PUBLIC RECORD

Australian Government
Department of Industry, Science, Energy and Resources

Anti-Dumping Commission

Australian Industry Verification Report

Verification & Case Details

Initiation Date	31/03/2020	**ADN:**	2020/30
Case Number	550		
The goods under consideration	Precision Pipe and Tube		
Case type	Dumping and Subsidy Investigation		
Australian Industry	Orrcon Manufacturing Pty Ltd		
Investigation Period	1/01/2019 **to** 31/12/2019		

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

CONTENTS

1 COMPANY BACKGROUND

1.1 Corporate Structure and Ownership

Orrcon Manufacturing Pty Ltd (**Orrcon**) is an Australian manufacturer and distributor of steel, tube and pipe, which it manufactures using locally sourced hot rolled coil (**HRC**) at its facility in O'Sullivan Beach, Adelaide.

Orrcon is a fully owned subsidiary of BlueScope Steel Ltd (**BlueScope**), a public company listed on the Australian stock exchange.

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 HRC used to produce the goods from a related party supplier.

Further discussion on whether these transactions have been made at 'arms length' is at section 7.4 of this report.

1.2.2 Related customers

Orrcon makes sales of the goods to a number of related party customers. Further discussion on whether these transactions have been made at 'arms length' is at section 5.2 of this report.

2 THE AUSTRALIAN INDUSTRY MANUFACTURING LIKE GOODS

2.1 Manufacturing in Australia

Orrcon in its application claims it is the only Australian manufacturer of precision pipe and tube steel products. The verification team is satisfied that Orrcon represents the whole of the Australian industry manufacturing like goods and has been unable to identify any other Australian producers.

In addition to the goods, Orrcon manufactures a range of other steel products, including hollow structural sections (**HSS**) at its facilities in Salisbury, Queensland.

2.1.1 Production process

The goods are produced as follows:

- Master coil, in the form of HRC, cold-rolled coil (CRC) or pre-galvanised HRC/CRC is the primary raw material used in the production of precision pipe and tube steel;
- The master coil is un-wound into the slitter, where steel blades cut the coil into predetermined widths;
- Scrap lost from the coil process is collected in bins and sold as steel scrap, with credits allocated to product costs;
- After slitting, the coils are re-wound on the re-coiler which ‘pulls’ the strip through the blades. The slit coils are then strapped and moved to one of four mills for rolling into steel tube;
- The tube forming process starts with the slit coil being placed on the un-coiler, which feed the coil into the mill. The strip runs through a series of forming rolls that form the strip edges into a circular shape ready for welding;
- An induction welder heats the edges of the coil strip and the edges are ‘forged’ together;
- Excess material that is extruded along the weld seam on the external and internal surfaces is removed, if applicable using a scarfing tools;
- Metallic thermal spray process is used to repair the weld zone on pre-galvanized tube;
- The tubular product is then sized and formed into circular, rectangular, square and other steel shapes;
- Once the tube forming process is complete, the tube is cut to size and de-burred as required;
- The product goes through final quality checks, is formed into packs and restrained with steel strapping;
- Downgrade material which does not meet the required standards for sale is sold as downgraded product at reduced rates;
- Finished product is despatched to Orrcon’s national distribution network via road and rail transport.

2.2 Model Control Code

The Model Control Code (MCC) proposed by Orrcon in its application is different from the MCC structure outlined at initiation. Information provided by Orrcon in its application was considered in constructing the MCC structure.

Orrcon provided all the mandatory and optional categories in its domestic sales data.

2.2.1 Amendment to MCCs

After examining the sales data provided by Orrcon, the verification team decided to adopt an alternative MCC structure that better reflects the physical characteristics that give rise to distinguishable and material differences in price. A copy of the alternative MCC structure is at **Non-confidential Appendix 1**.

2.2.2 Verification of MCCs

Table 1 below provides detail on how the MCC sub-categories were determined and verified to source documents.

Category	Determination of the sub-category
1. Prime	Defects can be identified during checks conducted on all precision pipe and tube as part of the production process.
2. Shape	Steel grade is determined by the steel coil feed and was verified to the description shown on commercial invoices.
3. Steel Grade	Verified to specifications detailed on mill test certificates.
4. Steel Base/Type	Verified to the finish description shown on commercial invoices.
5. Length	Verified to the description shown on commercial invoices.
6. Coating Mass	Based on the Product Compliance Certificate for each product code shown on commercial invoices.
7. Thickness	Verified to the description shown on commercial invoices.
8. Perimeter	Verified to the description shown on commercial invoices.
9. Outside Diameter	Verified to the description shown on commercial invoices.

Table 1: MCC sub-category determination

Using the alternative MCC structure, Orrcon sold goods with the following MCCs during the investigation period:

Circular goods	Square and Rectangular goods
N-C-5-A-2-2-A-N-2	N-R-1-GH-1-2-A-3-N
P-C-1-A-2-2-A-N-2	N-R-1-GH-2-2-A-3-N
P-C-1-C-2-0-A-N-1	N-R-3-GH-1-2-A-3-N
P-C-1-C-2-0-A-N-2	N-R-3-GH-2-2-A-3-N
P-C-1-GH-1-2-A-N-1	N-R-5-GH-2-2-A-3-N
P-C-1-GH-1-2-A-N-2	P-R-1-C-2-0-A-2-N

P-C-1-GH-2-2-A-N-1	P-R-1-C-2-0-A-3-N
P-C-1-GH-2-2-A-N-2	P-R-1-GH-1-2-A-2-N
P-C-2-H-1-0-C-N-N	P-R-1-GH-1-2-A-3-N
P-C-5-A-1-2-A-N-2	P-R-1-GH-2-2-A-2-N
P-C-5-GH-2-2-A-N-1	P-R-1-GH-2-2-A-3-N
P-C-1-C-2-0-B-N-1	P-R-5-GH-2-2-A-3-N
P-C-2-A-1-0-B-N-2	
P-C-1-C-2-0-B-N-2	
P-C-1-GH-2-2-B-N-1	
P-C-1-H-2-0-B-N-1	
P-C-1-GH-2-2-B-N-2	
P-C-1-H-2-0-B-N-2	
P-C-1-GH-1-2-B-N-2	
P-C-1-H-1-0-B-N-2	
P-C-1-C-1-0-B-N-1	
P-C-1-C-1-0-B-N-2	

Table 2: MCCs sold

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.*

For the reasons set out in sections 2.3.1 to 2.3.5 below, the verification team considers that precision pipe and tube steel manufactured by Orrcon is identical to, or has characteristics closely resembling, the goods exported to Australia, except for those goods described as air heater tubes.

2.3.1 Physical likeness

Precision pipe and tube steel manufactured by Orrcon is made from the same primary raw material as the goods, being HRC, cold-rolled coil or pre-galvanised HRC, and is made to similar specifications, including in a similar range of lengths, diameters, grades, thicknesses and shapes.

2.3.2 Production likeness

Precision pipe and tube steel manufactured by Orrcon is made using a similar production process to the goods, using the same raw material inputs.

2.3.3 Commercial likeness

Precision pipe and tube steel manufactured by Orrcon directly competes in the Australian market with goods exported to Australia, as they are commercially

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

interchangeable, use similar distribution channels and are sold on much the same terms.

