

Canberra
6/2 Brindabella Circuit
Brindabella Business Park
Canberra International Airport
ACT 2609 Australia
+61 2 6163 1000

Brisbane
Level 4, Kings Row Two
235 Coronation Drive
Milton, Brisbane
QLD 4064 Australia
+61 7 3367 6900

Melbourne
Level 39
385 Bourke Street
Melbourne
VIC 3000 Australia
+61 3 8459 2276



commercial + international

6 September 2021

The Director
Investigations 4
Anti-Dumping Commission
Level 6, 215 Spring Street
Melbourne
Victoria 3000
Australia

By email

Dear Director

Investigation 558 – Aluminium zinc coated steel ($\geq 600\text{mm}$)

Dongkuk Steel comments on material injury and causation

As you know we represent Dongkuk Steel Mill Co., Ltd. ("Dongkuk Steel") in this investigation.

A	Introduction	1
B	BlueScope has not been and is not materially injured	2
C	Pricing effects unrelated to Dongkuk's exports are far greater	7
1	Significant impact of the TRUECORE strategy	7
a	Different source of competition in the frame market	9
b	TRUECORE's internal price influence on ZINCALUME	9
c	Competition mostly with exports from Vietnam - both GUC and non-GUC	10
2	BlueScope's ZINCALUME sales were not materially affected by Dongkuk Steel exports	11
D	Investigation should be terminated, and no measures imposed	13

A Introduction

We refer to the Australian Industry Verification Report ("the Industry Report") concerning BlueScope Steel Limited' ("BlueScope" or "the Applicant") in this investigation, published by the Anti-Dumping

Commission (“the Commission”) on 26 August 2021. We note that the Industry Report was published one week before the then due date for the publication of the Statement of Essential Facts (“the SEF”). On 2 September 2021, the due date for the SEF was extended to 22 September.

Dongkuk Steel welcomes the publication of the Industry Report and the Commission’s decision to extend the due date for the SEF. The Industry Report provides interested parties with necessary information about the Applicant’s economic conditions, and performs an important procedural and substantial role for such investigation. The Industry Report enables interested parties to make informed comments on the critically important aspect of this investigation.

The Industry Report confirms BlueScope’s dominant market power and highlights significant deficiencies in BlueScope’s injury and causation allegations.

In this submission Dongkuk Steel provides its comments in light of the Industry Report. In addition, Dongkuk Steel takes this opportunity to refer the Commission to additional available information to further assist the Commission’s understanding and assessment of BlueScope’s material injury and causation claims in this investigation.

B BlueScope has not been and is not materially injured

BlueScope is the largest steel producer in Australia. It identifies itself to be “a technology leader in, and the largest global producer of, metal coated and painted steel building products”. In Australia, BlueScope has a vertically integrated operation that produces like goods to the goods under consideration (“the GUC”). As noted in the Industry Report, BlueScope does not produce products with aluminium-zinc (“AZ”) coating that meets the description of the GUC. The like goods produced by BlueScope are aluminium-magnesium (“AM”) coating based products.¹

BlueScope offers the like goods in the Australia market mainly under the “TRUECORE” brand, targeted to the steel frames market, and the “ZINCALUME” brand, targeted to the roofing and walling market. Further, we understand that BlueScope also supplies the like goods internally, as a feed material for its flagship product “COLORBOND”. As will be explained in further detail below, BlueScope’s marketing strategies for these products have a profound impact on its financial performance and must be properly accounted-for in the injury and causation analysis.

To start with, BlueScope’s operations in Australia, including for the like goods, is anything but “injured”. BlueScope’ stellar financial strength in recent years is well documented. The company has performed and continues to perform at historically high levels. As at 30 June 2017, the Australian tax consolidated group within which BlueScope operates was estimated to have had carry forward tax losses of approximately \$2.3 billion.² By 30 June 2020, this had been reduced to \$1.3 billion.³ By 30 June 2021, this was almost halved again, to \$710 million.⁴

¹ Industry Report, at page 7.

