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Public File

Dear Sir/Madam

Investigation 569 – Grinding balls exported from P R China – Steel benchmark

I. Executive Summary

Molycop is the sole Australian manufacturer of grinding balls. Molycop has made an application for the continuation of anti-dumping measures on grinding balls exported from the People's Republic of China ("China") so that the measures do not expire on 9 September 2021.

Molycop submits that it is adversely impacted by the Anti-Dumping Commission's ("the Commission") decision to select the Latin America export billet price as an appropriate steel input benchmark to include in the Chinese exporter's constructed normal value on grinding balls. The use of a steel billet price significantly disadvantages Molycop as the steel billet input price is considered a marginal selling price.

The appropriate steel benchmark is a *domestic* traded grinding bar price. The Commission in its investigations into hollow structural sections, coated steel products, galvanised angles and steel racking has used a "domestic" steel input cost sourced from validated domestic prices in select countries.

Molycop requests that the Commission recommend to the Minister for Industry, Science and Technology ("the Minister") that the fairest and appropriate steel benchmark to be included in the Chinese grinding ball manufacturer's constructed normal value is a domestic grinding bar price that has been verified as not the subject of influence by Chinese steel exports.

II. Report 520

In recent Report 520, the Commission confirmed the findings of the original Investigation No. 316 ("Invest 316") that a particular market situation existed on the domestic market in China for grinding balls. The Commission determined "*that the GOC [Government of China] has exerted influence on the Chinese steel industry, which has distorted competitive market conditions in the steel industry in China. The GOC was able to exert this influence through its directives and oversight, subsidy programs, taxation arrangements and the significant number of SOE. As a result, the Commission considers there is a particular market situation in the China domestic market for grinding balls.*"¹

In Investigation 520 ("Invest 520") the Commission confirmed its approach to assessing the market situation effect on domestic prices for grinding balls in China. In this respect the Commission had

¹ Report 520, P.70.



regard to a “*competitive benchmark for grinding bar, ferroalloys and steel scrap costs (where applicable)*”. The Commission noted that the cost of the steel and the applicable alloys accounted for up to 90 per cent of the cost to make (“CTM”) grinding balls and therefore any distortion in the prices of the input cost would distort the selling price for grinding balls.

The Commission received cooperation from four grinding ball manufacturers in China for review of measures Invest 520. The cooperative exporters were:

- Changshu Longte Grinding Ball Co., Ltd (“Longte”);
- Anhui Sanfang New Material Technology Co., Ltd (“Anhui Sanfang”);
- Jiangsu Yute Grinding International Co., Ltd (“Jiangsu Yute”); and
- Iraeta Energy Equipment Co., Ltd (“Iraeta”).

In Invest 520, the Commission confirmed that “*three of the cooperating exporters, Longte, Jiangsu Yute and Iraeta, grinding bar is the chief raw material input and represents the largest proportion of the cost of production*”². This is an important consideration. During the review of measures investigation period in Invest 520, one exporter was responsible for the majority (if not nearly all) of exports to Australia. Molycop agrees with the Commission that that private domestic prices for grinding bar in China “*are not suitable for determining a competitive market cost, free from government influence.*” Similarly, imported grinding bar prices into China were considered not suitable. The Commission could not identify any “*externally published grinding bar prices*”.

The Commission re-affirmed its position in Report 316 that it “*..still considers that an external benchmark can be constructed based on the inputs which make up grinding bar, e.g. steel billet, ferroalloys and conversion costs. The benchmark can be used to identify a competitive market price.*”

The Commission reverted to the same benchmark steel billet price used in Report 316 – that is, the Latin American export billet prices at Free on Board (FOB) level published by S&P Global (Platts) as the Commission considered it “*provides an independent and reliable basis for constructing a benchmark using steel billet as an input component.*”

As detailed in its submission³ to Invest 520, Molycop disagrees with the Commission’s Latin America export steel billet benchmark selection and recommendation. In its 16 September 2020 submission Molycop commented that should a steel billet price be used, it should be a **domestic** steel billet price. This practice would be consistent with the Commission’s previous decisions concerning a benchmark input in HSS (Investigation 177, 203, 379), aluminium zinc coated steel and galvanised steel (Investigation 190 and 193), pallet racking (Investigation 441) and galvanised steel (Investigation 516) – all goods exported from China. In each of these cases a verified raw material domestic selling price for the major raw material input – hot rolled coil – was used in the benchmark.

The Commission acknowledged Molycop’s representations (at Section 5.3.2 of Report 520). The Commission stated:

“The Commission selected a benchmark for billet based on reported export prices from Latin America because the Commission considers it to be representative of a competitive cost of production that would be payable in China in the absence of GOC influence.”

Respectfully, Molycop cannot agree with this suggestion. The Commission has utilised a steel billet export price in Latin America that it has surrogated into the Chinese exporter’s raw material production costs to arrive at a constructed cost for grinding balls that is not influenced by the GOC’s distortions on the raw material steel. This constructed cost has not been contrasted with the

² Report 520, Section 5.3.1, P. 17.

³ EPR Document 022, Investigation 520.



constructed cost of a grinding ball manufacturer in a country other than China to determine whether it can be relied upon as reflecting a “competitive cost”.

The Commission stated further in Report 520:

“While the Commission notes Molycop’s preference for using a single country benchmark, Molycop has not presented any evidence which demonstrates that market conditions across Latin America are such that the benchmark the Commission has selected is not representative of competitive market costs.”

Molycop will address this matter below.