2.3.4 Functional likeness

Precision pipe and tube steel manufactured by Orrcon is used by the same customers for similar (or the same) end-uses as goods exported to Australia, including fencing, furniture manufacturing, shelving and racking, heat exchangers, outdoor patio structures, exhaust systems and other general mechanical or manufactured end-use applications.

2.3.5 Air heater tubes

The goods description includes “air heater tubes to Australian Standard (AS) 2556, up to and including 101.6 mm outside diameter”. The verification team noted in its examination of Orrcon’s Australian sales that no goods with MCC descriptors matching air heater tubes were sold during the investigation period. Orrcon advised that it has the capability to supply precision pipe and tube matching this description, but it does not currently do so.

Following verification, Orrcon advised the Commission that during the investigation period it manufactured and sold like goods for the same end-use. This claim has not been verified by the Commission as of the publication of this report. The Commission will further examine this claim during the investigation.

2.4 Preliminary like goods assessment

The verification team is satisfied that, except for air heater tubes as described in the goods description:

- precision pipe and tube steel manufactured by Orrcon is like to the goods;[2]
- at least one substantial process of manufacture of precision pipe and tube steel is carried out in Australia;[3]
- the like goods were, therefore, wholly or partly manufactured in Australia by Orrcon;[4] and
- there is an Australian industry, consisting solely of Orrcon, which produces like goods in Australia.[5]

This will be further examined during the investigation.

2 Section 269T(1).
3 Section 269T(3).
4 Section 269T(2).
5 Section 269T(4).

3 AUSTRALIAN MARKET

3.1 Background

The Australian market for the goods and like goods is supplied by Orrcon as the sole member of the Australian industry, as well as manufacturers from other countries who export to Australian customers directly or through intermediaries and distributors.

Imports of the goods into the Australian market are sourced from numerous countries. However, in recent years the highest volumes have originated from China, Korea, Taiwan and Vietnam.

There are no measures in place for precision pipe and tube steel exported to Australia.

3.2 Market structure

Precision pipe and tube steel is supplied to a range of market sectors including fencing, furniture manufacturing, shelving and racking, heat exchangers, outdoor patio structures, exhaust systems and other general mechanical or manufactured end-use applications. Alternate after-market applications include “handy-man” and repair work.

3.2.1 Marketing and distribution

Orrcon has two sales channels in the Australian market, with the majority of precision pipe and tube sales made through its related distribution partners. The other sales channel to market is referred to as “mill direct”, when a distributor or customer places an order directly with Orrcon for a limited range of goods. Mill direct orders have a longer lead process time than sales made through Orrcon’s distribution partners.

Goods are transported by road from the mill in O’Sullivan Beach, Adelaide to third party distribution centres located throughout the eastern states. Goods bound for Western Australia are transported by rail.

From the distribution centres, goods are warehoused until delivery to customers.

3.2.2 Supply

Whether a customer can readily change supplier is dependent on the nature of the customer and their business. Wholesalers, distributors and re-sellers can more readily change suppliers, either through shifting to importers or between themselves. For end-users, they can source supplies through Australian suppliers (who may source from Orrcon or from imports) or directly from importers, but this is highly dependent on the end-user being in a position to manage the cash flow and minimum volume order requirements.

Orrcon's sales data showed four channels of supply to domestic customers: building companies, distributors, end users and manufacturers with the majority of sales going to end users and manufacturers.

Orrcon manages its supply arrangements on a state, rather than national, level.

3.2.3 Demand

The demand for precision pipe and tube steel is driven by a diverse range of market sectors in the Australian market.

Orrcon highlighted in its application that the increase in the overall size of the Australian market recently is attributed to growth in the pool fencing, general fencing (permanent and temporary) and patio tube markets.

The verification team examined Orrcon's sales data broken down by market category and found that fencing has been the most significant market sector for the goods consistently over the last four years, followed by automotive and furniture, although it is noted that automotive has been steadily decreasing and is likely to continue to decline in light of the winding down of the automotive industry in Australia.

There are also seasonal factors which impact the demand for precision pipe and tube steel, being the construction cycle which results in December and January effectively aggregating to one month of normal sales due to the traditional construction industry holiday period falling at this time, and rural sector sales in May and June driven by farmers resolving any outstanding repairs and maintenance issues prior to the end of financial year.

The verification team found that, when grouped by industry group, construction made up the majority of sales demand, followed by manufacturing.

The verification team examined construction work over the injury period to examine whether there is a correlation in demand both seasonally and on a long term trend.

Using data from the Australian Bureau of Statistics, the verification team observed a strong correlation between the value of building construction within Australia and the value of sales of the goods by Australian industry. It is also noted that sales tended to fall in the first quarter of each calendar year, before rising again over the remainder of the year, for both construction and sales of the goods. The verification team is therefore satisfied that movements in the construction industry will have an effect on demand in Australia for the goods.

3.3 Pricing

3.3.1 Price setting

Orrcon has a price list framework in place for all manufactured precision pipe and tube steel. State branches then use a pricing group discount structure or customer specific contract price structure to manage price offers.

Orrcon receives feedback on prevailing imported market rates which is then used to adjust its prices on market offers to customers. Orrcon provided examples to the verification team during verification.

Product features and characteristics, as well as supply and commercial offer attributes will influence the offer price to customers. The nature of the customer and the market segment they operate in may also impact pricing.

Orrcon does not consider itself a price leader for the goods. Net prices are dictated by customer orders and requirements, but are mainly priced to meet import competition via import parity pricing. This takes into consideration the market price of the subject goods using contemporary price information for equivalent imported products.

Prices at a model level are also dictated by the steel feed coil cost and production costs. In setting its prices, Orrcon seeks to recover its full cost to make and sell. However, full cost recovery is not always realised.

Offers are negotiated with customers for a particular supply term, e.g. one month, three months, six months etc. and are reviewed on a case by case basis either monthly, quarterly or annually.

Orrcon does not sell through tender processes.

3.3.2 Price sensitivity and transparency

Orrcon advised the verification team that the Australian market for the goods can be highly sensitive to the offer price with customers known to change suppliers based on minor price variations. Other customers will shop monthly requirements and award supply on a line-by-line basis.

Orrcon submits that there is little price transparency in the Australian market for the goods. Price is agreed typically through face to face negotiation and understanding of requirements on an offer-and-acceptance basis.

3.4 Market size

In its application, Orrcon estimated the size of the Australia market for the goods using its own sales data and based on imports classified under the following tariff classifications:

- 7306.30.00/30 – other tubes, pipes and hollow profiles, welded, of circular cross-section, of iron or non-alloy steel not exceeding 21 mm external diameter; and
- 7306.61.00/21 – other tubes, pipes and hollow profiles, welded, of non-circular cross-section, square or rectangular cross-section, of iron or non-alloy steel, not exceeding 279.4 mm perimeter with a wall thickness not exceeding 2 mm.

Based on its knowledge as a participant in both the precision pipe and tube steel and HSS markets, Orrcon estimates that a proportion of imports classified under these

tariff subheadings are already subject to anti-dumping measures applying to HSS. Orrcon contends that the remainder of imports under these tariff classifications that are not subject to measures make up the Australian market for the goods.

