



Australian Industry Verification Report

Verification & Case Details

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|--------------------------------------|--|-------------|----------|
| Initiation Date | 30/06/2020 | ADN: | 2020/067 |
| Case Number | 558 | | |
| The goods under consideration | Aluminium zinc coated steel of a width equal to or greater than 600 mm | | |
| Case type | Dumping and Subsidy Investigation | | |
| Australian Industry | BlueScope Steel Limited | | |
| Verification from | Desktop verification | | |
| Investigation Period | 1/04/2019 to 31/03/2020 | | |

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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PREFACE

This report details the findings, analysis, evidence relied upon and reasoning on key verification outcomes of data submitted to the Anti-Dumping Commission (Commission) by the verification team for publication on the public record.

It provides interested parties with information regarding all material aspects of the verification, including explanations of any material issues identified during the verification. It outlines the nature, extent and consequences of any changes made to the data submitted, including data corrections made by the company or by the verification team.

Verification teams are authorised to conduct verifications under sections 269SMG and 269SMR of the *Customs Act 1901* (the Act).¹

¹ Reference to any sections in this report relate to provisions of the *Customs Act 1901*, unless specifically stated otherwise.

1 COMPANY BACKGROUND

1.1 Corporate structure and ownership

BlueScope Steel Limited (BlueScope) is a flat steel product manufacturer and is publicly-listed (limited by shares) on the Australian Securities Exchange.

BlueScope produces and markets a range of value added coated and painted flat steel products for the Australian building and construction industries. Products are primarily sold to the Australian domestic market.

1.2 Related parties

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

In its application, BlueScope stated that it did make sales of its like goods to related party customers in the investigation period. The verification team's assessment of whether those sales are arms length is found at chapter 5.2.

2 THE AUSTRALIAN INDUSTRY MANUFACTURING LIKE GOODS

2.1 Manufacturing in Australia

BlueScope is the sole manufacturer of aluminium zinc coated steels in Australia. Details of the production process are contained in the verification work program at **Confidential Attachment 1**.

2.2 Verification of model control codes

Table 1 below provides detail on the model control code (MCC) sub-categories that were determined and verified to source documents.

| Category | Determination of the sub-category |
|----------------------------|---|
| Prime | Test certificates. |
| Coating mass | Stated in commercial invoices, test certificates, and despatch notices. |
| Steel grade | |
| Base metal thickness (BMT) | |
| Width | |
| Form | Stated in commercial invoices, and despatch notices. |

Table 1 MCC sub-category determination

BlueScope sold goods with the following MCCs during the investigation period:

| MCC | | | |
|-------------|-------------|-------------|-------------|
| P-2-D-5-2-C | P-2-D-1-2-C | P-2-D-4-2-C | P-2-F-1-2-C |
| P-2-F-2-2-C | P-2-D-2-2-C | P-2-D-3-2-C | P-2-E-5-2-C |
| P-2-F-5-2-C | P-2-F-4-2-C | P-2-A-3-2-C | P-2-F-3-2-C |
| P-2-C-5-2-C | P-2-D-2-2-S | P-1-F-2-2-C | N-1-F-1-2-C |
| N-2-F-2-2-C | P-1-D-3-2-C | | |

Table 2 – MCCs sold during the investigation period

2.3 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.

The verification team considers that the locally produced aluminium zinc coated steel manufactured by BlueScope have characteristics closely resembling the goods exported to Australia. The Commission’s assessment is summarised in Table 3.

| Likeness characteristic | Details | Evidence |
|--------------------------------|--|--|
| Physical likeness | The primary physical characteristics of the goods and the locally produced goods are similar (being of a similar size, shape, total weight, strength rating, appearance, and meeting the Australian standards), notwithstanding variations in individual customer or technical specifications such as differences in diameter or finish. The goods and the locally produced goods differ only in the chemical composition of the coating. The locally produced aluminium zinc coated steel contains magnesium and is designated using the coating type AM. The goods under consideration are designated using the coating type AZ. | The locally produced goods and the imported goods share the same Australian Standards. BlueScope’s technical sheets for aluminium zinc coated steel of type AZ (which BlueScope previously produced) and for AM (which BlueScope now produces) are, other than the coating makeup, identical. |
| Commercial likeness | The locally produced goods compete in the same or similar market sector, have the same or similar packaging and distribution channels, and appear to be interchangeable with the goods under consideration. | BlueScope’s undercutting examples in its application refer to competitive quotes against imports of goods of coating type AZ. |
| Functional likeness | The locally produced goods have the same or similar end uses as the goods under consideration. | BlueScope’s technical sheets for aluminium zinc coated steel of type AZ (which BlueScope previously produced) and for AM (which BlueScope now produces) show the same applications. In addition, the Australian Standard for the goods show near identical uses for goods designated as AZ and goods designated as AM. |

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| Likeness characteristic | Details | Evidence |
|--------------------------------|---|--|
| Production likeness | The locally produced goods appear to be produced in the same or similar manner as the goods under consideration, differing only in the chemical makeup of the hot-dipped bath solution. | BlueScope's technical sheets do not indicate any difference in production except the chemical makeup of the hot dipping bath solution. |

