised goods being imported from Turkey. Liberty Steel's estimate is based on the profit margin achieved in the October to December 2017 quarter. The verification team ascertained that the December 2017 quarter precedes the period which saw a rapid rise in the volume of goods being imported from Turkey.

Liberty Steel's profit and profitability results appear to be consistent with its claims, and the evidence provided in relation to its claims, that its prices were lower in the investigation period due to price undercutting brought about by imports of rebar from Turkey. Absent of the need to respond to these prices, Liberty Steel put it to the verification team that its prices would have been higher and therefore profit and profitability would have also been higher.

The verification team considers that the evidence provided by Liberty Steel in relation to price undercutting of goods from Turkey, and the operation of prices in the Australian rebar market generally, indicates that its profit and profitability may have been impacted, in part, by imports of those goods. The verification team is satisfied that Australian industry has suffered injury in the form of reduced profit and profitability however it is not the purpose of this report to attribute such results to the import of lower priced rebar from Turkey. Further assessment of the factors which have contributed to Australian industry's lower levels of profit and profitability will be undertaken throughout the course of the investigation.

The Commission's profit injury analysis is available at **Confidential Attachment 5**.

9.7 Other Economic Factors

Liberty Steel’s application also made claims that it has suffered injury in the form of the following:

- reduced return on investment (ROI);
- reduced investment in R&D and value of assets deployed;
- reduced capacity utilisation;
- increased stock levels of finished goods;
- reduced cash flow; and
- lost revenue.

9.7.1 Reduced Return on Investment (ROI)

At Section A-8 of its application Liberty Steel reported that its ROI had improved in the June 30 2018 financial year compared to the prior financial year. At the time of application Liberty Steel’s data related to a proposed investigation period being the year ending June 30 2018. However, as outlined in CON 495, the Commission has set the period for the investigation being 1 October 2017 to 30 September 2018 and the injury analysis period being 1 October 2015 to 30 September 2018. As a result, the data in Liberty Steel’s application relating to ROI injury is not representative of its performance in the investigation period. Using revised data provided by Liberty Steel for the investigation period and the injury analysis period, Liberty Steel’s index of ROI has been recalculated in Table 2 below.

Period	12 Mths End Sep 2015	12 Mths End Sep 2016	12 Mths End Sep 2017	12 Mths End Sep 2018
Net Gain/Loss (%)	100	3	-232	42

Table 2 – Revised Liberty Steel Index of ROI

The ROI in Liberty Steel’s application is calculated using a ratio of the net gain or loss realised on sales of rebar and the value of assets deployed in the production of rebar.

The verification team considered Liberty Steel’s ROI calculation by having regard to whether the inputs into these calculations were reasonable, particularly the value of assets deployed. Liberty Steel apportioned the value of assets used in its ROI figure by the ratio of the production volume of rebar to total production volume of the rod and bar division of Liberty Steel, which is comprised of Liberty Steel, OneSteel NSW and TASCO.

Relying on the description of the rebar production processes described in Liberty Steel’s application, the tour of its production facilities during the verification visit and previous cases involving rebar and rod in coil, the verification team established that the assets for rebar production are the same assets used to manufacture all of the goods produced by Liberty Steel’s rod and bar division. The verification is therefore satisfied that the value of assets in Liberty Steel’s ROI figures are not skewed by the inclusion of high value assets or a group of assets which do not relate to the production of rebar by the rod and bar mill operated by Liberty Steel and its affiliated rod and bar mills, i.e. OneSteel NSW and TASCO.

The second input into the ROI calculation is the net gain or loss realised in the sale of rebar. Net gain or loss data is customarily reported in the CTMS at Appendix A6 of an application for dumping and subsidy measures. At Section 8 of this report the verification team was satisfied that the CTMS data reported by Liberty Steel in its application for this investigation was complete, relevant and accurate. As a result the net gain or loss figure used for the ROI result is also considered reliable.

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Notwithstanding that Liberty Steel's ROI in the investigation is a significant improvement over the previous period, where it previously claimed injury caused by dumping from other countries, for which measures were imposed in March 2018¹¹, Liberty Steel claims that its profit and profitability would have been higher in the investigation period but for the dumping and subsidisation of rebar exported to Australia from Turkey which it claims has caused it to experience reduced profit and profitability and price suppression.

