



Australian Industry Verification Report

Verification & Case Details

Initiation Date	25 October 2019 15 November 2019	ADN:	Review ADN 2019/132 Continuation ADN 2019/141
Case:	Hollow Structural Sections Review of Measures – China, Korea, Taiwan, Malaysia & Thailand Continuation Inquiry – Thailand		
Case Number	529 (Review of Measures) & 532 (Continuation Inquiry)		
Company	Orrcon Manufacturing Pty Ltd		
Location	121 Evans Road, Salisbury QLD 4107		
Verification from	14 January 2020	to	16 January 2020
Review and Inquiry Period	1 October 2018	to	30 September 2019

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 THE ANTI-DUMPING COMMISSION

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1 COMPANY BACKGROUND

1.1 Corporate Structure and Ownership

Orrcon Manufacturing Pty Ltd (Orrcon) operates in the Australian market as a manufacturer of hollow structural sections (HSS). Orrcon is a wholly owned subsidiary of BlueScope Steel Limited (BlueScope).

Related entities to Orrcon and wholly owned subsidiaries of BlueScope, purchase and distribute Orrcon's HSS to its customers across Australia.

1.2 Related Parties

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

1.2.1 Related suppliers

Orrcon purchases most of its hot rolled coil (HRC) from a related supplier to manufacture HSS. Further analysis on this relationship to determine whether these raw material purchases are arm's length transactions is discussed at section 7.3 of this report.

1.2.2 Related customers

Orrcon supplies HSS to related customers. Analysis of these sales to determine whether they are arm's length transactions is further discussed at section 5.1 below.

2 THE AUSTRALIAN INDUSTRY MANUFACTURING LIKE GOODS

2.1 Manufacturing in Australia

Orrcon’s company-wide product range covers:

- Rectangular hollow sections (RHS), square hollow sections (SHS) and circular hollow sections (CHS) structural tubular steel
- Precision Tube
- Hot Rolled Structural Steel
- Hot Dipped Galvanised Pipe
- Merchant Bar
- ERW line pipe
- Fencing and Rural Products
- Roofing Products
- Building accessories
- Rural and Livestock Products

The Australian industry is comprised of producers of the goods, being Orrcon, Austube Mills (ATM), and Australian Pipe and Tube (APT).

2.1.1 Production process

Orrcon provided a description of the HSS production process. It explained that most of its HSS feedstock production is sourced locally from a related supplier. Orrcon stated the coil arrives at the Salisbury plant by truck/rail and is slit on site by Orrcon.

Orrcon advised that the slit coil is then unrolled and fed into the mills. The coil is then cold formed through a series of rolls and continuously welded into a hollow tubular shape. The tubular shapes are then further rolled into round, square, rectangular and other shapes. The black product is then surface-finished by applying various protective coatings. The HSS is then cut to length, bundled and placed in racks ready for storage or despatch to customers.

2.2 Verification of MCCs

The verification team verified the accuracy of the MCC sub-categories by reconciling the product descriptions from Orrcon’s sales invoices to its domestic sales listing. The verification team found no issues with this process.

A large proportion of the goods sold by Orrcon during the investigation period had the following MCCs:

Most popular MCCs sold	
P-G-P-R-350-P	P-G-P-C-350-P
P-N-P-R-350-P	N-G-P-R-350-P
P-N-P-C-250-P	P-N-N-R-350-P
P-N-P-C-350-P	N-N-P-R-350-P

P-G-P-R-450-P	P-N-N-C-250-P
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Table 1 - List of most popular MCCs sold

A full list of the MCCs sold by Orrcon was provided as part of Orrcon's application.

2.3 Like goods

Like goods are defined under section 269T(1) of the *Customs Act 1901* (the Act)¹ 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.