Table 3 – Like goods assessment

2.4 Preliminary like goods assessment

The verification team is satisfied that:

- aluminium zinc coated steel of a width equal to or greater than 600 millimetres (mm) manufactured by BlueScope are like to the goods;²
- at least one substantial process of manufacture of aluminium zinc coated steel is carried out in Australia;³
- the like goods were, therefore, wholly manufactured in Australia by BlueScope;⁴ and
- there is an Australian industry, consisting of BlueScope, which produce like goods in Australia.⁵

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 aluminium zinc coated steel of a width equal to or greater than 600 mm (aluminium zinc coated steel (≥ 600 mm)) is supplied by:

- a single domestic producer (BlueScope – the Australian industry), and
- producers from other countries who supply Australian distributors or end-users via multiple channels (direct from overseas mill, via international traders, or via stockists and resellers who may or may not be affiliated with the mill).

The largest 3 exporters of aluminium zinc coated steel (≥ 600 mm) supplying the Australian market originate from the Republic of Korea (Korea), Taiwan and Socialist Republic of Vietnam (Vietnam) (these 3 countries are collectively the subject countries).

Anti-dumping measures are currently applicable to all imports of aluminium zinc coated steel (≥ 600 mm) from the People's Republic of China (China).

The verification team understands that customers are able to readily change supplier.

3.2 Market structure

The two key markets in Australia for aluminium zinc coated steel (≥ 600 mm) are:

- the building and construction industry, consisting of residential construction, and industrial/commercial segments; and
- the manufacturing industry who produce non-construction related products.

The building and construction industry are BlueScope's largest consumer of its like goods by volume, with the remainder, smaller, segment of BlueScope's volume of its like goods being sold to the general manufacturing industry.

In the building and construction industry, the main uses for aluminium zinc coated steel (≥ 600 mm) are for roll formed roof and wall cladding, rain water goods such as guttering and downpipes, roof flashing and trims, residential roof trusses, residential roofing battens, ceiling battens, residential house framing, wall structural sections, office wall framing, garden sheds, and garage door panels. In the general manufacturing industry its main uses are for components in domestic appliances, hot water system components, cabinets, flues, ducting, grain silos and general manufactured articles.

Locally produced and imported aluminium zinc coated steel (≥ 600 mm) are used interchangeably across the two key market segments in the Australian market.

3.2.1 Marketing and distribution

BlueScope sells aluminium coated steel under several brand names. The different brands are sold into different market sectors which enables BlueScope to develop marketing strategies that target particular market sectors. ZINCALUME® and TRUECORE® are the main brands of BlueScope's like goods. ZINCALUME® is the largest selling brand relevant to aluminium zinc coated steel (≥ 600 mm). Both brands have the same properties but TRUECORE® is targeted to the house framing market and is required to be slit to sizes that are appropriate for application in the framing market, and is coated with a blue tinted resin.⁶ The slitting of aluminium zinc coated steel (≥ 600 mm) is conducted by downstream fabricators or manufacturers.

BlueScope primarily sells its like goods to customers in Australia via national service centres and steel distribution businesses. Some like goods are sold to customers directly from the mills.

3.2.2 Supply

Within the building and construction market, a major proportion of the sales of BlueScope's like goods are directly to the building product manufacturing industry in Australia. This industry roll-forms the goods into building products (such as roof cladding) and then distributes the manufactured products downstream (to builders, home owners etc.).

Otherwise, BlueScope's like goods are sold to the local distribution market (via distributor/resellers) who on-sell BlueScope's like goods into the building and construction market, or are sold to the general manufacturing industry.

3.2.3 Demand

The primary demand drivers for aluminium zinc coated steel (≥ 600 mm) are the demand for residential and commercial construction.

BlueScope's like goods are therefore impacted by factors that impact residential and commercial construction. BlueScope identified seasonal fluctuations (wet/dry seasons, holiday season shutdown), economic factors (availability for capital, domestic conditions, consumer confidence), and government regulation (standards, policies) as relevant factors.

The verification team reviewed the sales data provided by BlueScope with respect to the current investigation and data provided with respect to the most recent review of measures for aluminium zinc coated steel (≥ 600 mm).⁷ Some seasonal variation

⁶ Aluminium zinc coated steel (≥ 600 mm) is slit by BlueScope to produce aluminium zinc coated steel of a width less than 600 mm, which is the subject of a separate investigation (Investigation 559, dumping and subsidisation investigation of aluminium zinc coated steel of a width less than 600 mm exported from China and Vietnam).

⁷ Review no. 522, review of the Anti-Dumping measures applying to the same goods the subject of this investigation, aluminium zinc coated steel (≥ 600 mm), exported to Australia from China.

was observed. The verification team observed that the majority of sales were to the building industry or to distributors.

3.3 Pricing

BlueScope manufactures the majority of its goods to order. It releases price lists monthly with the base price based on the manufacturing cost, and negotiates directly with the customer. In price negotiation, BlueScope will consider the price offerings of import competition where this information is available.