² BlueScope Directors’ Report and Accounts FY2017, page 17, <https://www.bluescope.com/media/2262/fy2017-full-year-appendix-4e-directors-report-and-accounts.pdf>

³ BlueScope Directors’ Report and Accounts FY2020, page 22, <https://www.bluescope.com/media/2878/fy2020-full-year-appendix-4e-directors-report-and-financial-report.pdf>

⁴ BlueScope Directors’ Report & Financial Report FY2021, page 29, <https://www.bluescope.com/media/3215/fy2021-full-year-appendix-4e-directors-report-and-financial-report.pdf>

BlueScope's remarkable performance is once again highlighted in its most recent financial report, for FY2021. This information about BlueScope's contemporary economic condition updates the information concerning the Australian market for the injury period starting from 1 April 2016, and provides the Commission with useful and relevant context for the purposes of its material injury and causation determination.

BlueScope's full year financial results released on 16 August highlight the following with respect to its Australian Steel Products ("ASP") business unit:⁵

- domestic sales volumes ex-mill increased 3% in FY2020⁶ and 15% in FY2021, reaching the highest level since FY2008;
- FY2021 steel sales of TRUECORE and COLORBOND products were the highest on record for the ASP business – continuing the 10% and 3% growth trajectory in FY2020;⁷
- sales revenue has increased by 8% since FY2020; and
- underlying EBIT increased by 121% since FY2020;

BlueScope's financial report explains that the increase in domestic volume is driven by growth in the building and construction industry.⁸ It highlights that sales of TRUECORE and COLORBOND products, among other products, were the highest on record for the Australian business unit, which was *"assisted by both specific sales initiatives and broader segment demand growth"*.⁹ These are all consistent with Dongkuk's understanding of BlueScope's market activity and positioning throughout the injury period.

BlueScope's strong commercial performance in FY2021 provides important contemporary and supplementary information for the Commission's assessment of the material injury allegations levelled by BlueScope against the GUC from Korea. The FY2021 information confirms that BlueScope was not suffering injury in the POI. Its financial results tell of a period of strong growth that was sustained in the investigation period ("the POI") and that accelerated thereafter into the subsequent financial year. This is fully reflected in the Industry Report, which usefully establishes that BlueScope's performance with respect to the like goods improved during the POI in almost every aspect.

We illustrate this proposition by referring to the relevant parts of the Industry Report:

- 1 **Sales volume** - the Commission states that *"BlueScope's volumes of its like goods over the injury period have generally trended upwards having overall increased by approximately 4%"*.¹⁰

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

⁵ Ibid.

⁶ BlueScope Directors' Report and Accounts FY2020, page 11.

⁷ Ibid.

⁸ FY2021 report page 16.

⁹ Ibid, page 16.

¹⁰ Industry Report, page 20.

- 2 **Market share** - the Commission states 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”.¹¹

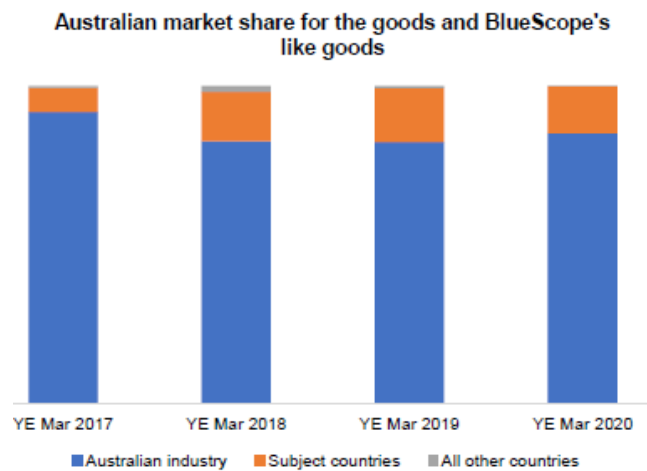


Figure 2 – Australian market share

- 3 **Price effects** – the Commission notes that BlueScope’s price increased throughout the injury period, and that BlueScope managed to increase price despite a sharp drop in cost - and closed the gap between CTMS and price from the two years prior to the POI, as further discussed below, the CTMS and price gap is a reflection of BlueScope’s own strategy to promote TRUECORE product starting from FY2018:¹²