The verification team is satisfied that the tariff classifications identified by Orrcon are suitable for estimating the size of the Australian market.

4 VERIFICATION OF SALES COMPLETENESS AND RELEVANCE

Verification of relevance and completeness is conducted by reconciling selected data submitted "upwards" through management accounts up to audited financial accounts. The total sales value and quantity is reconciled to management reports with particular attention given to ensuring that all relevant transactions are included and irrelevant transactions are excluded. The total value from the management reports is then reconciled to the total revenue figure reported in the audited income statement.

The verification team verified the completeness and relevance of the Australian sales listings by reconciling these to audited 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. However, the verification team was able to verify the relevance and completeness of Orrcon's sales data to BlueScope's audited financial reports as follows:

- Reconciled audited financial data for FY2019 and FY2020, which together covered the investigation period, as reported the Annual Reports for Orrcon's parent company BlueScope;
- For each of FY2019 and FY2020, the verification team was able to reconcile total revenue for BlueScope to the Profit and Loss (P&L) statement, which provided a breakdown of revenue by each wholly owned BlueScope subsidiary, including Orrcon;
- Revenue as reported by Orrcon in the BlueScope P&L for both FY2019 and FY2020 was then traced to Orrcon's Trial Balance;
- Trial Balance totals were then reconciled to Orrcon's sales data for each financial year which was then reconciled to the investigation period using monthly sales data.

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**.

4.1 Exceptions during verification of sales completeness and relevance

No.	Exception	Resolution
1	Orrcon provided in its Application an Australian sales listing for the twelve months to September 2019.	Following initiation of the investigation with an investigation period from 1 January 2019 to 31 December 2019, Orrcon provided a revised Australian sales listing corresponding to the investigation period.

Table 3: Exceptions during verification of completeness and relevance of sales data

4.2 Import sales by applicant

Orrcon did not import the goods during the investigation period.

4.3 Export sales by applicant

Orrcon did not export the goods during the investigation period which was verified by the team as part of upwards sales verification.

4.4 Sales completeness and relevance finding

The verification team is satisfied that the sales data provided in the application by applicant, including any required amendments as outlined in the exception table above, 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.

The verification team verified accuracy of the Australian sales listings submitted in the REQ by reconciling these to source documents 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**.

5.1 Exceptions during verification of sales accuracy

No.	Exception	Resolution
2	The verification team identified a number related customer sales in the Orrcon Australian sales listing incorrectly reported as unrelated sales.	The verification team amended the Australian sales listing to correctly report the identified the sales as related party sales.
3	Orrcon has reported sales of goods with a length of 1mm in its domestic sales data	Orrcon advised that the length of these items is incorrect due to manual entry in its reporting system when the sale is entered. As this issue affects a limited number of sales and there is no other method for Orrcon to ascertain the correct length, no adjustment was made.
4	Orrcon has included rectangular hollow sections (RHS) with a gauge/thickness equal to 1.6mm in its domestic sales data, which are not the goods.	The verification team has excluded these products from the sales listing as they are not the goods. The verification team notes that measures are currently in place in respect of RHS with a thickness of 1.6mm.
5	Orrcon has included circular hollow sections (CHS) with an outside diameter of 127mm in its domestic sales data, which are not the goods.	The verification team has excluded these products from the sales listing as they are not the goods.
6	The verification team identified a number of products with the “NOP” (no oil powder coat finish) code which were labelled under MCC4 as “O”, meaning they were supposedly	The verification team queried this with Orrcon who explained that this was a typographical error when applying the MCC structure. Orrcon

	oiled. Orrcon did not report any products as non-oiled.	submitted a revised domestic sales listing correcting this error.
7	A mill certificate Orrcon provided for certain products indicated a coating mass inconsistent with what was reported in its domestic sales data.	The verification team queried this with Orrcon who explained that this was a typographical error when applying the MCC structure. Orrcon submitted a revised domestic sales listing correcting this error.

Table 4: Exceptions during verification of accuracy of sales data

5.2 Related party customers

The verification team observed that Orrcon sold precision pipe and tube steel 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 'arms length'.

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

5.3 Sales accuracy finding

The verification team is satisfied that the sales data provided 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 precision pipe and tube steel operations for the investigation period.

6 VERIFICATION OF CTMS COMPLETENESS AND RELEVANCE

Verification of relevance and completeness is conducted by reconciling selected data submitted "upwards" through management accounts up to audited financial accounts. The total cost to make data is reconciled to the cost of production in the management reports with particular attention given to ensuring that all relevant costs are included and irrelevant costs have been excluded. The cost of production data is then reconciled, through relevant account ledgers, to the cost of goods sold figure reported in the audited income statement. Additionally, selling, general and administration (SG&A) expenses are reconciled to income statements, with particular attention given to specific expenses that were excluded or should be excluded.

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

As discussed in section 4 above, Orrcon does not prepare audited financial reports for either of its manufacturing or distribution business as both are wholly owned subsidiaries of BlueScope. Noting the outcome of the upwards sales reconciliation outlined in section 4, the verification team had confidence in the accuracy of the Trial Balance and considered that upwards verification of cost data to the Trial Balance was sufficient to satisfy itself of the completeness and relevance of the CTMS data.

The verification team was able to reconcile the total cost of goods sold value and volume reported in the Trial Balance to the Material Costs Report for all products, including precision pipe and tube steel. The verification team was then able to reconcile production volumes in its CTMS data to the Material Costs Report, but was unable to directly reconcile values. This is discussed further below.

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 Exceptions during verification of completeness and relevance of CTMS data

No.	Exception	Resolution
8	Orrcon provided in its application cost to make data only by steel base/type.	The verification team was satisfied it could use the information provided by Orrcon to verify the cost data as the data, while not in the MCC structure, represented all production of the goods during the IP. Orrcon also provided during verification a cost to make listing for each MCC it produced during the investigation period.
9	A difference was observed between the total value of	Orrcon explained the differences in reporting methodology in the systems used to produce each data set. The verification team also notes that the

	precision pipe and tube steel reported in the Material Costs Report compared to the value reported in Orrcon's CTMS data.	CTMS data for like goods covers a narrower range of products than that classified as precision pipe and tube in the Material Costs Report. The verification team was therefore satisfied that the differences did not undermine the accuracy of the data provided.

Table 5: Exceptions during verification of completeness and relevance of CTMS data

6.2 CTMS completeness and relevance finding

The verification team is satisfied that the CTMS data provided in the application by Orrcon, including any required amendments 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 cost information, 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**.

Table 6 below outlines the allocation method applied to each cost item.

Cost item	Method applied
Raw Materials	Raw material costs are allocated to the goods based on production quantity of the various subgroups of the goods.
Scrap Allocation	Value of scrap sold, allocated to the goods based on production quantity of the various subgroups of the goods.
Manufacturing Overheads	Manufacturing costs are allocated to the goods based on production quantity of the various subgroups of the goods.
Labour	Allocated as part of manufacturing overheads.
Depreciation	Allocated as part of manufacturing overheads.

Table 6: Cost calculation method

7.2 Exceptions during verification of CTMS allocation method

No.	Exception	Resolution
10	The verification team identified that the net sales revenue values for each model in Orrcon's SG&A calculation were different to the revenues reported in its domestic sales listing and its sales reconciliation data.	Orrcon confirmed that in preparing this worksheet, it erroneously referenced CTM instead of net sales revenue and provided a revised SG&A calculation during verification.