3.4 Market size

The verification team have evaluated the size of the Australian market for aluminium zinc coated steel (≥ 600 mm). Sales volume data from BlueScope's application and import volumes from the Australian Border Force (ABF) import database have been used to derive the size of the market.

In its application BlueScope identified the following tariff classifications as being relevant to the goods:

- 7210.61.00 statistical codes 60, 61 and 62; and
- 7225.99.00 statistical code 39.

The verification team agree that these tariff classifications are suitable for determining the size of the Australian market.

The verification team have cleansed the ABF data to ensure, as far as practicable, that only the goods relevant to the application have been included. The data has been cleansed with reference to the goods description listed against each shipment, with consideration of an appropriate range of free on board unit price, and with consideration of the data obtained from importers verified with respect to the investigation.

Figure 1 shows the trends in the volumes of the Australian market participants in the injury period. The Australian market for the subject goods has overall increased by 13% over the injury period, however it underwent a period of flattening and decline from year ending (YE) March 2018. The volume of imports from the subject countries overall increased by 122% over the injury period though it has declined from YE March 2019. BlueScope overall increased its volume by 4% over the injury period.

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Volumes of Australian market participants in the injury period

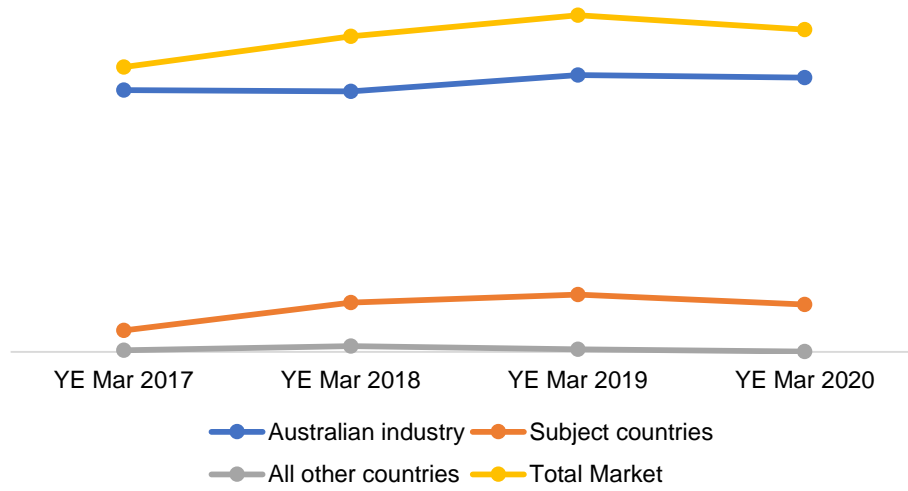


Figure 1 – Australian market trends over the injury period

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. 2016/030.

The verification team notes that BlueScope carries out management accounting through various operational systems such as:

- an invoicing and settlement discounts system;
- debtor management;
- rebate model;
- manufacturing costs; and
- freight model systems.

The dataset from these operational systems are aggregated into the COGNOS database, which lists the line-by-line sales revenue and all associated costs for all products.

The verification team noticed that variances exist between the COGNOS databases and the trial balance in SAP. BlueScope were able to clarify the differences between SAP and COGNOS as being related to accounting adjustments.

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 attachment, at **Confidential Attachment 1**.

4.1 Import and export sales by applicant

BlueScope exported like goods during the investigation period. BlueScope's exports were verified as part of the upwards sales reconciliation.

4.2 Sales completeness and relevance finding

The verification team is satisfied that the sales data provided in the application by BlueScope 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 application by reconciling these to source documents in accordance with ADN No. 2016/030. The verification team also relied on data provided by BlueScope in relation to Review no. 522 as there is an overlap between that review period and the first quarter of the investigation period.

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

5.1 Exceptions during verification of sales accuracy

| No. | Exception | Resolution |
|-----|--|---|
| 1 | The MCC identifiers for width and BMT provided by BlueScope in its sales list did not correspond to the width and BMT values recorded against each sale. | The verification team revised the MCC identifiers in the sales listing so that they were consistent with the MCC subcategory parameters as published in ADN 2020/067. |

Table 4 Exceptions during verification of accuracy of sales data

5.2 Related party customers

The verification team observed that BlueScope sold its like goods to related customers. Sales to related customers were treated by BlueScope the same as sales to unrelated 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. The verification team considers the sales to related customers to be arms length.

The verification team is satisfied that BlueScope’s selling prices for its 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 in the application by BlueScope, including any required amendments as outlined in the exception table above, is accurate. Details of this verification process are contained in the verification work program and its relevant attachment, at **Confidential Attachment 1**.

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Accordingly, the verification team considers BlueScope's sales data suitable for analysing the economic performance of its like goods operations in 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 of the cost to make and sell (CTMS) information provided in the application by reconciling it to audited financial statements in accordance with ADN No. 2016/030. The verification team also relied on data provided by BlueScope in relation to Review no. 522 as there is an overlap between that review period and the first quarter of the investigation period.

As stated at chapter 5, the verification team notes that BlueScope carries out management accounting through various operational systems. The dataset from these operational systems are aggregated into the COGNOS database, which lists the line-by-line costs for each sale of BlueScope's like goods.