The verification team considers that HSS manufactured by Orrcon are identical to, or have characteristics closely resembling, the goods exported to Australia, as they possess:

Physical likeness

Orrcon stated that the imports of HSS from China, Malaysia, Korea, Taiwan and Thailand are similar to the goods produced by Orrcon as all HSS is produced from HRC and possess the following physical characteristics:

- shape - mainly circular or square/rectangular, but also oval and other shapes with rounded edges;
- size - in line with the goods description outlined in ADN 2019/132² and ADN 2019/141³;
- grade - having 250, 350 and 450 MPa yield strengths, or being non-structural;
- galvanised or black; and
- coatings/finish - painted, oiled or no coating

Commercial likeness

Orrcon stated that the imported HSS competes directly with the locally produced goods and are interchangeable. Further, Orrcon stated that the goods are sold to the same types of customers, mainly to distributors, but also to end users. The HSS sold by Orrcon is in direct competition with HSS supplied from exporters/importers.

Functional likeness

Orrcon explained that the imported and locally produced HSS are both used to perform the same function and have the same end use. HSS is used for the building and construction, engineering, and manufacturing sectors. Orrcon explained that imported and locally manufactured HSS are used for these sectors, and hence the HSS from these sources are completely interchangeable.

Production likeness

Orrcon stated that the imported and locally produced HSS are manufactured using a similar process. Information gathered from Orrcon, particularly from the factory tour undertaken by

¹ References to any section in this report relate to provisions of the Act, unless specifically stated otherwise.

² Refer to document no. 3 on the Commission's website under case 529.

³ Refer to document no. 3 on the Commission's website under case 532.

the verification team with Orrcon's representatives, indicate that the locally produced and imported goods are manufactured from HRC, using a similar manufacturing process.

2.4 Preliminary like goods assessment

The verification team is satisfied that:

- HSS manufactured by Orrcon are like to the goods under consideration;⁴
- at least one substantial process of manufacture of HSS is carried out in Australia;⁵
- the like goods are, therefore, wholly or partly manufactured in Australia by Orrcon;⁶ and;
- there is an Australian industry, of which Orrcon is a member, that produces like goods in Australia.⁷

⁴ Section 269T(1).

⁵ Section 269T(3).

⁶ Section 269T(2).

⁷ Section 269T(4).

3 AUSTRALIAN MARKET

3.1 Background

The key participants in the Australian HSS market are exporters, importers and the Australian industry comprising; Austube Mills (ATM), Orrcon, and to a lesser extent, Australian Pipe and Tube (APT).

3.2 Market structure

3.2.1 Distribution

The verification team observed two distribution channels operated by Orrcon. Orrcon's HSS products are sold either via its regional and metropolitan distribution centres, or direct from the Salisbury site.

3.2.2 Supply

Orrcon's HSS are sold directly to end users and to distributors for on-selling or for use in fabrication, manufacturing and construction.

3.2.3 Demand

Orrcon described the main market segments that drive demand for HSS in the following categories:

- Building, e.g. residential and non-residential construction, fencing
- Fluids, e.g. bore drilling, industrial plumbing, major contractors
- Engineering, e.g. heat exchangers, heavy structural fabrication, mining
- Manufacturing, e.g. automotive market, trailers, furniture

Orrcon claimed that the driver of demand for structural HSS largely revolves around fluctuations in demand in the construction and mining industries.

3.3 Pricing

Prices are set on a monthly basis. Orrcon provided the verification team with multiple documents pertaining to its research and analysis of price trends in relation to steel; including HRC and HSS. Orrcon use these documents to aid its pricing decisions.

3.4 Market size

In the application for its continuation inquiry, Orrcon estimated the size of the Australian market for HSS. As part of this verification, the verification team has examined Orrcon's sales volume as part of the total market size estimated by Orrcon.

4 VERIFICATION OF SALES COMPLETENESS AND RELEVANCE

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

Orrcon advised that it does not prepare separate audited financial reports for either of its manufacturing or distribution business as both are wholly owned subsidiaries of BlueScope and the audited financial reports are prepared on a consolidated basis. The verification team found it relevant to undertake the upwards sales verification based on BlueScope's financial reporting module, which links to Orrcon's accounting system.