Table 7: Exceptions during verification of CTMS allocation method

7.3 Verification of accuracy of CTMS data

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 cost data down to source documents. This verifies the accuracy of the data.

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

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**.

7.4 Related party suppliers

Orrcon purchased its steel coil inputs for the production of precision pipe and tube steel from a related supplier. The verification team conducted analysis to assess whether these purchases were at market prices, at **Confidential Attachment 1**.

The verification team is satisfied that Orrcon's purchases of steel coil were at market prices and are 'arms length' transactions.

7.5 Cost to make and sell verification finding

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

Accordingly, the verification team considers Orrcon's CTMS data is suitable for analysing the economic performance of its precision pipe and tube steel operations for the investigation period.

8 ECONOMIC CONDITION

8.1 Applicant's injury claims

Orrcon claims that the Australian industry has been injured through:

- loss of sales volume;
- reduced market share;
- price depression;
- price suppression;
- loss of profits;
- reduced profitability;
- reduced return on investment;
- reduced revenue;
- reduced employment; and
- reduced inventory turnover.

8.2 Approach to injury analysis

The verification team analysed Orrcon's financial data in support of its claims of injury during the injury analysis period. The verification team also reviewed trends in imports of precision pipe from the subject countries for the corresponding period.

8.3 Commencement of injury, and analysis period

In its application, Orrcon claims that it started experiencing injury in its precision pipe market in its financial year 2017/18. Orrcon's financial year is from July to June. It claims that the injury it has experienced is following an upsurge in imports from the subject countries in the 2016/17 year.

The injury analysis period is from 1 January 2016, with an investigation period of 1 January 2019 to 31 December 2019. This period captures the events as outlined by Orrcon in its application and will allow the verification team to assess if there are reasonable grounds to consider that Australian industry has experienced injury.

8.5 Volume effects

8.5.1 Sales volume

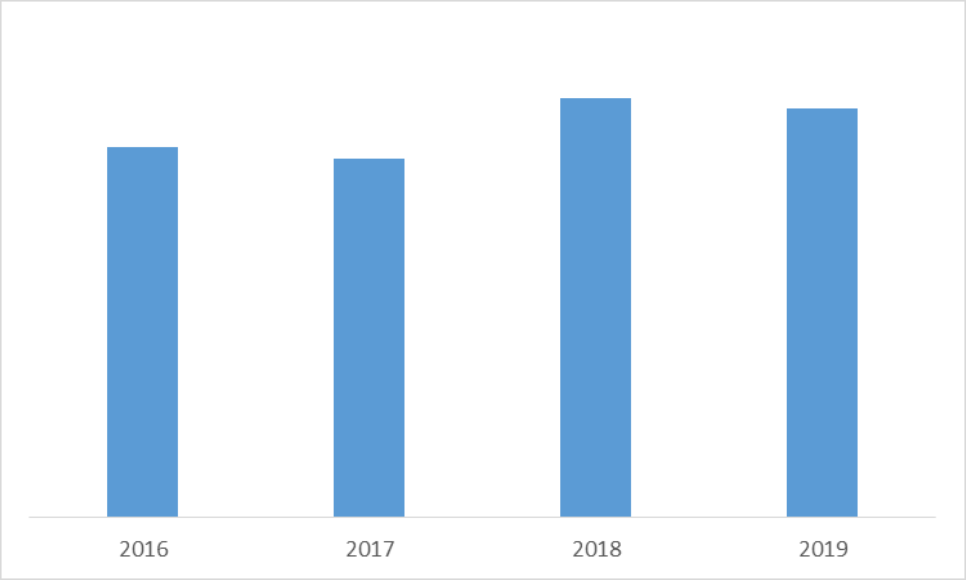

Figure 1: Orrcon sales volumes

Orrcon's sales volumes have not followed a general trend over the injury analysis period. However, it has experienced a reduction during the investigation period. In the application, Orrcon claimed that while it has seen some increases of volumes during the period, in a growing market it should have seen a greater increase. On this basis it claimed injury in the form of reduced sales volumes. The verification team assessed the growth of the market during the period and found that total market volumes contracted during the period after an initial increase between 2016 and 2017.

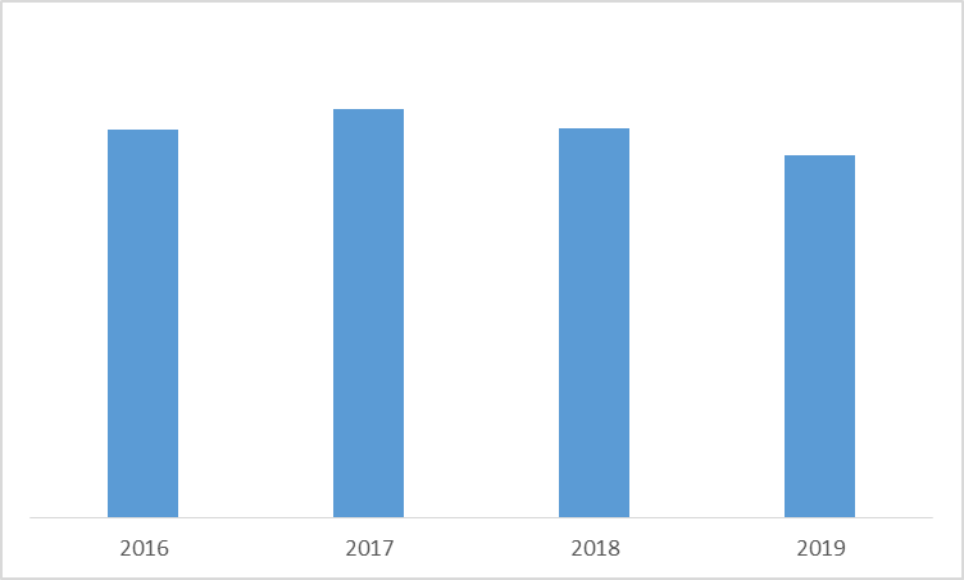

Figure 2: Total market volumes

8.5.2 Market share

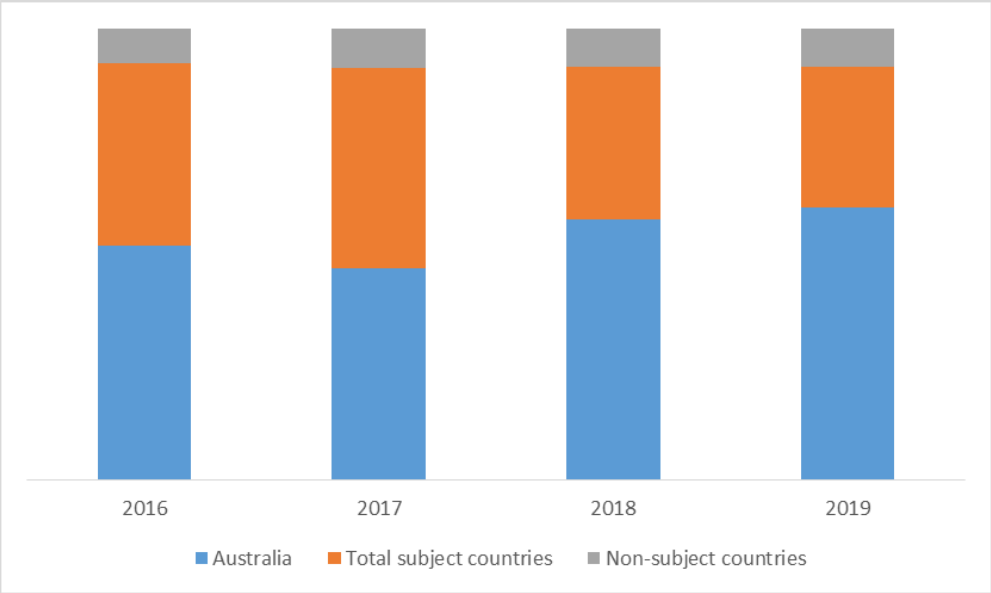

Figure 3: Market share

The verification team analysed changes in market share during the injury analysis period. Orrcon's market share has increased between 2017 and 2019.