The verification team noticed that variances exist between the COGNOS databases and the trial balance in SAP. BlueScope were able to clarify the differences between SAP and COGNOS as being related to accounting adjustments.

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**.

6.1 Exceptions during verification of completeness and relevance of CTMS data

| No. | Exception | Resolution |
|------------|---|--|
| 2 | The verification team identified differences in sales revenue and quantity between the CTMS worksheet and the sales list which prompted it to consider if the sales listing was complete. | BlueScope advised that the discrepancies were a consequence of the method used to extract the sales and cost data from its systems. The verification team were satisfied that the sales data was complete. The sales revenue and quantity data reported in the CTMS for the period of investigation was amended to be that of the sales listing. |

Table 5 Exceptions during verification of CTMS

6.2 CTMS completeness and relevance finding

The verification team is satisfied that the CTMS data provided in the application by BlueScope 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. 2016/030.

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**.

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

| Cost item | Method applied |
|-------------------------|--|
| Raw Materials | Raw material costs for hot rolled coil sourced from a related supplier within the BlueScope group are based on the actual production costs adjusted for transfer pricing. The unit cost allocated is based on a weighted average value for each month. |
| Scrap Allocation | Standard costs, using bill of materials and production cost worksheets |
| Manufacturing Overheads | Standard costs, using bill of materials and production cost worksheets |
| Labour | Standard costs, using bill of materials and production cost worksheets |

Table 6 Cost calculation method

7.2 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. 2016/030. The verification team also relied on data provided by BlueScope in relation to Review no. 522 as there is an overlap between that review period and the first quarter of the investigation period.

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

7.3 Exceptions during verification of other injurious factors

| No. | Exception | Resolution |
|------------|--|--|
| 3 | BlueScope's calculation of employment was incorrect for the last period of the injury period (YE Mar 2020). This calculation error impacted the calculation of productivity. | The verification team amended the calculation. The verification team revised the trends for employment and productivity. |

Table 7 Exceptions during verification of other injurious factors

7.4 Related party suppliers

BlueScope sources raw materials from a related entity within the BlueScope group. Hot rolled coil is purchased from a related party at cost which is then adjusted using a transfer price from the related party. The transfer price is based on its estimate of external market prices of hot rolled coil.

The verification team considers that the costs paid to its related supplier is made at arm's length, taking into account BlueScope's regular payment of a transfer price based on an external benchmark price for hot rolled coil.

7.5 CTMS verification finding

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

Accordingly, the verification team considers BlueScope's CTMS data is suitable for analysing the economic performance of its like goods' operations.

8 ECONOMIC CONDITION

8.1 Applicant's injury claims

In its application for a dumping and subsidy investigation of aluminium zinc coated steel (≥ 600 mm), the applicant claimed that the Australian industry has experienced injury in the form of:

- loss of sales volume;
- reduced market share;
- price depression;
- price suppression;
- loss of profits;
- reduced profitability;
- reduced return on investment;
- reduced productivity; and
- reduced capital investment.

BlueScope claims that injury commenced in the financial year 2017/18, following an increase in import volumes from the subject countries.

8.2 Approach to injury analysis

The analysis detailed in this chapter is based on verified financial information submitted by BlueScope and data from the ABF import database.

The verification team has assessed the economic condition of the Australian industry from YE March 2017 using the information provided by BlueScope. The figures have been compiled on an annual basis. This preliminary assessment is at **Confidential Appendix 1**.

8.3 Volume effects

8.3.1 Sales volume

BlueScope claims it experienced a reduction in sales volume as a result of increased imports from the subject countries.

The table below depicts the change in BlueScope's total sales volumes for the injury period, with YE Mar 2017 as the base period. BlueScope's sales of its like goods have increased from YE March 2019 before a small decline in YE March 2020.

| Period | YE Mar 2017 | YE Mar 2018 | YE Mar 2019 | YE Mar 2020 |
|-----------------------|-------------|-------------|-------------|-------------|
| Index of sales volume | 100.0 | 99.5 | 105.8 | 104.8 |

Table 8 – Injury period change in sales volume

BlueScope's volumes of its like goods over the injury period have generally trended upwards having overall increased by approximately 4%.

Based on this analysis, the verification team considers that BlueScope has not overall experienced injury in the form of loss of sales volume in the injury period.

8.3.2 Market share

BlueScope claims it suffered a reduction in its market share as a result of increased imports from the subject countries.

Figure 2 sets out the Commission’s assessment of the market share held by the Australian industry (comprised solely of BlueScope), imports from the subject countries, and imports from all other countries since 1 April 2016.