Orrcon explained the three systems used in the reporting of sales information by Orrcon Manufacturing and Orrcon Distribution. The verification team asked Orrcon to extract certain data from its accounting systems for relevant sales reconciliations. Orrcon was able to undertake these tasks live, in the presence of the verification team.

The verification team did not identify any issues during this process. Details of this verification process are contained in the verification work program and its relevant attachments, at **Confidential Attachment 1**.

4.1 Import sales by applicant

Orrcon did not import HSS during the review/inquiry period. The verification team is satisfied that this is correct as a result of conducting the upwards sales verification, and from examination of data from the Australian Border Force import data base.

4.2 Export sales by applicant

Orrcon did not export HSS during the review/inquiry period. The verification team is satisfied that this is correct as a result of conducting the upwards sales verification.

4.3 Sales completeness and relevance finding

The verification team is satisfied that the sales data provided in the application by Orrcon is complete and relevant.

5 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 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 Australian sales listing submitted in the application by reconciling these to financial statements in accordance with ADN. No 2016/30.

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**.

No.	Exception	Resolution
1	All sample invoices specified the number of pieces sold rather than weight. As 'quantity (MT)' was the only quantity listed in the sales listing, the verification team were unable to verify the data.	
2	The net invoice values shown in the sales listing did not accurately reflect the net amounts shown on the sampled invoices. This was due to discounts that were presented in the sales listing on a line item basis at a decimal point level, whilst the invoicing was shown at a whole number level. This resulted in a variance between the sales listing net invoice values and the sample invoice values.	An updated sales listing with two new columns presenting the 'invoice quantity in pieces and actual (non-rounded) invoice values was provided by Orrcon.
3	In the revised sales listing, there were quantities that did not match the invoices and 'N/A' quantities.	An updated sales listing correcting the formula used to extract the quantities was provided.
4	The verification team noticed duplicated lines for a particular product for two of the sample invoices.	Orrcon advised this only affected reject (non-prime) product sales. The verification team examined the quantity of non-prime sales reported in the sales listing and found these represent an insignificant number of Orrcon's sales. Orrcon were unable to establish how the duplication error occurred and were unable therefore to correct the sales listings. The verification team agreed that, as the transactions were limited to an immaterial quantity and value, overall no further revision to the sales list was required.
5	The verification team noted rebates relating to the goods, were included in the SG&A listing and excluded from Orrcon's sales listing. It was also identified that the rebate amount initially reported in the SG&A listing was overstated by a marginal amount due to an adjustment processed after the data was initially submitted.	Orrcon allocated the rebates across transactions in the sales listing, and removed the amount from the SG&A listing and calculation. The verification team also verified that the rebate values were correct.

Table 2 - Exceptions during verification of accuracy of sales data

5.1 Related party customers

The verification team observed that Orrcon sold HSS to related customers.

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 arm's length.

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

5.2 Sales accuracy finding

The verification team is satisfied that the sales data provided in the application by Orrcon, including any required amendments as outlined in the exception tables above, is accurate. Details of this verification process are contained in the verification work program and its relevant attachments, at **Confidential Attachment 1**.

Accordingly, the verification team considers Orrcon's sales data suitable for analysing the economic performance of its HSS operations from 1 October 2018 to 30 September 2019.

6 VERIFICATION OF CTMS COMPLETENESS AND RELEVANCE

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

As discussed in Section 4 above, Orrcon advised that it does not prepare audited financial reports for either of its manufacturing or distribution business as both are wholly owned subsidiaries of BlueScope. Therefore, the verification team found it relevant to undertake the cost verification based on BlueScope’s financial reporting module, which links to Orrcon’s accounting system.

The verification team used Orrcon’s trial balances and various accounting systems to verify the data incorporated in its application.

The verification team identified one 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**.