Since the net gain or loss metric in the ROI calculation is directly tied to profit, which Liberty Steel also claims was not as high as it could have been but effects caused by dumping and subsidisation of rebar exported from Turkey, for the purpose of this report the verification team is satisfied that Liberty Steel has suffered injury in the form of reduced ROI.

9.7.2 Reduced Investment in R&D

Similar to the ROI data provided in Liberty Steel's application, the data for R&D does not reflect the investigation period set by the Commission in CON 495. Further, at the verification visit Liberty Steel conceded that it was not able to produce data relevant to its R&D expenditure for the injury period or the investigation period because R&D expenditure data is tied to its tax accounting obligations which follows a fiscal reporting period of June 30. Therefore, it did provide data on the basis of its statutory reporting period of June 30. Compared to the 2017 financial year, where Liberty Steel reported zero R&D expenditure, the 2018 financial year represents a significant improvement.¹²

To assess Liberty Steel's claim regarding R&D injury in further detail the verification team sought to examine the kinds of projects and expenditure that Liberty Steel was classifying as an R&D activity. The verification team established that rather than incurring R&D expenses, much of the activity undertaken by Liberty Steel that might be classified as an R&D expense was in fact being capitalised.

The verification team requested further documentation from Liberty Steel regarding costs which could not be capitalised, and were classified as R&D expenses. However, Liberty Steel could not furnish the necessary documentation to support its claim that it has suffered injury in the form of reduced R&D. Notwithstanding this issue, the verification team does not consider that Liberty Steel did not engage in any R&D, rather, it has capitalised such expenses. A list of projects currently underway within the company and their intended benefits was furnished although such information is not currently considered to be sufficient to support its claims relating to R&D.

9.7.3 Value of assets deployed

During verification Liberty Steel provided updated data relating to its value of assets deployed in the investigation period and in each year of the injury analysis period. The revised index of value of assets deployed is provided at Table 3 below.

Period	12 Mths End Sep 2015	12 Mths End Sep 2016	12 Mths End Sep 2017	12 Mths End Sep 2018
Assets (\$)	100	100	98	92

¹¹ Investigation No.418 imposed measures on rebar exported to Australia from Greece, Indonesia (excluding PT Ispat Panca Putera and Pt Pura Baja Deli), Spain (Nervacero S.A. only), Taiwan (Power Steel Co., Ltd only) and Thailand.

¹² In 2017 Liberty Steel, which was previously known as the Arrium group of companies was in voluntary administration. As such it did not report R&D expenditure.

Table 3 – Revised Liberty Steel Index of Assets Deployed

To calculate the value of assets deployed reported above Liberty Steel apportioned the value of assets by the ratio of the production volume of rebar compared to total production of the rod and bar division of Liberty Steel which is comprised of the applicant and its two supporting entities. Similar to the verification team’s assessment of this metric which is used in the ROI calculation at section 9.7.1 the verification team is satisfied that the underlying figure is appropriate.

As shown in Table 3 above, the value of assets deployed in the production of rebar declined in the investigation period compared to the prior period. The prior period also represented a decline compared to the period before it. In absolute terms Liberty Steel value of assets deployed in the investigation period represents the lowest levels of assets deployed across the injury analysis period.

To aid in explaining its claim Liberty Steel presented the verification team with a listing of capital projects currently in progress within rod and bar division. Liberty Steel did not deny undertaking any capital investment but it did convey that reduced profit levels, reduced ROI and reduced cash flow have had a major impact on its decisions to undertake significant levels of investment in its production assets. Such sentiment appears evident in the figures reported by Liberty Steel in its application and in the revised data at Table 3 provided during verification.

As it stated in relation to its reduced ROI performance, Liberty Steel pointed to the continued pressure imposed on its business as a result of injury caused by dumping in successive years over the injury analysis period. Liberty Steel highlighted at verification that the further reduction in the value of assets deployed in the investigation period is in response to the level of confidence the company has to commit significant resources to the purchase of new plant and equipment.

On the evidence provided during verification the verification team considers it reasonable that Liberty Steel has suffered injury in the form of reduced value of assets deployed.

9.7.4 Reduced Capacity and Capacity Utilisation

Shown below in Tables 4 and 5 are the revised capacity and capacity utilisation figures provided by Liberty Steel during verification for the injury analysis period and the investigation period. During verification it was necessary to correct calculation errors which were observed within Liberty Steel’s capacity calculations in the revised version of Appendix A7 of its application and flowing from this error its capacity utilisation calculations were also incorrect.