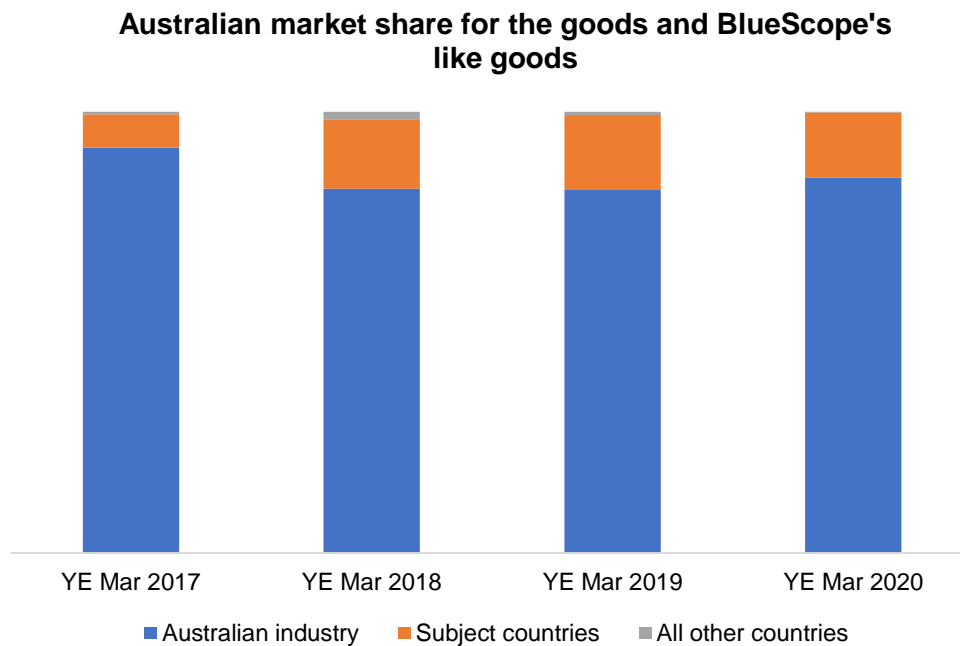


Figure 2 – Australian market share

The Commission notes that BlueScope’s market share dropped between YE March 2017 and YE March 2018 after which it has trended upwards. However, the market share in YE March 2020 did not recover from that recorded in YE March 2017. The market share for subject countries has increased overall. The market share for non-subject countries has declined over the injury period, and has remained a small proportion of the market.

Based on this analysis, the verification team considers that BlueScope has experienced injury in the form of reduced market share during the injury period, and an improvement in its market share during the investigation period.

8.4 Price effects

BlueScope claims that it has experienced injury in the form of both price depression and price suppression. Price depression occurs when a company, for some reason, lowers its prices. Price suppression occurs when price increases, which otherwise

would have occurred, have been prevented. An indicator of price suppression may be the margin between prices and costs.

Figure 3 compares the movement in weighted average unit CTMS and unit selling prices since over the injury period.

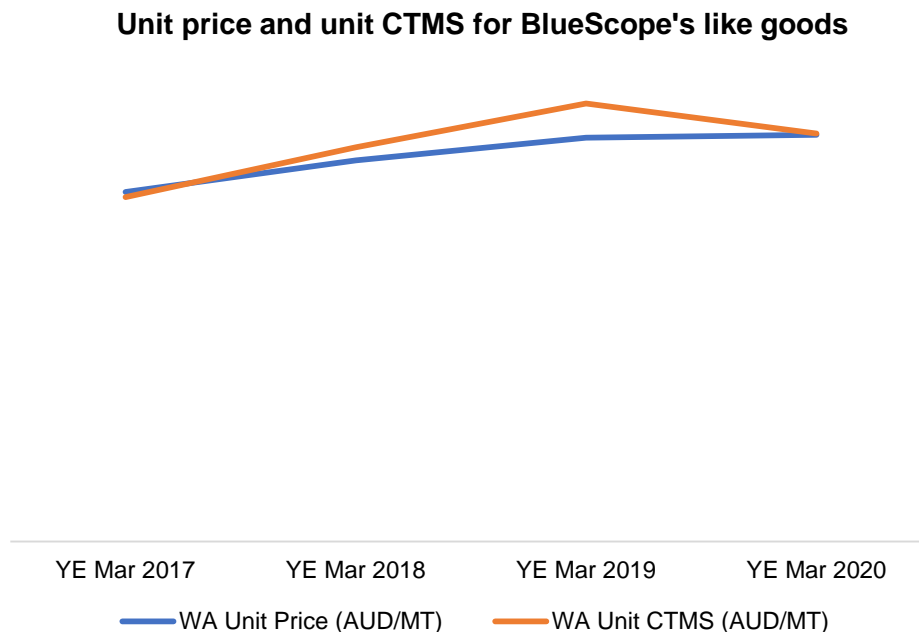


Figure 3 – Unit price and unit CTMS comparison

Between YE Mar 2017 and YE Mar 2019, the increase in unit CTMS was greater than the increase in unit prices. However, between YE Mar 2019 and YE Mar 2020 the margin between unit price and unit CTMS narrowed. Despite a drop in both CTMS and unit price between YE March 2019 and YE March 2020, the unit selling price was below or approximately equal to the unit CTMS for BlueScope’s like goods during the injury period. These observations are indicative of price suppression in the injury period.

BlueScope’s prices overall increased over the injury period, trends upwards between YE Mar 2017 and YE Mar 2019, and then flattens into YE March 2020, which is indicative of price depression.