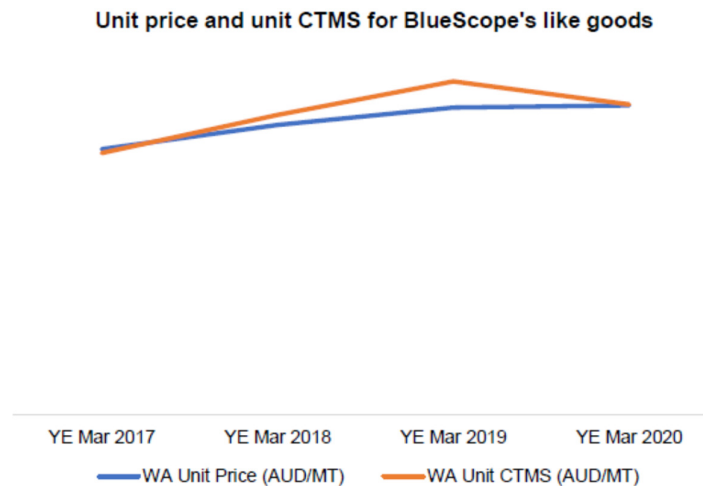


Figure 3 – Unit price and unit CTMS comparison

¹¹ Ibid, page 21.

¹² Industry Report, at page 22.

- 4 **Profit and profitability** – the Commission states that “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”.¹³

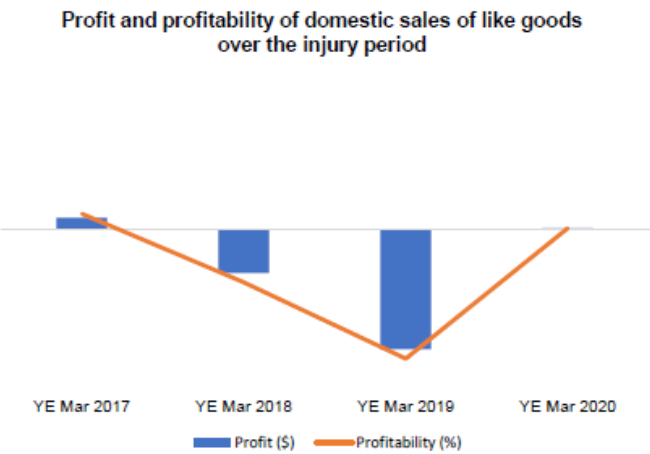


Figure 4 – Profit and profitability

- 5 **Return on investment** – the Commission states that “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”.¹⁴

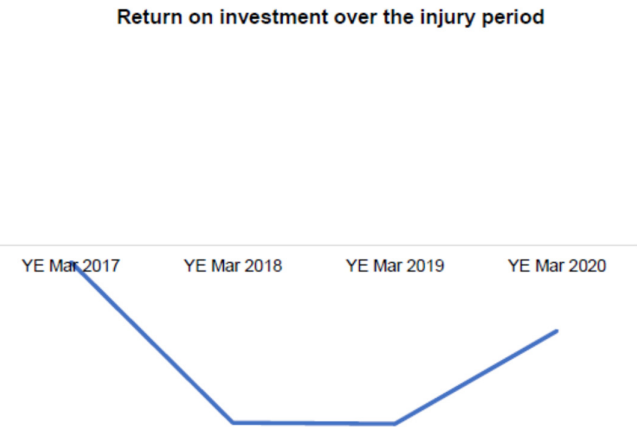


Figure 5 – Return on investment

- 6 **Productivity** – the Commission states that “BlueScope has not experienced injury in the form of reduced productivity with respect to its like goods in the injury period”.¹⁵

¹³ Industry Report page 22.

¹⁴ Ibid, page 24.

¹⁵ Ibid.

7 **Capital investment** – the Commission states that “BlueScope’s capital investment for its like goods has overall declined over the injury period, with a pronounced drop at YE Mar 2018” and improved over the POI.¹⁶

The Industry Report expresses a view that BlueScope “has experienced injury” in each of the above areas except for sales volume and productivity. However, such observation can only be made in relation to the periods *prior* to the POI, ie, with respect to FY2018 and FY2019. BlueScope experienced sharp growth and strong recovery in the POI, in comparison to the previous years. None of BlueScope’s economic conditions during the POI shows “material injury” in comparison to the two preceding years, and they are very close to its performance during 2017.