8.5.3 Conclusion – volume effects

While Orrcon has experienced increased market share during the period from 2017, it has experienced a reduction in sales volumes between 2016 and 2017 and again in the investigation period. There are reasonable grounds to support a claim of volume related injury.

8.6 Price effects

8.6.1 Price suppression and price 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.

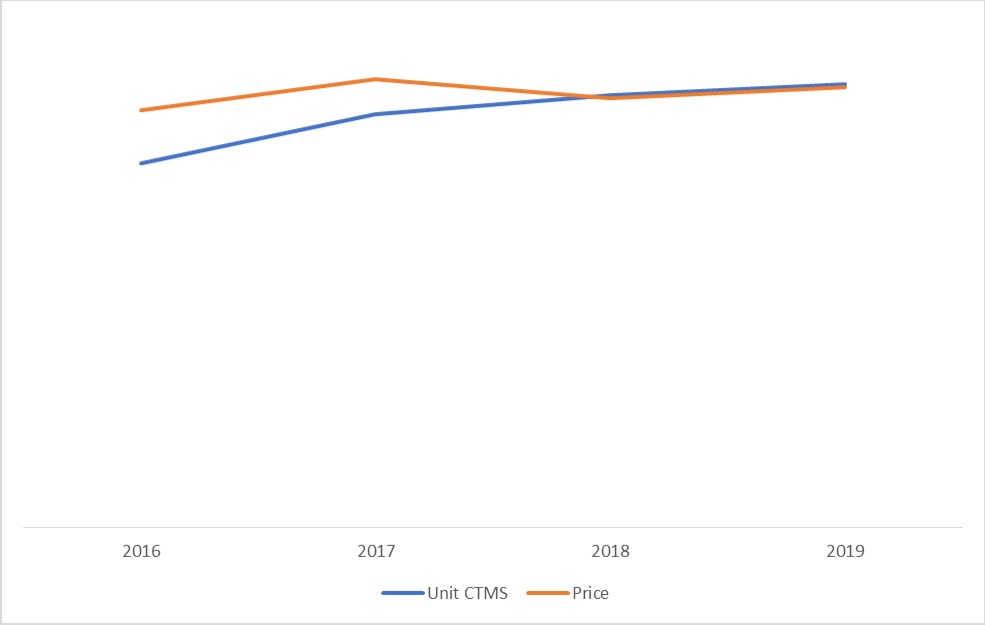

Figure 4: Unit CTMS and unit selling price

Figure 4 depicts a general downward trend in unit pricing since 2017. There is some minor recovery between 2018 and 2019. Unit CTMS has seen a steady increase since 2017, however, prices have not kept up with this increase resulting in the loss of Orrcon's profit margin.

8.6.2 Conclusion – price effects

There are reasonable grounds to consider that Orrcon has experienced injury in the form of price depression and price suppression during the injury analysis period.

8.7 Profit and profitability

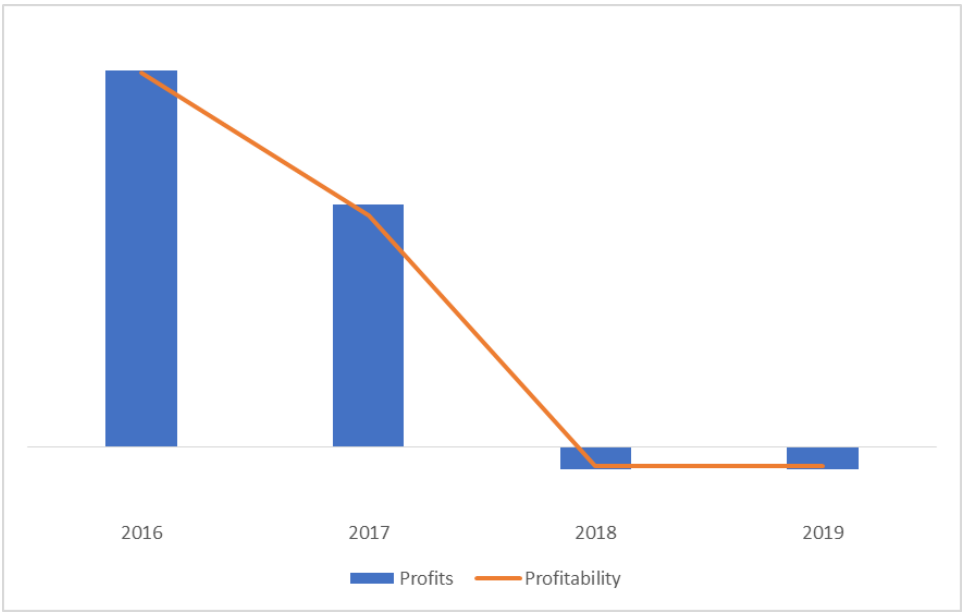

Figure 5: Profits and profitability

Figure 5 shows a steady reduction in profits and profitability between 2016 and 2018. Between 2018 and 2019, there was minimal change in Orrcon's net loss and profitability position.

8.7.1 Conclusion – profit and profitability

There are reasonable grounds to consider that Orrcon has experienced injury in the form of reduced profits and profitability.