Liberty Steel accounted for the error by providing the verification team with detailed data showing the total rod and bar division capacity and the proportion of that capacity dedicated to its various product lines, including rebar. The table below shows the result of these corrections.

Period	12 Mths End Sep 2015	12 Mths End Sep 2016	12 Mths End Sep 2017	12 Mths End Sep 2018
Tonnes Capacity (max.)	100	106	108	114

Table 4 – Revised Liberty Steel Index of Capacity (Rebar)

Period	12 Mths End Sep 2015	12 Mths End Sep 2016	12 Mths End Sep 2017	12 Mths End Sep 2018
Capacity Utilisation (Like Goods, %)	100	106	107	106
Capacity Utilisation (Other, %)	100	92	97	113

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Capacity Utilisation (Total*, %)	100	102	105	108
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Table 5 – Revised Liberty Steel Index of Capacity Utilisation

Comparing the above data to that which is shown in Liberty Steel’s application, the change in capacity of rebar production is similar. However, the difference in the change in capacity utilisation is not as great as that which is reported in Liberty Steel’s initial application at Section A-8.3.

During verification, Liberty Steel provided the verification team with internal business case documents relating to its production plans and shift configurations. Liberty Steel advised that the increased levels of production volume and capacity was in response to its analysis that the demand in the Australian market was increasing.

Liberty Steel explained that the change in capacity utilisation observed in Table 5 above does not take into account the impact of the increase in the volume of rebar exported from Turkey, particularly in the period closely following the end of the investigation period, i.e. November 2018. Notwithstanding this point, Liberty Steel expressed that the increasing volume of rebar exported from Turkey in the first six months of 2018 had impacted its sales volumes and some of the assumptions which supported the business case to alter its production plans. Liberty Steel stated its capacity utilisation would have been higher if the increase in the volume of rebar exported from Turkey in the period commencing January 2018 had not occurred.

The verification team considers that the evidence provided by Liberty Steel in its application and during verification supports it has suffered injury in the form of reduced capacity utilisation.

9.7.5 Increasing closing stock levels

Shown below in Table 6 are the revised closing inventory figures provided by Liberty Steel during verification for the injury analysis period and the investigation period.

Period	12 Mths End Sep 2015	12 Mths End Sep 2016	12 Mths End Sep 2017	12 Mths End Sep 2018
Closing Stock (Tonnes)	100	97	76	141
Closing Stock (Tonnes) "Like Goods"	100	99	73	168

Table 6 – Revised Liberty Steel Index of Closing Stocks (Rebar)

In further discussion during verification Liberty Steel provided data for the investigation period which clearly indicated increasing closing stock levels against flatter sales volumes from April 2018 onwards. This trend continued up to September 2018 where closing stock levels had increased compared to the level observed at the start of the investigation period. The verification team further observed that if the trends in sales volumes, which had flattened, and closing stocks, which were on an upward trajectory, continued, the difference in closing stock levels and sales volume would continue to increase, particularly in case of DBIL. A recovery in sales volumes would conversely result in a reduction of closing stock levels and alleviate injury in this form.

The verification team further enquired if the change in production plans was a likely explanation rather than anything else. Liberty Steel referred the verification team to section A-9.1 of its application which shows the observed increases in the volume of rebar being exported from

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Turkey coinciding with its own quarterly decline in sales.¹³ Liberty Steel advised that the opportunities it saw to service the market after measures were by imposed after Investigation No.418 were not realised due to what it attributed to the increase of rebar imports from Turkey from about the December 2017 quarter onwards. Liberty Steel also advised that the costs incurred to reconfigure production plans means that it was not simply a matter of reducing production output in response to a reduction in sales volume. Liberty Steel provided data relating to such costs to demonstrate its point to the verification team. The costs were not insignificant.

The verification team considers that the information provided by Liberty Steel is sufficient to support its claim that it has suffered injury in the form of increased closing stock levels. Such increases also impact on cash flow performance as the value of inventory on hand is an input into the calculation of cash flow.

9.7.6 Cash flow

Shown below in Table 7 are the revised cash flow figures provided by Liberty Steel during for the injury analysis period and the investigation period.