With the benefit of the latest financial report covering the post POI injury period, the Commission can now have confidence in the fact that BlueScope’s performance during the POI was the start of a strong growth cycle. BlueScope has achieved a record level of financial success in the period immediately following the POI. This is not a *sudden reversal* of a materially injured economic condition. This is the *continuation of an uninjured economic condition* that shows *no sign of abating*.

We refer to the following statements by BlueScope concerning its investment and growth outlook:¹⁷

In Australia, the business continues to pursue inter-material growth in value added products, such as COLORBOND® steel and TRUECORE® steel, with both product suites seeing continued growth in demand. To support further growth and address current operating constraints, BlueScope is in the initial phases of assessing additional coating capacity at Port Kembla.

Accordingly, we expect the Commission will find that BlueScope’s economic condition, in so far as the POI is concerned, was not “materially injured”. Rather, it was more likely to be part of the normal flow of its business, backed by strong and healthy Australian market conditions.

In this context it is also important to recognise that BlueScope achieved an EBIT of AUD305.1 million in FY2020 and AUD674.3 in FY2021. BlueScope’s “metal coated” and “painted” products typically account for more than half of its ASP business unit sales volume each year. As an integrated producer of like goods, and with the like goods also used as a feed for its premium painted product, it is only logical to have regard to the overall financial performance of the ASP business unit in order to gain a correct understanding of whether it is experiencing “material injury”. This is a relevant and important factor in considering BlueScope’s material injury assertion, but hardly addressed in either BlueScope’s application or the Industry Report. BlueScope has been operating at a significant profit level. We assume that a substantial part of that profit is attributed to products which uses the like goods as a feed, as well as products that are sold to customers who buys both the like goods and non-like goods from BlueScope in order to qualify for its rebate structure. This require the Commission to closely scrutinise BlueScope’s proposition that its sales of like goods, in insolation, were somehow unprofitable – this is further discussed below at Part C of this submission.

We respectfully submit that the correct and logical conclusion based on both the Industry Report and BlueScope’s latest financial report is that material injury has not been suffered by the Australian industry producing the like goods.

¹⁶ Ibid, page 25

¹⁷ BlueScope Directors Report & Financial Report FY2021, page 9.

C Pricing effects unrelated to Dongkuk's exports are far greater

Dongkuk Steel now provides further information to assist the Commission's understanding of BlueScope's business with respect to the like goods in the Australian market. The information demonstrates that BlueScope's production and sales like goods cannot have been materially affected by exports of the GUC from Dongkuk or by those from Korea more generally.

1 Significant impact of the TRUECORE strategy

BlueScope explains in its Application that it sells like goods on the Australian market under two main brands, being TRUECORE and ZINCALUME. These two brands are technically very similar, but target different markets. TRUECORE is positioned and marketed to the frame market occupied by timber frames in the building and construction sector. BlueScope announced its re-engineered marketing strategy for TRUECORE in its FY2018 financial report:¹⁸

FY2018 saw the relaunch of TRUECORE® steel with new branding and an advertising campaign targeted at consumers, builders and fabricators. Growth in this area has exceeded forecasts, with a number of builders having already converted, or are in the process of trialling the product.

The timing and impact of the TRUECORE strategy is also reflected in BlueScope's product category based volume index contained in the Application. There appears to have been an exponential expansion of the TRUECORE products, as compared to other product groups:

Index of production variations (model control code)

Model Categories	2016/17	2017/18	2018/19	2019/20
TrueCore	100.00	126.50	165.60	167.75
G550 0.42mm x 940mm	100.00	93.16	88.14	85.03
G550 0.48mm x 940mm	100.00	93.07	104.85	131.30
Zincalume G300 0.55mm x 1200mm	100.00	98.33	96.93	89.63
Other	100.00	97.92	106.06	97.77
Total	100.00	99.54	105.79	104.37

Notes:

1. Data from label A of Appendix A6.1.
2. Years ending March.

BlueScope's efforts to market the TRUECORE product have continued successfully in the post-POI period with record sales of TRUECORE reported for the 2021 financial year.¹⁹ The significant growth of TRUECORE sales has been at the cost of other like goods product categories, which have experienced reduced sales. As the Industry Report shows, BlueScope has been running at high productivity levels in recent years. The sharply increased and ever-growing production and sales of TRUECORE means that BlueScope has had to shift production away from other products.