8.8 Other economic factors

8.8.1 Revenue

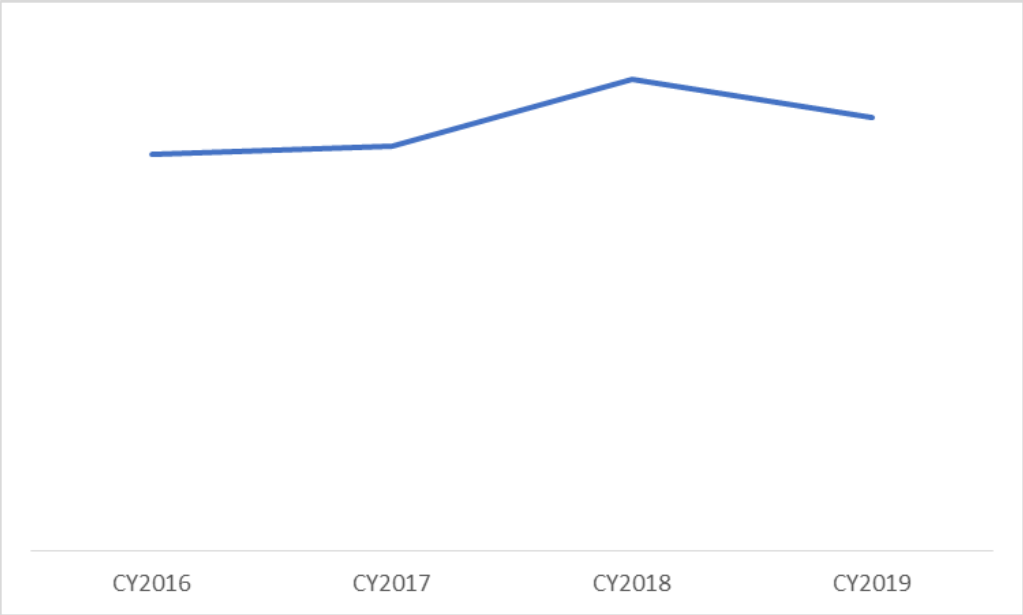

Figure 6: Revenue

Orrcon has experienced revenue growth between 2017 and 2018, followed by a decrease in the investigation period.

8.8.2 Employment numbers

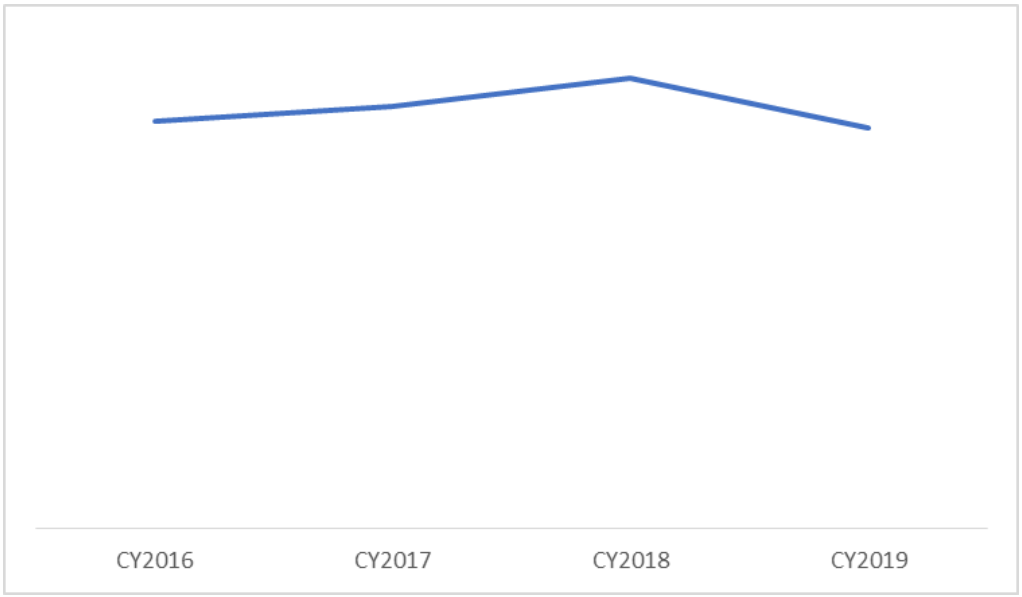

Figure 7: Employment numbers

Orrcon has reduced its employee numbers between 2018 and 2019.

8.8.3 Return on investment

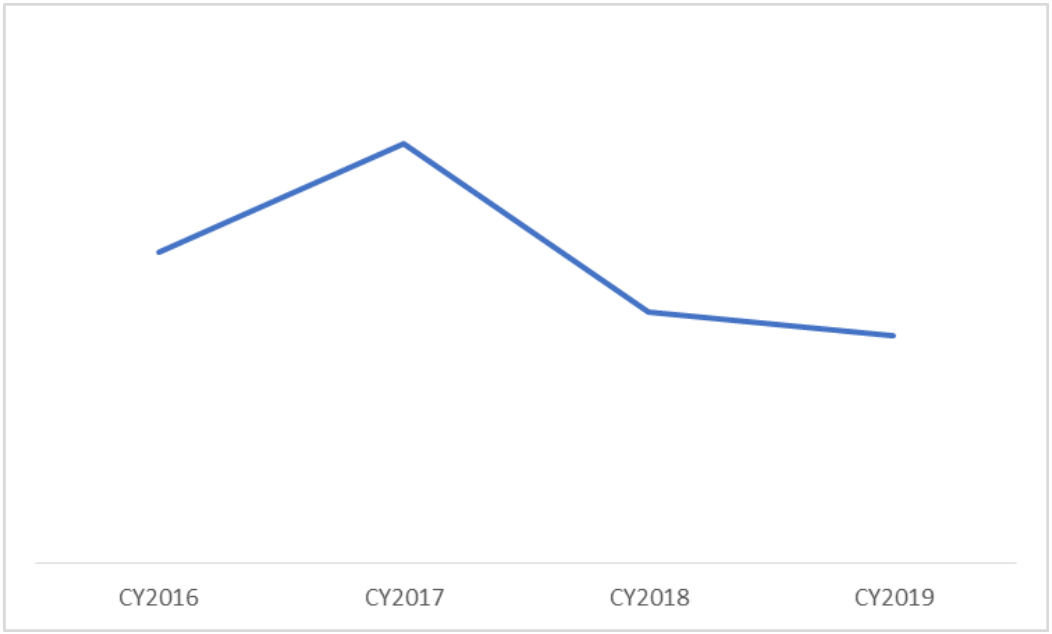

Figure 8: Return on investment

Orrcon's return on investment (ROI) for the goods has reduced between 2017 and 2019, with a significant reduction between 2017 and 2018.

8.8.4 Reduced inventory turnover

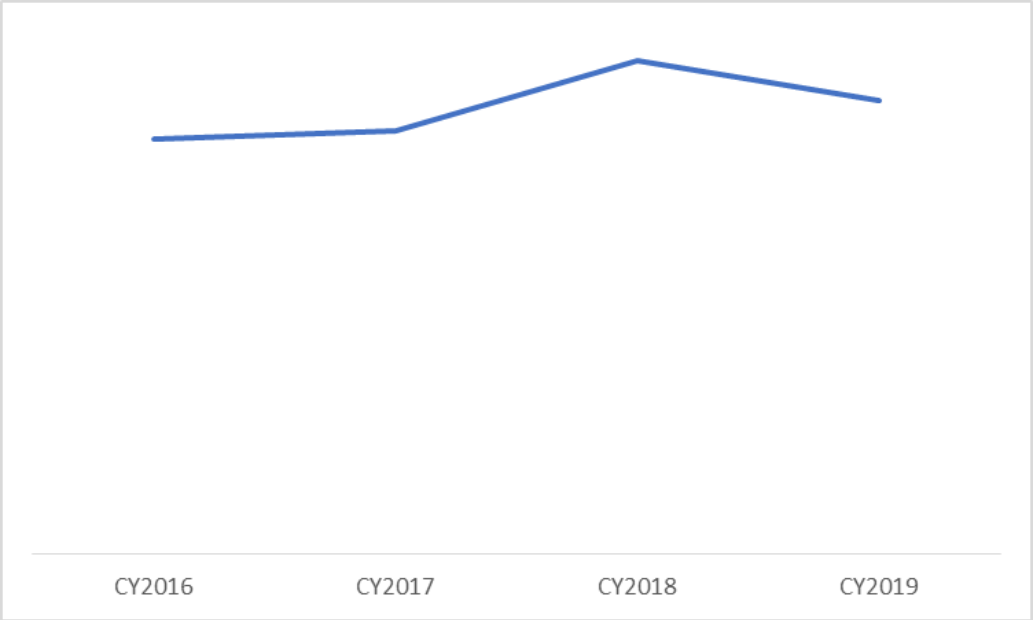

Figure 9: Inventory turnover

Orrcon's inventory turnover has decreased in the investigation period after some recovery between 2017 and 2018.