Period	12 Mths End Sep 2015	12 Mths End Sep 2016	12 Mths End Sep 2017	12 Mths End Sep 2018
Working Capital	100	-1143	-1354	-2579
Inventory	100	164	89	-2299
Total Cash Flow	100	72	-62	-13

Table 7 – Revised Liberty Steel Index of Cash Flow Measures (Rebar)

In its application Liberty Steel claimed injury in the form of reduced cash flow. Although the index data in its application is different when compared to the table above for the investigation period and injury analysis period, the verification team observed that Liberty Steel's cash flow figures in its application and for the investigation period shows an improvement compared to the year prior, however remained negative. The relative change in the cash flow in each year of the injury analysis period in Liberty Steel's application compared to the revised data in Table 7, whilst different in absolute terms, were consistent in terms of the direction of the change, e.g. negative or positive.

Further examination of the inputs into Liberty Steel's cash flow result revealed that in the investigation period, Liberty Steel's cash flow was impacted by a significant decrease in the level of working capital. Within the working capital metric, the decrease appears to have been driven by the value of the level of stock on hand. When compared to prior years in the injury analysis, the increase in the value of stock on hand was observed to be significant. Data provided by Liberty Steel in its application and during verification supported that it had experienced ever increasing levels of closing stock on hand of both DBIL and DBIC during the investigation period.

The verification team also observed in Liberty Steel's cash flow calculation that its level of working profit was much higher in the investigation period compared to prior years in the injury analysis period. The verification team was able to determine that if Liberty Steel had maintained closing stock levels similar to those which were observed in the years prior to the investigation period it would likely have realised a positive cash flow result. The metric which most influenced this outcome was the value of inventory on hand at the end of each period.

¹³ Case 495 Public Record Item No.001, p.45

Having regard to the above analysis, the verification is satisfied that Liberty Steel has suffered injury in the form of reduced cash flow.

9.7.7 Revenue

Shown below in Table 8 are the revised revenue figures provided by Liberty Steel during verification for the injury analysis period and the investigation period.

In its application Liberty Steel claimed injury in the form of lost revenue for the 12 month period ending June 30 2018. Although the index data in its application is different when compared to the table below for the revised investigation period and injury analysis period, i.e. period ending 30 September, the verification team observed that the movement in Liberty Steel's revenue results were consistent between both versions, i.e. the level of revenue increased year on year across the injury analysis period.

Period	12 Mths End Sep 2015	12 Mths End Sep 2016	12 Mths End Sep 2017	12 Mths End Sep 2018
Revenue (\$)	100	102	115	147

Table 8 – Revised Liberty Steel Index of Revenue

Liberty Steel's application claimed that it experienced injury in the form of lost revenue. Although the data in Table 8 indicates its revenue result in the investigation period is the highest in the injury analysis period, Liberty Steel claims that it could have earned more revenue if unit prices were not suppressed by what it alleges was caused by imports of Turkish rebar at dumped prices, particularly in the context of rising costs.¹⁴

During verification Liberty Steel provided its evidence of price undercutting relating to offers for rebar being exported by Turkish rebar producers. Liberty Steel contend that the price offers for rebar from Turkish rebar producers undercut its price offers and as a result it found it necessary to reduce its prices in order to remain competitive and avoid losing sales volumes. Liberty Steel expressed a view that in the absence of the downward pressure brought about by the lower priced offers of rebar from Turkey, whilst it concedes it may not have experienced higher sales volumes, it should have received a higher price for its goods, and therefore higher revenue, in relation to those sales. The verification team cited the documents and agreed that price offer for Turkish rebar undercut Liberty Steel's prices offers.

In order to test Liberty Steel's claim regarding injury in the form of lost revenue, the verification team analysed quarterly price movements between 1 October 2015 and 30 September 2018 and monthly price movements in the investigation period. The verification team's quarterly price analysis revealed that after a sharp increase in the final quarter of calendar year 2017, prices continued to increase however the rate of increase declined in the following two quarters for the first half of calendar year 2018. Following this period, prices no longer followed the same upward trend of the prior three quarters and in the quarter ending September 2018 prices started to decline. A similar trend was observed in a monthly analysis of prices for the investigation period.

After comparing the price offer data provided by Liberty Steel in relation to Turkish rebar imports and Liberty Steel's own sales, the verification team observed that the decline in the rate of Liberty Steel's price increases in the opening half of calendar year 2018 coincided with the increase in Turkish import volumes and the price of those imports which undercut Liberty Steel prices. By the quarter ending September 30 2018 the sustained volume of these imports from Turkey, which

¹⁴ Section 9.4 refers.

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continued to undercut Liberty Steel's prices, coincided with a partial reversal of earlier price increases.