The relaunch of TRUECORE in FY2018 corresponded with a sharp decrease in profitability for two years, which recovered in the POI as the profitability of TRUECORE improved:

¹⁸ BlueScope Directors' Report and Accounts FY2018, page 10.

¹⁹ BlueScope Directors' Report & Financial Report, page 16.

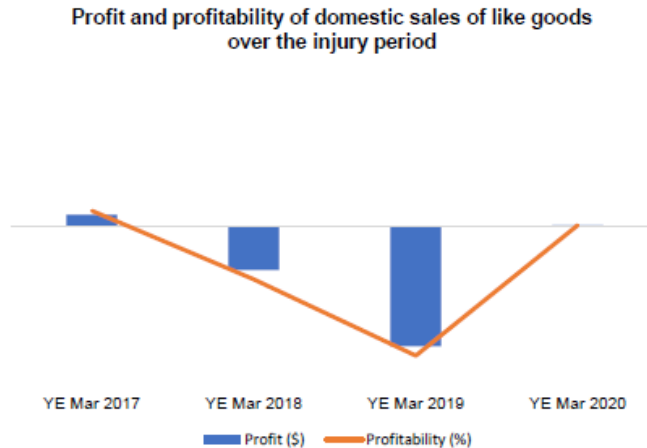


Figure 4 – Profit and profitability

This is not surprising. A significant hurdle that BlueScope had to overcome, in order to compete in the frame market, was comparatively much lower priced timber frames. BlueScope target that market with aggressive pricing in order to make its steel frame an attractive alternative to timber frame. BlueScope's aggressive marketing push for its TRUECORE product is also confirmed by the Application, which shows that the price level for TRUECORE was kept at a much lower level in the two years prior to the POI, and did not follow the price movement of other products in that period. When the TRUECORE price started to increase in the POI, other products were in turn offered at a lower price point, indicative of an adjustment in pricing strategy:²⁰

Index of price variations (model control code)

Model Categories	2016/17	2017/18	2018/19	2019/20
TrueCore	100.00	104.52	112.19	116.82
G550 0.42mm x 940mm	100.00	110.62	118.59	114.20
G550 0.48mm x 940mm	100.00	110.88	119.25	113.64
Zincalume G300 0.55mm x 1200mm	100.00	111.59	119.57	117.04
Other	100.00	111.11	117.65	113.62
Total	100.00	109.23	115.73	113.42

This is despite the cost variation of TRUECORE moving at a far higher level in comparison to other like goods categories in the two years prior to the POI, again suggesting that BlueScope made a conscious decision to suppress the prices of TRUECORE in order to gain market share in the framing market:

²⁰ BlueScope Application. EPR588-1, at page 27

Index of cost variations (model control code)

Model Categories	2016/17	2017/18	2018/19	2019/20
TrueCore	100.00	117.65	131.96	121.65
G550 0.42mm x 940mm	100.00	115.05	127.10	121.34
G550 0.48mm x 940mm	100.00	115.44	127.82	120.83
Zincalume G300 0.55mm x 1200mm	100.00	111.29	124.12	114.85
Other	100.00	112.59	127.02	116.08
Total	100.00	114.14	126.73	118.42

Dongkuk submits that these product category based indices clearly show that BlueScope decided to push sales of TRUECORE into the framing market, at the cost of and subsidised by its sales of other products, and that in so doing it created a substantial loss-making position for the like goods overall. Any such loss was subsidised within the ASP business unit by continued strong profit earnings from the downstream painted product COLORBOND, and other product lines.

As demonstrated above, BlueScope's strategy to promote TRUECORE had significant price and profit effects on its overall position with respect to the production and sales of like goods. Such impacts were as a result of BlueScope's own commercial strategy, and not because of competition from the GUC.

We ask the Commission to take these unique circumstances into consideration in its injury and causation analysis in the following aspects. We explain this position further as follows.

a Different source of competition in the frame market

First, TRUECORE targeted the frame market, where the main competition is against timber frame. Dongkuk Steel does not consider its exports of the GUC were in competition with the TRUECORE/frame market, mostly due to the significantly lower price point, and BlueScope's successful marketing campaign. Dongkuk Steel understands that its exports of the GUC cannot even compete with BlueScope's slit TRUECORE products, which were offered at a much lower price level than Dongkuk's unslit GUC.