8.8.5 Production and capacity utilisation

In its application, Orrcon claimed that its increase in production volumes since the 2015/16 year are "materially insignificant when contrasted with the 60 per cent increase in the precision pipe and tube market over the same period." The verification team has analysed the claim of both the increase in Orrcon's own production as well as the size of the market. It is noted that while the initial data provided to the Commission at application was for years ending 30 September, updated data has been provided to the verification team for calendar years 2016 to 2019.

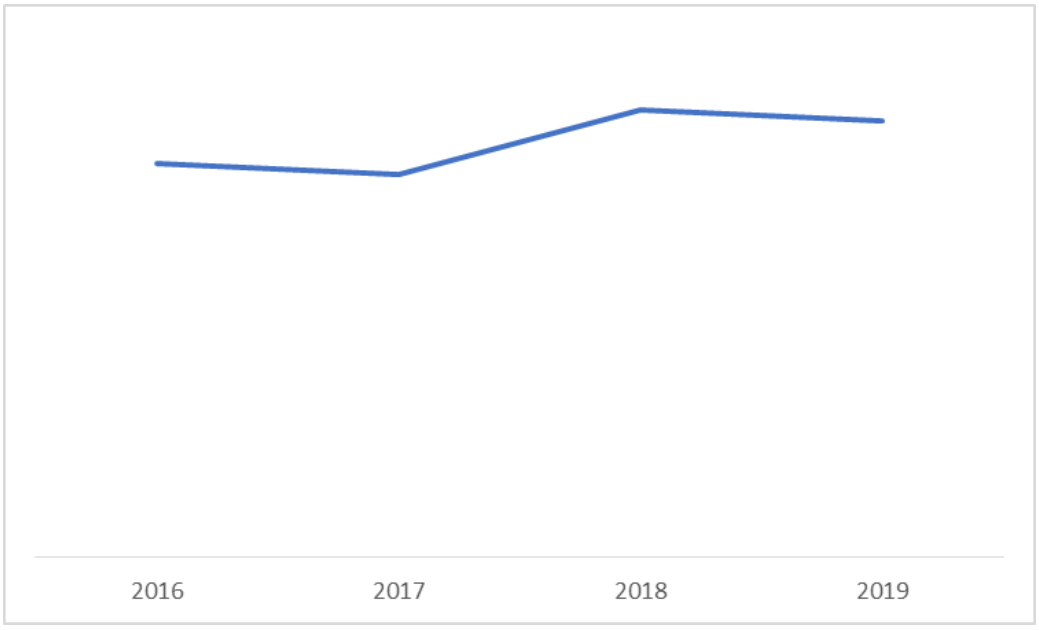

Figure 10: Production quantity

The verification team notes that as stated by Orrcon, there has been an increase in production of the goods between 2017 and 2018, with a slight reduction in 2019. Orrcon contrasted this with the increase in the size of the overall market. Accordingly, the verification team reviewed the size of the market in Australia for precision pipe.

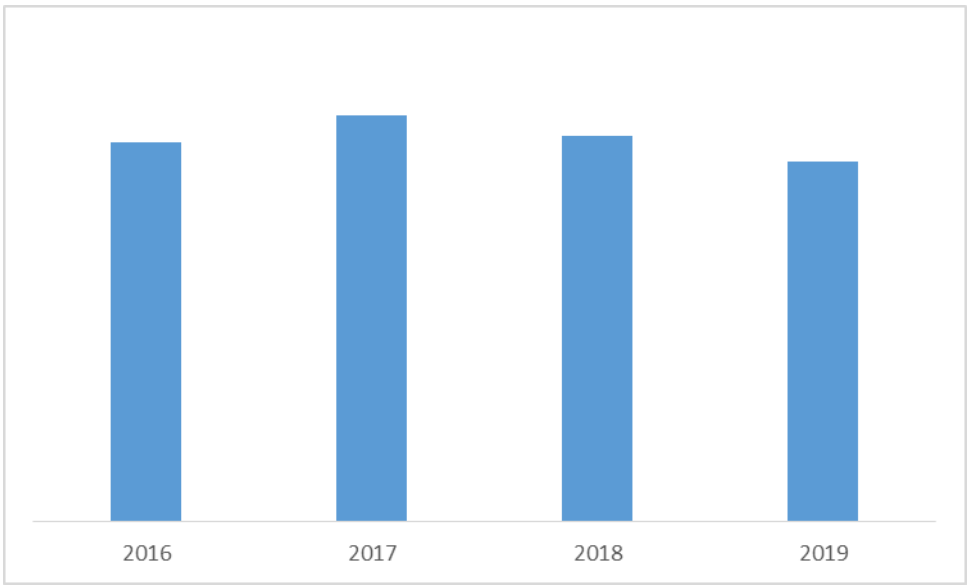

Figure 11: Australian market for precision pipe (volume, MT)

As demonstrated in figure 11, the verification team found that the market for precision pipe in Australia reduced between 2017 and 2019.

During the injury analysis period, Orrcon's capacity utilisation also increased as demonstrated in Figure 12 below.

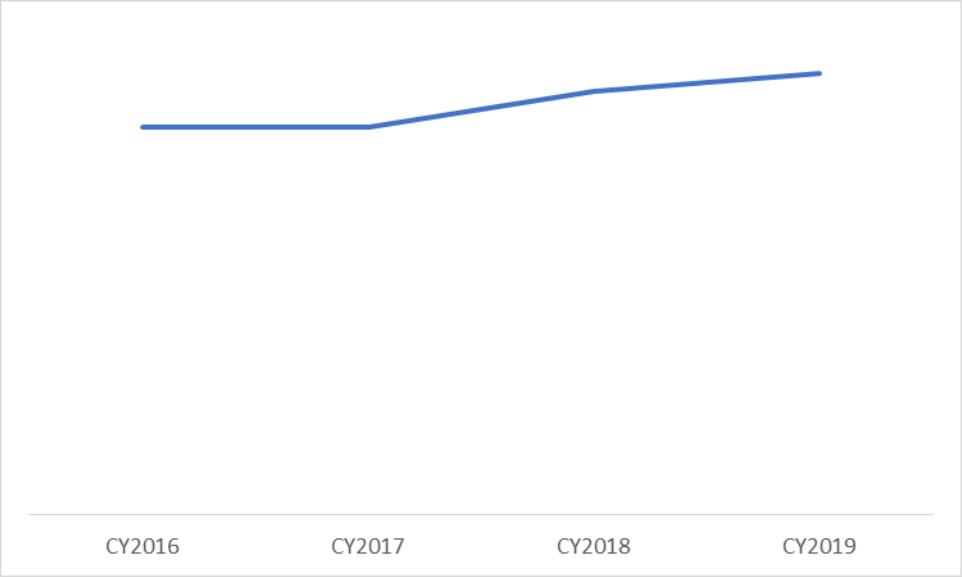

Figure 12: Capacity utilisation

8.8.6 Other indicators

Assets – Orrcon has seen an increase in assets during the injury analysis period.

