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**PUBLIC VERSION**

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Director, Investigations Unit 4
Anti-Dumping Commission
GPO Box 2013
CANBERRA ACT 2601
AUSTRALIA

**Dumping Investigation into Aluminium Zinc Coated Steel exported from Korea**

Dear Director,

This submission is made on behalf of KG Dongbu Steel Co. Ltd (KG Donbu) in response to the current dumping investigation into aluminium zinc coated steel (≥600mm) from Korea, Taiwan and Vietnam. The purpose of this submission is to:

A) demonstrate that exports by KG Dongbu were not injurious;
B) provide supporting evidence that injury to the Australian industry was negligible and will not continue; and
C) seek a review of issues relevant to the determination of normal values.

## A. <u>KG Dongbu's exports were non-injurious</u>

KG Dongbu contends that its exports of the subject goods did not cause material injury to BlueScope's sales and production of like goods. Australia's legislation and the WTO Dumping Agreement recognise that a margin of dumping less than 2% cannot cause 'material' injury. That is, for exported goods with dumping margins up to 1.99%, the determined export prices are considered to be dumped at negligible levels such that they cannot be linked to 'material' injury.

Given that KG Dongbu's dumping margin is a mere 0.5% greater than the considered negligible level, it is reasonable to conclude that this small difference did not contribute to the alleged material injury. The highlighted difference represents approximately US$[redacted]/mt of KG Dongbu's weighted average export price across the investigation period. It is difficult to conclude that KG Dongbu's exports contributed to material injury suffered by the Australian industry as a result of its export prices being US$[redacted]/mt lower than negligible levels.

To highlight more clearly, BlueScope alleges that exports from Korea, Taiwan and Vietnam undercut its prices in the Australian market which led to BlueScope being '… *unable to sufficiently raise its prices in the face of the growing import volumes at unfair prices to recover full cost.*' Yet it is hard to see how BlueScope could have raised its prices sufficiently to recover its full costs, had KG Dongbu's export prices been on average US$[redacted]/mt higher over the investigation period. This highlights that KG Dongu's small margin of dumping could not have contributed or caused injury to BlueScope that was material.

It is also worth noting that the Commission has determined that exports from Taiwan were non-dumped and non-injurious, ranging from -4.4% to -5.6%[1]. KG Dongbu's understanding of export selling prices for subject goods to Australia reveals that its free-on-board (FOB) equivalent export prices were similar for comparable models exported by the two verified Taiwanese exporters.

It is known that [redacted] **[import customer details]**. [redacted] **[export price details]**. This further supports and confirms that KG Dongbu's export prices were not injurious.

## B. <u>Injury to the Australian industry was negligible and not likely to continue</u>

It is noted that despite the investigation being initiated almost 14 months ago, there is no verification report detailing the Commission's consideration and assessment of BlueScope's financial data contained within its application. Publicly available information shows the apparent disconnect between BlueScope's injury allegations during the investigation period and its publicly announced strengthening financial position in the ensuing period.

A comparison of financial indicators between the two recently completed financial years shows a record improvement in BlueScope's company-wide performance and the 'Australian Steel Products' segment which comprises the subject goods[2]. A summary is outlined in the table below showing the strong growth experienced by BlueScope.

| Performance indicator | FY2020 | FY2021 | Change | Bluescope commentary |
|---|---|---|---|---|
| Company - Underlying EBIT | A$564M | A$1,723.8M | 206% increase | Sales revenue of $12,872.9M was 14% higher than FY2020, on higher global steel prices and strong demand across the portfolio, partly offset by the unfavourable impacts from a stronger Australian dollar exchange rate. |
| Company - Net Profit afetr Tax | A$96.5M | A$1,193.3M | 1,137% increase | |
| Company - Sales revenue | A$11,284.5M | A$12,872.9M | 14% increase | The 14% increase in sales revenue from continuing operations was primarily due to stronger selling prices driven by higher global steel prices, combined with the benefit of improved volumes from stronger demand, partly offset by the unfavourable impacts from a stronger Australian dollar exchange rate (A$:US$). |
| Australian Steel Products - Underlying EBIT | A$305.1M | A$674.3M | 121% increase | The $369.2M increase in underlying EBIT was largely due to:<br>• higher steelmaking spread with higher domestic and export selling prices driven by stronger global steel prices combined with lower raw material costs<br>• improved steel volumes, particularly in metal coated and painted products<br>• higher contribution from export coke. |
| Australian Steel Products - Return on invested Capital | 11% | 23.60% | 12.6 % point increase | Underlying EBIT ROIC is the primary measure of performance across all business units and one of the key measures of the Group. It underpins the objective of delivering top quartile shareholder returns and is a key discipline for performance management, project assessment, and executive incentives. |
| Australian Steel Products - Sales revenue | A$5.418.1M | A$5.848.5M | 8% increase | The $430.4M increase in sales revenue was primarily due to higher volumes on robust domestic activity, along with stronger prices on higher global steel prices, partly offset by the unfavourable influence of a stronger A$:US$ exchange rate. |
| Australian Steel Products - Domestic sales volume (ex-m | 2,168.9 mt | 2,487.7 mt | 15% increase | FY2021 domestic sales volumes ex-mill increased 15% on FY2020 to 2,488kt; the highest since FY2008.<br>• Increased volumes were driven by strength across building and construction, with activity levels supported by focussed sales and marketing initiatives, various government stimulus and infrastructure programs, redirected discretionary spending, and recovery work following recent storm / flood events.<br>• FY2021 steel sales of COLORBOND® steel, TRUECORE® steel, TRU-SPEC® steel and Galvanised were the highest on record for the ASP business – assisted by both specific sales initiatives and broader segment demand growth. |

[1] Verification reports for Yieh Phui Enterprise Co., Ltd and Sheng Yu Steel Co., Ltd show -4.4% and -5.6% dumping margins respectively.