As the framing market is traditionally dominated by timber frame, BlueScope had to offer its product at a price level competitive enough to compete with equivalent timber frame. Competition from timber, being a non-GUC alternative, would have had much higher impact on BlueScope's pricing for TRUECORE than the GUC exported from Dongkuk Steel and Korea generally.

b TRUECORE's internal price influence on ZINCALUME

Secondly, the aggressive pricing of TRUECORE in the frame market also affected BlueScope's sales of other products. TRUECORE and ZINCALUME are technically almost identical, except for TRUECORE's blue colour appearance. From a customer perspective, the pricing of TRUECORE inevitably created price pressure that also influenced BlueScope's sales of ZINCALUME in the roofing and walling market. In other words, BlueScope's sales of non-TRUECORE like goods were also affected by its own pricing strategy for TRUECORE.

c Competition mostly with exports from Vietnam - both GUC and non-GUC

Thirdly, insofar as import competition is concerned, price competition from Vietnam must be considered to have been far more relevant to BlueScope's sales of like goods than GUC exported from Korea, both in terms of the GUC in this investigation and in the narrower aluminium zinc coated steel investigation.²¹ This was identified by BlueScope in its application:

*BlueScope provides the below instances of price undercutting and price depression in the market in conjunction with its parallel application for anti-dumping and countervailing measures on aluminium zinc coated steel, of a width less than 600mm, from the People's Republic of China and Vietnam. Both applications need to be considered/consolidated for injury analysis purposes as their use-in-market and competitive price dynamics are interchangeable. This point cannot be under-emphasised, and an assessment of the following price undercutting/price depression examples, in conjunction with those detailed in the above-noted parallel application, clearly demonstrates this.*²² [underlining supplied]

The Industry Report confirms that the main price effects of imports on BlueScope come from Vietnamese exports of both the GUC in this investigation, and the GUC in the parallel investigation:

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 subsidised 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 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.

[underlining supplied]

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).*

²¹ Investigation 559, dumping and subsidisation investigation of aluminium zinc coated steel of a width less than 600 mm exported from China and Vietnam.

Whether or not BlueScope has suffered material injury from dumping associated with the GUC during the POI, the main source of competition are exports from Vietnam, both GUC and non-GUC, and not Dongkuk Steel's exports from Korea. We respectfully submit that Vietnamese exports' distinct impact on BlueScope require the Commission to treat the Vietnamese exports separately.

In conclusion, Dongkuk Steel's exports of the GUC, regardless of any dumping margin, did not impact on BlueScope's financial condition. BlueScope's prices of the like goods were dictated by its own sales strategy to enter the framing market, where it needed to overcome competition from cheaper timber frames. In turn, low TRUECORE prices had an overflow price effect on ZINCALUME prices. Competition from the low-priced GUC exported from Vietnam, and from slit aluminium zinc coated steel from Vietnam and China, which may be non-GUC but must still be considered an "other factor" to exports from Korea, also would have impacted on BlueScope's sales of TRUECORE. All of these factors are unrelated to the GUC exported by Dongkuk Steel or from Korea generally.

We respectfully ask the Commission to ensure that any injurious effects from these other factors are properly recognised and are not wrongly attributed to any dumping margin determined for Dongkuk Steel's exports of the GUC.

2 BlueScope's ZINCALUME sales were not materially affected by Dongkuk Steel exports

In relation to the roofing and walling product sector, Dongkuk Steel understands that most of BlueScope's sales are to the large scale and high-volume building materials sectors which are not directly exposed to competition from Dongkuk Steel.

BlueScope adopts a "consumption commitment" rebate structure for its selected customers. Dongkuk understands that this is offered only to large scale customers. It requires customers to commit a very high portion of their total requirements of steel coil to BlueScope - almost the entire portion - in order to qualify for rebate. This volume commitment and rebate structure allows BlueScope to secure the demand of large scale customers. Depending on the range of products included, the rebate structure also gives BlueScope the flexibility to offer differentiated price and rebates to accommodate sectors where there is stronger competition and sectors where it enjoys clearer dominance and higher premium (such as COLORBOND) – a bundled pricing and rebate structure that allows cross-subsidisation between different product groups and maximise overall sales volume and profitability.