Based on this analysis, the verification team considers that BlueScope has experienced injury in the form of price suppression and price depression during the injury period.

8.5 Profit and profitability

BlueScope claims it has experienced material injury in the form of lost profit and profitability.

Figure 4 shows BlueScope’s total profit and unit profitability in respect of its like goods during the injury period.

Profit and profitability of domestic sales of like goods over the injury period

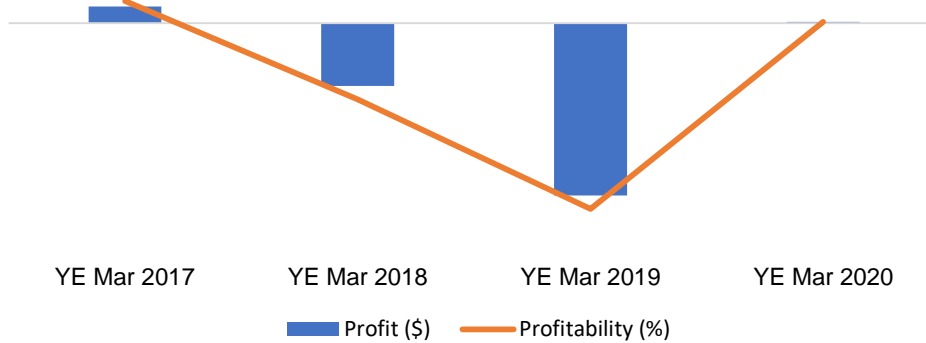


Figure 4 – Profit and profitability

BlueScope incurred losses and negative profitability in respect of its like goods during the injury period. The losses and negative profitability peaked at YE Mar 2019 with partial recovery in the period of investigation.

Based on this analysis, the verification team considers that BlueScope has experienced injury in the form of loss of profits and reduced profitability during the injury period.

8.6 Other economic factors

BlueScope also claims injury in the form of

- reduced return on investment;
- reduced productivity; and
- reduced capital investment.

The Commission has examined and verified the data provided by the applicant in respect of each of these claims.

8.6.1 Return on investment

BlueScope’s return on investment for its like goods was negative at the start of the injury period and has overall reduced over the period (refer Figure 5). BlueScope’s return on investment has improved in the investigation period.

Return on investment over the injury period

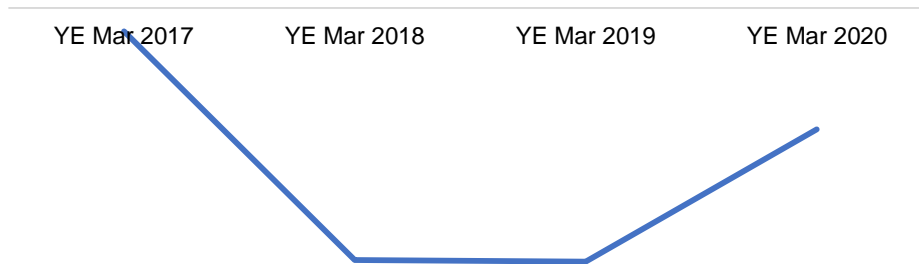


Figure 5 – Return on investment

BlueScope has experienced injury in the form of reduced return on investment with respect to its like goods in the injury period.

8.6.2 Productivity

BlueScope claimed in its application that it had experienced injury in the form of reduced productivity and provided data in support of this claim. The verification team found an error in the calculation of productivity.⁸ The revised productivity trend for the injury period is at Figure 6. BlueScope’s productivity for its like goods has remained constant over the injury period.

⁸ Refer Exception 2.

Productivity over the injury period

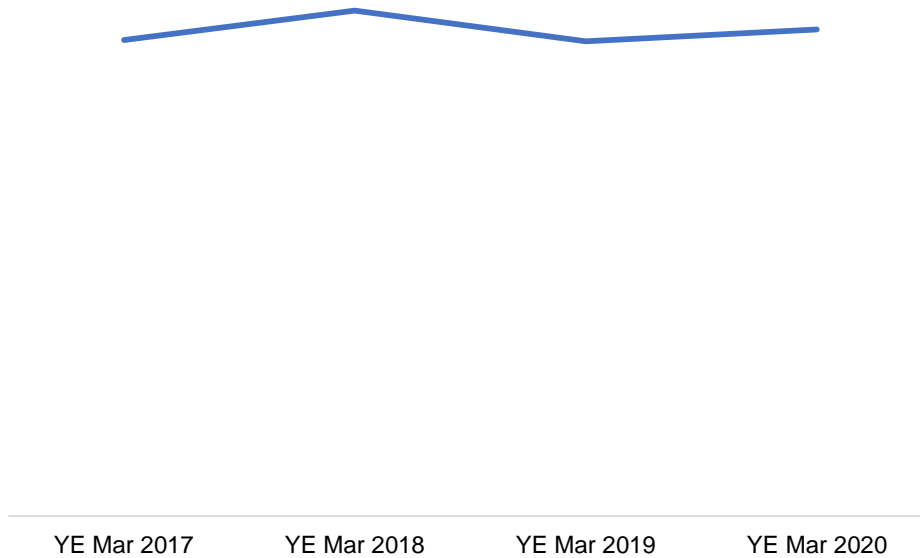


Figure 6 – Productivity

BlueScope has not experienced injury in the form of reduced productivity with respect to its like goods in the injury period.