[2] FY2021 Results Investor Presentation; FY2020 Results Investor Presentation

The demonstrated improvement in BlueScope's overall and segment performance reveals that injury, if any, was transitory. Since the end of the investigation period, BlueScope's economic performance has recovered and reached record levels, eclipsing all previous years. As noted by BlueScope, '*FY2021 steel sales of COLORBOND® steel, TRUECORE® steel, TRU-SPEC® steel and Galvanised were the highest on record for the ASP business – assisted by both specific sales initiatives and broader segment demand growth.*'

It is expected that BlueScope's record sales revenue of coated steel products is in large part due to the extraordinary steel trading conditions evident since early 2020 and which continue today. This includes:

- COVID-19 causing major disruption to steel mill production and supply chains, leading to significant steel shortage globally;
- iron ore and coking coal shortages;
- steel shortage coinciding with increased domestic and export demand stemming from economic recovery and major infrastructure initiatives; and
- soaring freight rates.

These factors have contributed to a market situation which has seen raw material and steel prices rise dramatically to unprecedented levels. It is also understood that the situation in the Australian market is such that BlueScope is unable to meet the growing demand for coated steel products, resulting in customers being placed on allocations.

In the specific case of aluminium zinc coated steel, it is understood that shortages are leading to some Australian end-user customers that would customarily source subject goods from BlueScope, exploring the prospect of substituting with galvanised coated steel products. The record financial and trading performance announced by BlueScope for FY2021, along with the unprecedented global steel market conditions that has led to local supply shortages and record prices for like goods, requires the Commission to carefully assess whether material injury will continue.

As the Commission is aware, anti-dumping measures may be imposed on future exports of like goods only when the Minister is satisfied that material injury to an Australian industry has been caused by dumping, and is satisfied that the dumping and material injury may continue. In considering whether material injury may continue, the Commission would seek to examine and understand whether any change in circumstance has occurred in the post-investigation period.

It is also worth noting that the outlook for the global and local steel markets are forecasted to tighten further, with increased demand, increase freight rates and continued supply chain disruptions, leading to continued steel shortages and increased prices. This is supported by BlueScope's own medium-term outlook of '… *supportive industry and end use demand trends*'[3].

For the relevant Australian Steel Products segment which includes the subject goods, BlueScope has forecasted[4]:

- *Expect a better result compared to 2H FY2021*

[3] *Ibid.*, page 41.

[4] *Ibid.*, page 39.

- *Similar to, or slightly higher domestic despatches on ongoing robust construction demand*
- *Stronger benchmark spreads*
- *Higher scrap and coating metal costs on global index pricing.*

Given the record growth experienced by BlueScope since the end of the investigation period, which is forecasted to improve even further in the medium-term at the very least, the Commission is obliged to examine the impact that these changes have had on the likelihood that the alleged material injury will continue in the future.

As noted above, there has been an unprecedented change in circumstances in the global and Australian steel markets, and BlueScope's own economic performance since the end of the nominated investigation period. The medium-term outlook reveals the current market conditions continuing for at least a few years, and as such, there is no evidence that material injury will continue, or that BlueScope requires protection in the form of dumping duties for the next five years.

**C. <u>Determination of normal values</u>**

KG Dongbu brings the following issues to the Commission's attention and respectfully requests their reconsideration in setting out the preliminary findings in the Statement of Essential Facts Report No. 558. Amendments for the two issues outlined below would reduce the margin of dumping by [redacted]%.

<u>Incorrect calculated gross margin</u>

KG Dongbu notes that the verification team have calculated and proposed a gross margin of [redacted]%, which is used to gross up the specification adjustments calculated for each of the surrogate domestic models. The Commission's Dumping & Subsidy Manual notes that:

> *… adjustments for differences in physical characteristics or quality, where it reasonably affects price comparability, may be based on production cost differences plus the addition of the gross margin (i.e. <u>the administrative, selling and general</u> costs and profit) to the production cost difference.*

Applying the Commission's stated methodology, the gross margin ought to be the calculated SG&A rate plus the ordinary course of trade profit, which according to the verification team's final calculations, amounts to [redacted]% (comprising [redacted]% for SG&A and [redacted]% for profit).

Respectfully, KG Dongbu requests the Commission to reconsider the calculation of the gross margin. Amendment based on the proposed [redacted]% would reduce the margin of dumping by [redacted]% to [redacted]%.

<u>Incorrect adjustment for export Handling/Other & Brokerage expenses</u>

KG Dongbu requests the Commission to reconsider its calculation of the export adjustments relevant to handling and brokerage expenses. The current unit values for these adjustments are not based on the actual total expenses incurred during the period. Instead, they include estimated expenses calculated by the Commission relevant to the FAS export sales, for which KG Dongbu did not engage handling and brokerage services.

The table below compares the Commission's calculated adjustments with the proposed adjustments.

**[CONFIDENTIAL TABLE REDACTED]**

Amendment based on the actual expenses incurred would reduce the margin of dumping by [redacted]% to [redacted]%.