No.	Exception	Resolution
1	Orrcon provided cost to make data including scrap costs pertaining to each of Orrcon’s subgroups of HSS. This was provided separately for each subgroup. The verification team noticed that the total of the fixed and variable manufacturing costs provided separately in each HSS subgroup did not match the total fixed and variable manufacturing cost figure for the cost to make data inclusive of all subgroups. Orrcon explained that this was due to incorrect allocations of the scrap cost for each of the four subgroups, and errors in formulas.	The verification team corrected the errors for each scrap value provided separately for each HSS subgroup. This was done by calculating a scrap dollar per tonne rate using the scrap value from the aggregated HSS cost to make data. The unit scrap value was multiplied by the production quantity of each of the HSS subgroups to calculate the correct scrap value for each HSS subgroup.

Table 3 - Exceptions during verification of completeness and relevance of cost data

6.1 CTMS completeness and relevance finding

The verification team is satisfied that the CTMS data provided in the application by Orrcon, including the required amendment as outlined in the exception table above, is complete and relevant.

7 VERIFICATION OF CTMS ACCURACY

7.1 Cost allocation method

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

Cost item	Method applied
Raw Materials	Allocated based on the unit costs of the raw materials, and production quantity of the various subgroups of the GUC.
Scrap Allocation	Allocated based on the unit costs of scrap, and production quantity of the various subgroups of the GUC.
Manufacturing Overheads	Allocated based on the unit costs of the manufacturing overheads, and production quantity of the various subgroups of the GUC.
Labour	Allocated as part of manufacturing overheads.
Depreciation	Allocated as part of manufacturing overheads.
Energy	Allocated as part of manufacturing overheads.
Rent and rates	Allocated as part of manufacturing overheads.

Table 4 - Cost calculation method

The verification team did not identify any issues during this process. Details of this verification process are contained in the verification work program and its relevant attachments, at **Confidential Attachment 1**.

7.2 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 found one issue in relation to Orrcon's Selling, General and Administration (SG&A) expenses.

No.	Exception	Resolution
1	The verification team noted that certain rebates were included as part of SG&A expenses, which were allocated to Orrcon's HSS sales listing, by Orrcon at the verification visit. Therefore, SG&A expenses were overstated.	The verification team excluded the rebate amount from SG&A expenses and SG&A calculation.

Table 5 - Exceptions during verification of CTMS data

Details of the CTMS verification process are contained in the verification work program and its relevant attachments, at **Confidential Attachment 1**.

7.3 Related party suppliers

Orrcon purchases its HRC for the production of HSS, from a related supplier. Orrcon claims that its purchases of HRC from the related supplier are at market prices. The verification team conducted analysis to assess the accuracy of Orrcon's claims, at **Confidential Attachment 1**.

The verification team is satisfied that Orrcon's purchases of HRC are market prices, and are therefore arm's length transactions.

7.4 Cost to make and sell verification finding

The verification team is satisfied that the CTMS data provided in the application by Orrcon is complete, relevant and accurate.

Accordingly, the verification team considers Orrcon's CTMS data is suitable for analysing the economic performance of its HSS operations from 1 October 2018 to 30 September 2019.

8 ECONOMIC CONDITION AND INJURY

8.1 Applicant's injury claims

In relation to Continuation inquiry 532, relating to HSS exported from Thailand, Orrcon explained that as a result of imports of HSS from Thailand, it has experienced injury as a result of:

- Reductions in sales and production volumes
- Reductions in sales price and revenue
- Reduced profitability
- Reduced employment

The verification team analysed Orrcon's financial data submitted as part of its application to assess injury from year ending September 2017 to year ending September 2019.

8.2 Volume effects

8.2.1 Sales and production volume

Orrcon's sales volumes of HSS from year ending September 2017 to year ending September 2019 are illustrated below in tonnes.