BlueScope's rebate structure is targeted at large scale customers who are selected by BlueScope. These customers account for a substantial part of total market share. Smaller customers are significantly disadvantaged, with little security of supply, and are only offered unrebated pricing. This pricing is not commercially viable for them to compete in the downstream market, where smaller operators face BlueScope's own production competition from BlueScope's own/affiliated fabrication distributor and with BlueScope's customers who have access to the rebate structure.

These circumstances have recently been the subject to an inquiry by the Australian Competition and Consumer Commission ("ACCC") concerning an application by Steelline Members Pty Ltd for authorisation of collective bargaining.²³ As noted in the ACCC report:

²³ See, ACCC Final Determination, Authorisation number: AA1000520, at 2.11, 3.4-3.6, 4.18, 4.54-4.58, <https://www.accc.gov.au/system/files/public-registers/documents/Final%20Determination%20-%202.12.20%20-%20PR%20-%20AA1000520%20Steelline.pdf>

Selection Steel submits that it previously supplied roll forming inputs to a number of Steeline members as well as to other national roll formers. However, the introduction by BlueScope of buyer threshold rebate arrangements (which Steeline's members are able to access through the Steeline buying group) impedes its ability, and the ability of other smaller competitors to BlueScope, to compete on price. Selection Steel is concerned that BlueScope's rebate arrangements in effect restricts roll formers, such as Steeline's members, from exploring opportunities from alternative suppliers of roll forming inputs.

Selection Steel's comments correctly identify the competitive dynamics between the like goods offered by BlueScope and Dongkuk Steel's exports of the GUC during the POI. That is, Dongkuk Steel's products are mostly offered to customers who are unable to access the high volume commitment-based rebate structure, and to those who simply cannot secure viable supply from BlueScope. As such, Dongkuk's exports, regardless of any dumping margin, could not have been the source of material injury to BlueScope. This is partly reflected in BlueScope's increased dominance of the market during the POI:

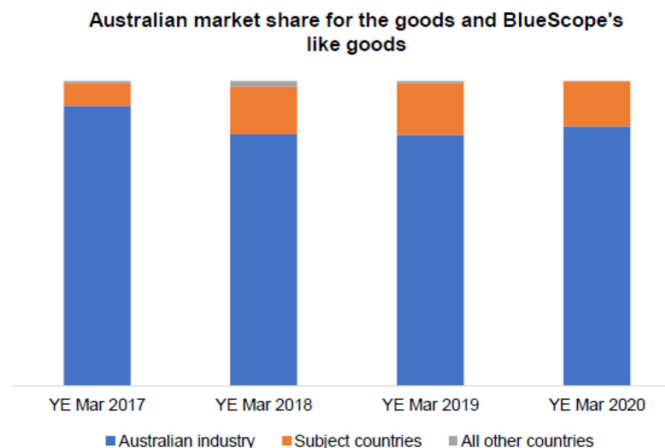


Figure 2 – Australian market share

Since the POI, the Australian market has experienced a significant surge in prices for the subject goods. There are several likely causes for this development:

- supply constraints – limits on BlueScope's capacity to keep up with strong building and construction market demand;
- 2020 summer bushfire – this impacted the house construction market by causing a preference for steel framing, which increased demand for BlueScope's TRUECORE products;
- COVID-19 – again, a major impact on logistics and supply;
- International conditions - higher global iron ore and steel prices.

These factors have led many Australian customers, especially those without any consumption rebate agreement with BlueScope or other means of accessing Australian supply, to seek alternative sources of supply, including from Dongkuk Steel, at prices higher than BlueScope's.

D Investigation should be terminated, and no measures imposed

In light of the above, we expect the Commission will find that BlueScope's material injury and causation claims are not supported by sufficient evidence and have not been made out.

We urge the Commission to terminate the investigation at the earliest opportunity under Section 269TDA(13) of the Act, on the basis that the injury caused by any dumped imports from Korea during the POI, if any, was negligible.

If the Commission does find it necessary to report to the Minister, we submit that the Commission should recommend that the Minister should not impose anti-dumping measures against exports of the GUC from Korea, on the basis that there is insufficient evidence that *material* injury to the Australian industry producing like goods has been or is being caused by "dumped" imports from Dongkuk Steel, or from Korea generally.

Yours sincerely



Charles Zhan
Partner



Macky Markar
Associate