8.6.3 Capital investment

BlueScope’s capital investment for its like goods has overall declined over the injury period, with a pronounced drop at YE Mar 2018 (refer Figure 7).

Capital investment over the injury period

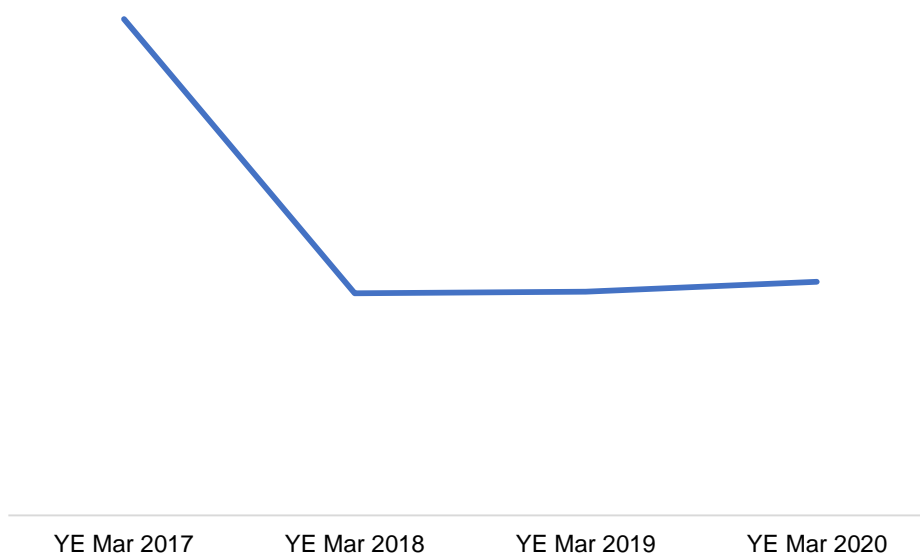


Figure 7 – Capital investment

BlueScope has experienced injury in the form of reduced capital investment with respect to its like goods in the injury period.

8.7 Conclusion

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

- reduced market share;
- price depression;
- price suppression;
- loss of profits;
- reduced profitability;
- reduced return on investment; and
- reduced capital investment.

9 CAUSAL LINK CLAIMS

9.1 Background and approach to analysis

Under section 269TG, one of the matters that the Minister for Industry, Science and Technology must be satisfied of in order to publish a dumping duty notice is that material injury to an Australian industry producing like goods has been or is being caused or is threatened.

The verification team discussed with BlueScope whether the alleged dumping (in relation to imports from Korea, Taiwan, and Vietnam) and subsidisation (in relation to goods imported from Vietnam) of the goods can be demonstrated to be causing material injury to the Australian industry, and collected evidence to support those claims. This evidence will be considered further during the course of the investigation.

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

This preliminary analysis is at **Confidential Appendix 1**.

9.2 Volume effects

With reference to Figure 1, the verification team observes that as the market has grown over the injury period, much of the observed growth is attributable to the subject countries. As such, BlueScope's volumes have been relatively flat and its market share declined over the injury period.

Based on this analysis, the verification team considers that there may be evidence to support BlueScope's claim that its volume related injury in the form of reduced market share corresponds to import volumes from the subject countries.

9.3 Price effects

As discussed in chapter 8.4, the verification team finds that BlueScope has experienced injury in the form of price suppression and price depression.

BlueScope submitted that its production costs have increased over the injury period, and that it has been unable to increase selling prices due to competition with dumped and subsidized imports.

BlueScope provided a number of examples in its application as evidence of price undercutting. The examples seek to evidence BlueScope's like goods of 'wide' aluminium zinc coated steel (i.e. of a width equal to or greater than 600 mm) competing against imports of both wide and slit⁹ aluminium zinc coated steel from Vietnam. BlueScope explained that the examples which include competition with slit

⁹ Slit aluminium zinc coated steel is the subject of a separate investigation which is being conducted in parallel to this investigation (that investigation is Investigation 559).

aluminium zinc coated steel seek to evidence Vietnamese importers offering slit product (which is generally a higher priced product compared to the subject goods) at wide aluminium zinc coated steel prices, thereby placing downward pressure on its wide aluminium zinc coated steel prices.

The verification team examined the examples provided and the documents supplied by BlueScope in its application. The evidence indicates that BlueScope's wide aluminium zinc coated steel competes against both wide imports of aluminium zinc coated steel from the subject countries, and slit imports of aluminium zinc coated steel from Vietnam.

These claims will be considered further during the course of the investigation.

9.4 Profit and profitability

As discussed in chapter 8.5, the verification team observed that there is evidence to support BlueScope's claims that it has experienced injury in the form of lost profits and reduced profitability in respect of its like goods.