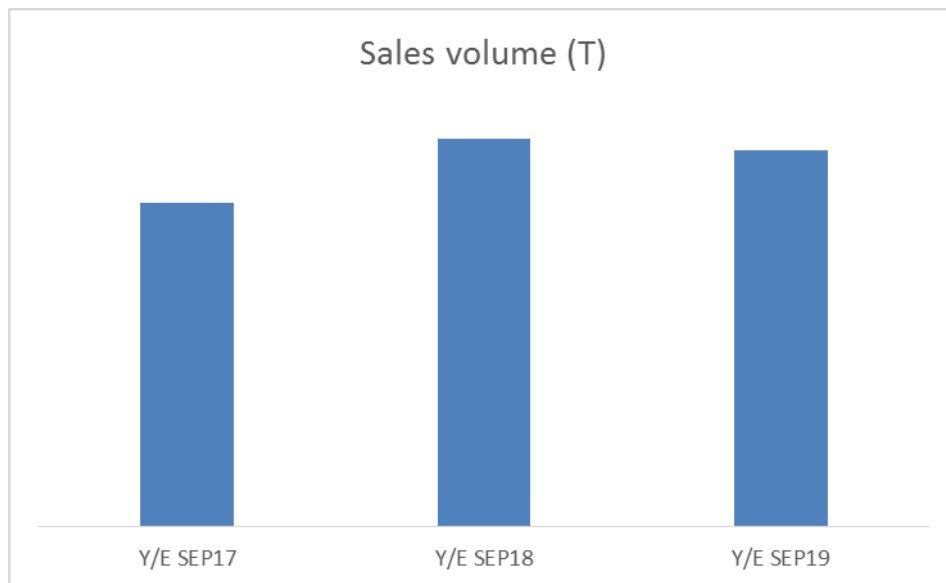


Figure 1 - Sales volume (T)

Orrcon's sales volumes of HSS increased from year ending September 2017 to year ending September 2018, but decreased during the review period.

Orrcon submitted that removing the anti-dumping measures will result in a decline in their sales of HSS. As Orrcon produces HSS on a customer order basis, it claims that production volumes will fall as well.

8.3 Price effects and profitability

The figures below highlight Orrcon's unit selling price, unit CTMS and unit profit from the year ending September 2017 to the year ending September 2019, in relation to HSS.

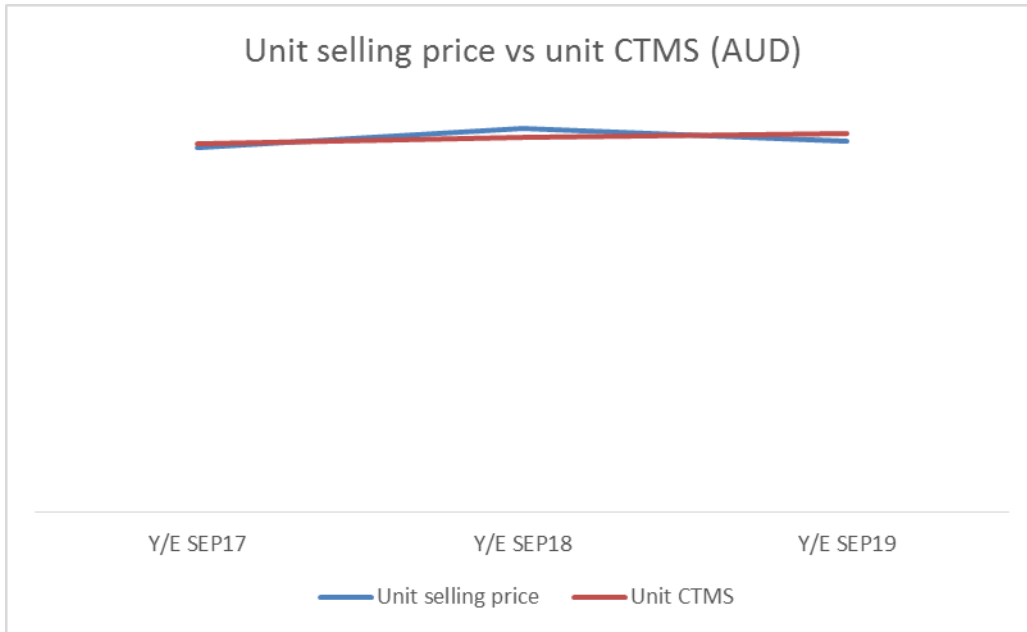


Figure 2 - Unit selling price vs unit CTMS (AUD)