The Commission further stated:

“In addition, the use of the same benchmark based on Latin American export prices has previously been considered by the ADRP and the Full Federal Court. Judicial and merits tribunal decision makers have not cast any doubt on the use of the benchmark, provided that it is objective and broadly representative of competitive costs.”

The merits and judicial review did not specifically examine the selection of the Latin American export price but rather the acceptance of an international benchmark. Molycop is concerned that the selected international benchmark under states the true nature of the competitive cost of producing grinding balls.

Molycop is **opposed** to the use of traded export price information in a benchmark constructed cost methodology. Export prices reflect producers maximising production to improve fixed cost absorption. Any production surplus to internal or domestic needs only requires pricing to be above marginal costs to generate additional profit, whilst selling at reduced prices. Steel billet is not a finished product and is typically not traded but consumed internally. Because of this, domestic benchmarks for steel billet is not typically published. Similarly, grinding bar is also an intermediate product and there are no published domestic benchmarks available in industry newsletters/subscription services.

It is considered by Molycop that the most reliable steel input price for demonstrating the GOC distortionary effect is a domestic grinding bar selling price. Independent, third party supplier prices for grinding bar [source of domestic grinding bar prices].

III. Steel billet prices

Molycop has undertaken an analysis of steel billet benchmark prices versus input prices for grinding bar. Molycop’s analysis confirmed that the following prices were all within the same range:

- Far East Import billet CFR price;
- CIS Export billet (FOB) price;
- Latin America Export Billet (FOB) price.

It is noted that the Far East Import billet price is the higher of the three steel billet prices. This can be accounted for the fact it is a CFR price. When the freight component is removed, the three steel billet benchmarks are priced at similar levels – highlighting the point that the export price is an opportunistic price for excess production that is not consumed locally (or internally) and is sold on the global market (at similar price levels).

Traded export prices are heavily influenced by the excess production that originates from China (which accounts for more than 50 per cent of global steel production).



The following Table 1 demonstrates the pricing differentials between the three steel billet benchmark prices (the Far East import billet price is a CFR price).

Table 1 – Steel billet pricing comparison

	Oct-Dec 2019	Jan-Mar 2020	Apr-Jun2020	Jul-Sep 2020	Average
Far East Import Billet	660	717	660	650	672
CIS Export Billet	601	665	604	603	618
Latin America Export Billet (FOB)	600	667	604	602	618

Source: Far East Import Billet and CIS Export billet sourced from CRU. Latin America Export Billet (FOB) ex Platts.

Molycop's analysis confirms that when a steel billet export price is surrogated into the cost to make ("CTM") grinding balls, the CTM for the grinding balls is approximately \$xxx per tonne below the CTM when grinding bar is the raw material input.

IV. Raw material grinding bar

Molycop has also undertaken a CTM analysis with grinding bar prices as the benchmark steel input price into a grinding ball cost model (based upon Molycop's Australian operations). Molycop obtained grinding bar pricing information [[source for domestic grinding bar prices](#)]. These prices were contrasted with the China export bar price also included into the grinding CTM model. A similar differential exists when Chinese export prices for grinding bar are substituted into the CTM model (i.e. \$xxx – xxx per tonne) as was evident for steel billet prices. Molycop has undertaken this analysis [[modelling by ball size](#)] to demonstrate the pricing differentials. Please refer to Confidential Attachment 1 – Benchmark comparison billet versus bar.

This confirms that the prevailing steel billet prices – whether Far East Asia, CIS Export or Latin American Export billet (FOB) - are similarly depressed to the same extent as the China export bar prices (which the Commission concluded in Report 520 could not be used in the benchmark).

Molycop has obtained domestic grinding bar prices [[source of domestic grinding bar prices](#)] not to be the subject of GOC influence. The prices paid for arms-length sales of grinding bar [[source of domestic grinding bar prices](#)] attest to Molycop's claims that steel billet export prices are heavily influenced by the export prices from China – the world's largest steel manufacturing country.

V. Recommendation

Molycop has maintained that the Commission's recommended approach to use Latin America export billet (FOB) prices is inconsistent with its policy and methodologies followed in past investigations involving a particular market situation in respect of steel products in China. The correct methodology involves the inclusion of **domestic** prices from identified countries not influenced by GOC policies.

Molycop has demonstrated that the use of steel billet export pricing as the benchmark in the grinding ball CTM results in a suppressed CTM that does not remove the effects of the GOC distortions on raw material steel input prices in the CTM Chinese grinding ball.

The analysis further demonstrates that Chinese export bar prices are consistent with Latin America export billet (FOB) prices when incorporated into the CTM for Chinese grinding balls and understates



the true cost of production of the goods (or, alternatively, demonstrated the GOC's distortions continue to have effect).

Molycop proposes that for the purpose of a benchmark steel input price that domestic grinding bar prices be used to remove the impact of the GOC distortions. In this instance, Molycop can provide the Commission with independent third-party purchase prices for grinding bar **[source for domestic grinding bar prices]** throughout the investigation period. Molycop can obtain commercial invoices from the relevant suppliers (and relevant contact details for the Commission to contact) as required.

Molycop looks forward to discussing this issue further with you.

If you have any questions concerning this submission, please do not hesitate to contact me on (02) 4974 0414 or Molycop's representative Mr John O'Connor on (07) 3342 1921.

Yours sincerely

A handwritten signature in black ink, appearing to read 'KR', with a stylized flourish at the end.

Keith Ritchie
General Manager Operations