



## **Australian Industry Verification Report**

### **Verification & Case Details**

|                                      |  |             |          |
|--------------------------------------|--|-------------|----------|
| <b>Initiation Date</b>               | 14 December 2020                           | <b>ADN:</b> | 2020/146 |
| <b>Case Number</b>                   | 569  |             |          |
| <b>The goods under consideration</b> | Grinding balls                             |             |          |
| <b>Case type</b>                     | Continuation inquiry                       |             |          |
| <b>Australian Industry</b>           | Commonwealth Steel Company Pty Ltd         |             |          |
| <b>Verification location</b>         | Remote verification                        |             |          |
| <b>Inquiry Period</b>                | 1 October 2019 <b>to</b> 30 September 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**

# CONTENTS

|   |           |
|---|-----------|
| <b>CONTENTS .....</b>   | <b>2</b>  |
| <b>PREFACE .....</b>  | <b>3</b>  |
| <b>1 COMPANY BACKGROUND.....</b>  | <b>4</b>  |
| 1.1 CORPORATE STRUCTURE AND OWNERSHIP .....                                       | 4         |
| 1.2 RELATED PARTIES .....   | 4         |
| <b>2 THE AUSTRALIAN INDUSTRY MANUFACTURING LIKE GOODS .....</b>                   | <b>5</b>  |
| 2.1 MANUFACTURING IN AUSTRALIA .....  | 5         |
| 2.2 VERIFICATION OF MODEL CONTROL CODES .....                                     | 5         |
| 2.3 LIKE GOODS .....  | 6         |
| 2.4 PRELIMINARY LIKE GOODS ASSESSMENT .....                                       | 6         |
| <b>3 AUSTRALIAN MARKET.....</b>   | <b>8</b>  |
| 3.1 BACKGROUND .....  | 8         |
| 3.2 MARKET STRUCTURE .....  | 8         |
| 3.3 PRICING .....   | 9         |
| 3.4 MARKET SIZE.....  | 9         |
| <b>4 VERIFICATION OF SALES COMPLETENESS AND RELEVANCE.....</b>                    | <b>11</b> |
| 4.1 IMPORT SALES BY APPLICANT .....   | 11        |
| 4.2 EXPORT SALES BY APPLICANT .....   | 11        |
| 4.3 SALES COMPLETENESS AND RELEVANCE FINDING .....                                | 12        |
| <b>5 VERIFICATION OF SALES ACCURACY.....</b>                                      | <b>13</b> |
| 5.1 EXCEPTIONS DURING VERIFICATION OF SALES ACCURACY .....                        | 13        |
| 5.2 RELATED PARTY CUSTOMERS .....   | 13        |
| 5.3 SALES ACCURACY FINDING.....   | 13        |
| <b>6 VERIFICATION OF COST TO MAKE AND SELL - COMPLETENESS AND RELEVANCE .....</b> | <b>15</b> |
| 6.1 CTMS COMPLETENESS AND RELEVANCE FINDING .....                                 | 16        |
| <b>7 VERIFICATION OF CTMS ACCURACY .....</b>                                      | <b>17</b> |
| 7.1 COST ALLOCATION METHOD .....  | 17        |
| 7.2 VERIFICATION OF ACCURACY OF CTMS DATA.....                                    | 17        |
| 7.3 CTMS VERIFICATION FINDING .....   | 17        |
| <b>8 ECONOMIC CONDITION .....</b>   | <b>19</b> |
| 8.1 BACKGROUND .....  | 19        |
| 8.2 APPROACH TO INJURY ANALYSIS .....   | 19        |
| 8.3 VOLUME EFFECTS .....  | 20        |
| 8.4 PRICE EFFECTS .....   | 22        |
| 8.5 PROFIT AND PROFITABILITY .....  | 23        |
| 8.6 OTHER ECONOMIC FACTORS .....  | 24        |
| <b>9 IMPACT OF EXPIRY OF MEASURES .....</b>                                       | <b>29</b> |
| 9.1 BACKGROUND AND APPROACH TO ANALYSIS .....                                     | 29        |
| 9.2 CONTINUATION OR RECURRENCE OF DUMPING AND SUBSIDISATION.....                  | 29        |
| 9.3 CONTINUATION OR RECURRENCE OF MATERIAL INJURY .....                           | 29        |
| <b>10 APPENDICES AND ATTACHMENTS.....</b>   | <b>31</b> |

## **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).<sup>1</sup>

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<sup>1</sup> 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

Commonwealth Steel Company Pty Ltd trading as Molycop (Molycop) is a wholly owned operating company of American Industrial Partners MC Holdings Ltd. (AIP), a private equity investment firm.

Molycop is involved in the manufacture, engineering and distribution of grinding media and other metal-based products predominantly to the resources and railway sectors in Australia and overseas.

Molycop is the sole Australian manufacturer of the goods for sale in the domestic market. *Anti-Dumping Commission Report No. 316* (REP 316) involved two Australian industry members that manufactured grinding balls, Molycop and Donhad Pty Ltd (Donhad). Molycop acquired Donhad in 2018. All grinding balls in Australia are now manufactured by Molycop at its two facilities at Waratah (New South Wales) and Bassendean (Western Australia).

### 1.2 Related parties

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

The verification team found that Molycop did not have any related party suppliers of the goods during the inquiry period (1 October 2019 to 30 September 2020). The team did find that Molycop sold the goods to related customers.