In addition to the price data discussed above, the verification team also observed that Liberty Steel's sales volume exhibited an upward trend in each quarter over the last three quarters of the investigation period. Coupling this observation with the price analysis above, and Liberty Steel's explanation that maintaining these sales volume has come at the cost of a reduction in prices, which its alleges were in response to cheaper Turkish rebar offers. In the absence of lower prices offers available in the market the verification team considers it reasonable to conclude that Liberty Steel's revenue could have been higher when based on the sales volume it achieved in the investigation period. The verification team therefore concludes that Liberty Steel has suffered injury in the form of lost revenue.

The verification teams price variance analysis referred to in the discussion above is at **Confidential Attachment 6**.

9.7.8 Other forms of injury not claimed

The verification team obtained revised data, which corresponds to the investigation period and the injury analysis period, in the tables below for the following factors which Liberty Steel has not claimed to be experiencing injury however were tabled in its application at Section A-8.3.

Period	12 Mths End Sep 2015	12 Mths End Sep 2016	12 Mths End Sep 2017	12 Mths End Sep 2018
Capital Investment (\$)	100	80	168	128

Table 9 – Revised Liberty Steel Index of Capital Investment

Period	12 Mths End Sep 2015	12 Mths End Sep 2016	12 Mths End Sep 2017	12 Mths End Sep 2018
Assets (\$)	100	100	98	92

Table 10 – Revised Liberty Steel Index of Asset Value

Period	12 Mths End Sep 2015	12 Mths End Sep 2016	12 Mths End Sep 2017	12 Mths End Sep 2018
Employment (headcount)	100	100	99	106

Table 11 – Revised Liberty Steel Index of Employment

Period	12 Mths End Sep 2015	12 Mths End Sep 2016	12 Mths End Sep 2017	12 Mths End Sep 2018
Tonnes Per Shift	100	108	108	113

Table 12 – Revised Liberty Steel Index of Productivity

Period	12 Mths End Sep 2015	12 Mths End Sep 2016	12 Mths End Sep 2017	12 Mths End Sep 2018
Wages (Like Goods, \$)	100	111	114	125

Table 13 – Revised Liberty Steel Index of Wages

Period	12 Mths End Sep 2015	12 Mths End Sep 2016	12 Mths End Sep 2017	12 Mths End Sep 2018

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Financing Costs (Like Goods, \$)	100	131	67	0
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Table 14 – Revised Liberty Steel Index of Funding

9.7.9 Conclusion

The verification team's consideration of the evidence provided by that Liberty Steel in its application and the revised data provided by Liberty Steel during the verification of the data in its application, supports its claims that it has suffered injury in the form of;

- reduced return on investment (ROI);
- reduced value of assets deployed;
- reduced capacity utilisation;
- increased stock levels of finished goods;
- reduced cash flow; and
- lost revenue.

On the available evidence relating to R&D expenditure, the verification team has not found that Liberty Steel's claim regarding that it has suffered injury in the form of reduced R&D expenditure are currently supported.

9.8 Factors Other than Dumping

The Commission is considering whether injury factors other than dumping may have contributed to the economic performance of the Australian industry. Such factors include:

- the effects of increases in the costs of inputs, e.g. billet and energy costs;
- movements in rebar prices globally;
- foreign exchange rates; and
- impact of imports from other countries.

Further analysis of these factors, and other factors that may arise, will be considered in the statement of essential facts.

10. UNSUPPRESSED SELLING PRICE

Unsuppressed selling price (USP) and non-injurious price (NIP) issues are examined at an early stage of an investigation. The Commission generally derives the NIP by first establishing a price at which the applicant might reasonably sell its product in a market unaffected by dumping. This price is referred to as the USP.

As part of the investigation, the Commission will establish the 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 the NIP 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.

The verification team invited Liberty Steel to make a submission on its view on the most appropriate method to calculate the USP.

11. APPENDICES AND ATTACHMENTS

Confidential Attachment 1	Australian Industry Sales DBIL (unrelated customers)
Confidential Attachment 2	Australian Industry Sales DBIC (unrelated customers)
Confidential Attachment 3	Australian Industry Sales DBIL & DBIC (related customers)
Confidential Attachment 4	Australian Industry CTMS
Confidential Attachment 5	Price Suppression and Profit and Profitability analysis
Confidential Attachment 6	Revenue Injury Price Analysis
Confidential Appendix 1	Verification work program