BlueScope submitted that its production costs have increased over the injury period, and that it has been unable to increase selling prices due to competition with dumped and subsidized imports. The verification team observes that price related injury experienced by BlueScope (as noted in chapter 8.3), in conjunction with observed increases in unit CTMS (as observed in Figure 3) could result in the reduced profits and profitability observed during the injury period. This is consistent with BlueScope's claims that it has been unable to sufficiently increase its prices to cover increasing costs.

These claims will be assessed further during the course of the investigation.

9.5 Other economic factors

The verification team found that BlueScope experience injury in the form of reduced return on investment, and reduced capital investment. BlueScope provided evidence to support these other injury factors' connection to revenue and volumes.

9.5.1 Return on investment

As discussed in chapter 8.6.1 the verification team found that BlueScope has experienced injury in the form of reduced return on investment. Since return on investment is a metric that is correlated to operating income, the verification team assessed the relationship between BlueScope's profit and return on investment. As shown in Figure 8, BlueScope's profit and return on investment follow a similar trend.

Trend in indexed profit and ROI for the injury period

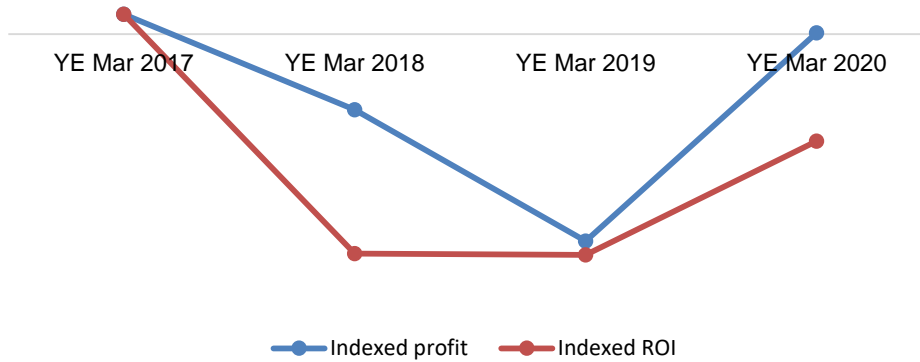


Figure 8 – Relationship between profit and return on investment

The verification team have identified that BlueScope experienced injury in the form of reduced profit with respect to its like goods in the injury period (chapter 8.5) and that BlueScope’s profit injury may be linked to price related injury from imports from the subject countries (chapter 9.4). Therefore, the verification team consider that injury in the form of reduced return on investment with respect to the like goods in the injury period may be linked to imports from the subject countries.

These claims will be assessed further during the course of the investigation.

9.5.2 Capital investment

As discussed in chapter 8.6.1 the verification team has found that BlueScope has experienced injury in the form of reduced capital investment for the like goods. BlueScope advised that it makes capital investment decisions based on the financial performance of its products. The verification team assessed the relationship between the financial performance of like goods (profit) and capital expenditure for the like goods. As shown in Figure 8, capital expenditure has declined with declining profit for the like goods, though the decline is relatively less pronounced.

Trend in indexed profit and capital investment for the injury period

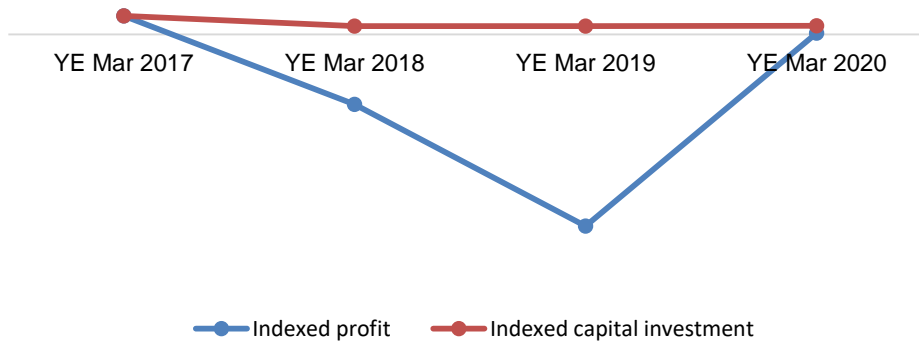


Figure 9 – Relationship between profit and capital expenditure

The verification team have identified that BlueScope experienced injury in the form of reduced profit with respect to its like goods in the injury period, with an improvement in the investigation period (chapter 8.5) and that BlueScope’s profit injury may be linked to price related injury from imports from the subject countries (chapter 9.4). Therefore, the verification team consider that injury in the form of reduced capital investment with respect to the like goods in the injury period may be linked to imports from the subject countries.

These claims will be assessed further during the course of the investigation.

9.6 Injury caused by factors other than dumping and subsidisation

BlueScope alleges in its application that it was unable to increase its prices to reflect the costs associated with increases in electricity prices over the injury period. BlueScope provided data to the verification team in relation to its electricity costs.

BlueScope indicates in its application that it is unable to increase its prices to reflect the costs associated with increases in raw material prices over the injury period.

These claims will be assessed further during the course of the investigation.

10 APPENDICES AND ATTACHMENTS

| | |
|----------------------------------|---------------------------|
| Confidential Attachment 1 | Verification work program |
| Confidential Appendix 1 | Economic condition |