Capital investment – Orrcon's capital investment in relation to the goods increased between 2017 and 2019, after an initial decrease.

Productivity - Productivity increased between 2017 and 2019, after an initial decrease between 2016 and 2017.

Average wages – Average wages trended up during the injury analysis period.

8.8.7 Conclusion – other economic factors

There are reasonable grounds to support the Australian industry's claims that it has experienced injury in the form of reduced revenue, employment numbers, ROI and inventory turnover.

8.9 Factors other than dumping

In its application and during the verification, Orrcon discussed the following changes in the market that has impacted the industry:

- Cessation of automotive manufacturing in Australia that has impacted demand for Australian precision pipe and tube;
- Higher energy costs;
- Increase of online shopping has resulted in fewer orders for shop fit-out;
- Increased imports of finished goods.

Despite these factors, Orrcon claims that higher manufacturing costs could not be passed on due to price pressure from allegedly dumped imports. The verification team inquired Orrcon's views concerning exports from countries not named in this investigation. It is Orrcon's view that non-named countries exported a smaller

proportion of the goods and have not engaged in dumping causing material injury to the Australian industry.

8.10 Conclusion

Based on an analysis of the information contained in the application and obtained and verified during verification, the verification team considers that the company has experienced injury in the forms of:

- reduced sales volume;
- price depression;
- price suppression;
- reduced profit
- reduced profitability;
- reduced revenue;
- reduced employment numbers;
- reduced return on investment; and
- reduced inventory turnover.

The verification team found insufficient grounds to support the claims that the company had experienced injury in the forms of:

- reduced market share;
- reduced production;
- reduced assets;
- reduced capital investment;
- reduced capacity utilisation and productivity; and
- reduced wages.

9 CAUSAL LINK CLAIMS

9.1 Background and approach to causal link analysis

The verification team analysed the claims made by Orrcon that there is a causal link between injury it has experienced and alleged dumping from the subject countries during the investigation period.

The verification team requested additional information from Orrcon in relation to specific examples of contract negotiations detailed in its application. Orrcon claimed these negotiations were influenced by the allegedly dumped goods imported during the investigation period, leading either to price depression or loss of volumes. It provided further information to support these examples as well as included an additional example of injury caused by alleged dumping. The assessment outlined in the following sections takes into consideration this additional information provided by Orrcon.

The verification team also examined factors other than dumping and subsidisation to consider whether these may be causing injury.

9.2 Volume effects

Figure 3 in section 8.3.2 above depicts the sales volumes of the Australian market commencing 2016.

The Australian industry has gained a larger share of the precision pipe market between 2017 and 2019. In the same period of time, it appears that the subject countries' share of the market reduced. As stated in section 8.4.3, the verification team found that Orrcon experienced reduced sales volumes but that its market share increased between 2017 and 2019.

The verification team was provided with seven examples of price negotiations. Three of these negotiations resulted in Orrcon missing out on sales volumes as it was unable to match allegedly dumped import prices. These examples will be assessed in greater detail during the course of the investigation.

9.3 Price effects

The verification team discussed the pricing of goods by Orrcon. Orrcon advised that depending on the market segment, there is varying impacts from import prices, where customers in some segments are more likely to negotiate by benchmarking against import offers. Overall pricing is based on a customer's volumes and sales activity. It further claimed that some smaller stockists in regional locations influence pricing by maintaining stocks of low cost imported goods of certain models. Orrcon stated that importer pricing is taken into account in setting the base price of its precision pipe. It provided evidence of how it captures and tracks import prices each month.

Orrcon advised the verification team of an internal project designed to reduce its costs to a target level. Orrcon claims that this is due to the current margins being unsustainable due to allegedly dumped and subsidised imports.

It further stated that there is limited price transparency in the market and price is usually agreed through face to face negotiation. Orrcon provided the verification team with examples of price negotiations during the injury period.

In three of the examples provided, Orrcon's prices are driven down by its customer quoting import prices from the subject countries.

One of the examples provided includes an attempt by Orrcon to increase prices as a result of increasing costs. The example provided shows the customer negotiating down the increase by making reference to import prices.

These examples appear to support Orrcon's claims of a causal link between allegedly dumped imports and injury it has experienced in the form of price depression and price suppression. These examples will be analysed further during the course of the investigation.

9.4 Profit and profitability

In section 8.6.1, the verification team observed that there is reasonable evidence to support Orrcon's claims of price depression and suppression. Orrcon has provided examples of import prices being used in negotiations to drive down its price offers.

The verification team observes that price related injury experienced by Orrcon and reduced sales volumes may have resulted in the reduced profits and profitability Orrcon experienced during the injury analysis period. These claims will be assessed further during the course of the investigation.

9.5 Other Economic factors

The verification team found reasonable grounds to support the Australian industry's claims that it had experienced injury in the form of reduced revenue, employment numbers, ROI and inventory turnover. The verification team notes that employment levels for other production has also declined in the same period. The causes of injury to Orrcon's other economic factors will be considered in more detail during the course of the investigation.

9.6 Conclusion

The verification team's analysis and the further information provided by Orrcon during the verification provides reasonable grounds to consider that imports originating from the subject countries have caused injury in the form of reduced sales volumes, price suppression, price depression and reduced profits and profitability. Causation will be analysed in more detail during the course of the investigation.

10 APPENDICES AND ATTACHMENTS

Confidential Attachment 1	Verification work program
Non-confidential Appendix 1	Alternative MCC structure

NON-CONFIDENTIAL APPENDIX 1 – ALTERNATIVE MCC STRUCTURE

	Category	Sub-Category	Identifier
1	**Prime**	Prime	P
		Non-Prime	N
2	**Shape**	Circular	C
		Rectangular or Square	R
3	**Steel Grade**	C200	1
		C250	2
		C350	3
		C450	4
		Other	5
4	**Steel Base/Type**	Hot Roll	H
		Cold roll (Semi Bright)	C
		Galvanised – HR Base	GH
		Galvanised – CR Base	GC
		Other (e.g. alloy steel)	A
5	**Length**	≤4 m	1
		>4m to ≤8 m	2
		>8 m	3
6	**Coating Mass**	<20 g/m^2 (including none)	1
		≥20 g/m^2 to <100 g/m^2	2
		≥100 g/m^2 to <275 g/m^2	3
		≥275 g/m^2	4
7	**Thickness**	<1.6 mm	A
		>=1.6 mm to <3.2mm	B
		>=3.2mm	C
8	**Perimeter**	Not rectangular/square	N
		<=80mm	1
		>80mm to <=160mm	2
		>160mm to <=260mm	3
9	**Outside diameter**	Not circular	N
		<16mm	1
		>=16mm to <20mm	2
		>20 mm	3