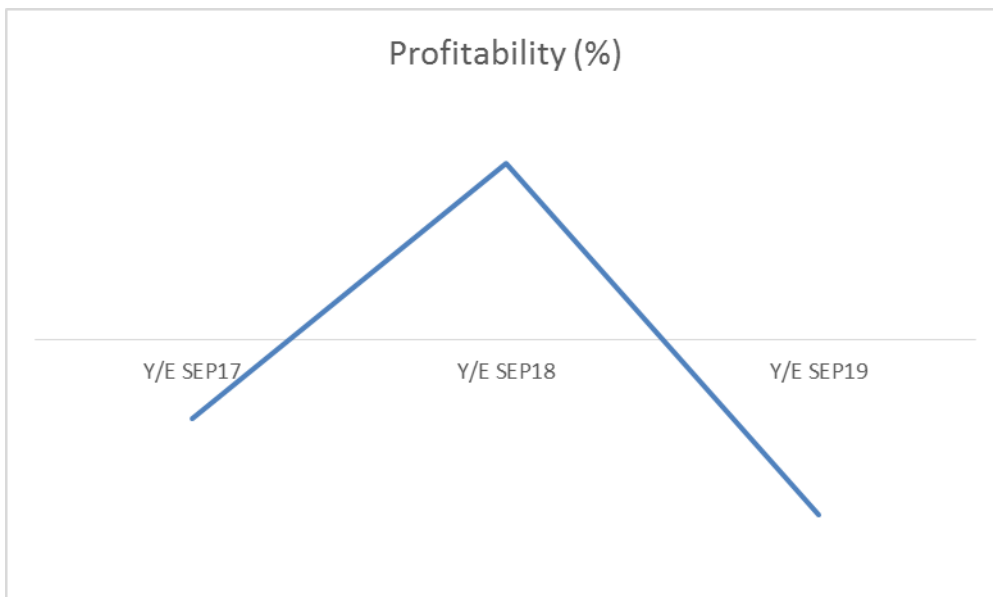


Figure 3 - Profitability (%)

With regard to HSS sales, Orrcon was unprofitable for year ending September 2017. There was then an increase in the HSS unit selling price for year ending September 2018, whereby Orrcon became profitable. However, during the year ending September 2019 Orrcon's unit sales price of HSS decreased. Orrcon then became unprofitable again, even more so than year ending September 2017. Orrcon stated that raw material costs have increased consistently since 2017, increasing its CTMS over time.

Orrcon showed the verification team a HSS price offer from a Korean exporter for April 2020. Orrcon explained that the exporter's unit sales price at Free Into Store (FIS) terms was lower than Orrcon's landed FIS unit sales price for April 2020. Orrcon stated that this is an example of how import prices affect its ability to sell on a competitive basis.

Orrcon submitted that removing the dumping measures will result in a decline in its sales prices and its profit.

8.4 Other economic factors

Orrcon advised that if dumping measures ceased, it is likely to face the following:

- Reduced attractiveness for re-investment; and
- Declining operations and possible forced closure of the Salisbury production facility, reducing employment.

8.5 Conclusion

Orrcon explained that imports of HSS from Thailand will continue to cause material injury to its business. It submitted that if measures were to cease, it is likely that there would be further reductions in sales and production volume, profit, investment and employment.

9 APPENDICES AND ATTACHMENTS

Confidential Attachment 1

Verification work program