It is noted that AIP acquired Molycop from Arrium Limited in 2017. This ownership previously involved related parties that supplied raw materials to Molycop.

#### 1.2.1 Related customers

During the inquiry period, Molycop sold the goods to a related international customer. However on further examination of these sales, it was found that these goods were exported, and have therefore been removed from the Australian sales listing.

## **2 THE AUSTRALIAN INDUSTRY MANUFACTURING LIKE GOODS**

### **2.1 Manufacturing in Australia**

Molycop is the sole Australian manufacturer of the goods for sale in the domestic market. All grinding balls in Australia are now manufactured by Molycop at its two facilities at Waratah (New South Wales) and Bassendean (Western Australia). The majority of the goods are manufactured at the Waratah plant.

#### **2.1.1 Production process**

Molycop’s manufacturing process begins with the steelmaking production process which takes ferrous scrap as the key raw material and produces steel billet through the Electric Arc Furnace. The billets are then rolled through the bar mill into feed bars (grinding bar). The feed bars are then used as the input into the grinding media manufacturing process. There are two main grinding media manufacturing processes at Molycop. The first is the roll former, which is used for producing ball sizes 25 mm – 80 mm. The second is the upset forge line, which is used for producing semi-autogenous grinding (SAG) balls 94 mm and above.

This process is considered a substantial process of manufacture that occurs at Molycop’s Waratah, NSW production facility. The Bassendean plant does not produce grinding bar and only processes grinding bar into grinding balls.

### **2.2 Verification of model control codes**

The Commission proposed the following model control code (MCC) structure in the initiation notice.

| Item | Category          | Sub-category         | Identifier       | Sales Data | Cost data |
|------|-------------------|----------------------|------------------|------------|-----------|
| 1    | Production method | Cast                 | C                | Mandatory  | Mandatory |
|      |                   | Forged               | F                |            |           |
| 2    | Diameter          | Diameter in mm       | ### <sup>2</sup> | Mandatory  | Mandatory |
| 3    | Product code      | Internal grade/model | ### <sup>3</sup> | Mandatory  | Optional  |

**Table 1 - Proposed MCC Structure**

Molycop did not propose any amendments to the MCC structure.

Table 2 below provides detail on the goods Molycop sold during the inquiry period. The MCC categories were verified to source documents which included commercial invoices. Roll form and upset forge processes are both categorised as ‘forged’ for the purpose of the MCC.

<sup>2</sup> Use a separate identifier for each diameter, e.g. 25 mm, 30 mm, 35 mm etc. The Commission may group certain categories of diameter in formulating a final MCC.

<sup>3</sup> The ‘product code’ category, if applicable, refers to the company’s internal identifier for the model, grade or type of the goods, differentiated by the chemical composition of the grinding ball.

## PUBLIC RECORD

| Size   | Process      | MCC   |
|--------|--------------|-------|
| 25 mm  | Roll formed  | F-25  |
| 30 mm  | Roll formed  | F-30  |
| 40 mm  | Roll formed  | F-40  |
| 50 mm  | Roll formed  | F-50  |
| 60 mm  | Roll formed  | F-60  |
| 65 mm  | Roll formed  | F-65  |
| 80 mm  | Roll formed  | F-80  |
| 90 mm  | Roll formed  | F-90  |
| 94 mm  | Upset forged | F-94  |
| 105 mm | Upset forged | F-105 |
| 125 mm | Upset forged | F-125 |
| 133 mm | Upset forged | F-133 |
| 140 mm | Upset forged | F-140 |

**Table 2 - MCC mapping for Molycop**

### 2.3 Like goods

Like goods are defined under section 269T(1) as:

goods that are identical in all respects to the goods under consideration or that, although not alike in all respects to the goods under consideration, have characteristics closely resembling those of the goods under consideration.

The verification team considers that the grinding balls manufactured by Molycop are identical to, or have characteristics closely resembling, the goods exported to Australia, as they:

- share similar physical characteristics, being produced in similar diameters, grades and weights, and are alike in physical appearance;
- are produced using the same raw material inputs and manufacturing processes;
- compete in the same market sectors, are interchangeable and use similar distribution channels; and
- have similar end-uses, being used in the mining, coal, construction and other industries for the grinding of materials by impact, abrasion and crushing.

### 2.4 Preliminary like goods assessment

The verification team is satisfied that:

- grinding balls manufactured by Molycop are like to the goods;<sup>4</sup>
- at least one substantial process of manufacture of grinding balls is carried out in Australia;<sup>5</sup>

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<sup>4</sup> Section 269T(1).

<sup>5</sup> Section 269T(3).

## PUBLIC RECORD

- the like goods were wholly manufactured in Australia by Molycop;<sup>6</sup> and
- there is therefore an Australian industry, consisting solely of Molycop, which produces like goods in Australia.<sup>7</sup>

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<sup>6</sup> Section 269T(2).

<sup>7</sup> Section 269T(4).

## 3 AUSTRALIAN MARKET

### 3.1 Background

The Australian market for grinding balls is supplied by the sole domestic manufacturer representing the Australian industry, Molycop, imports from the country subject to measures (the People's Republic of China (China)) and imports from countries not subject to measures.

Imported grinding balls in the Australian market are sourced from a number of countries, however the highest volumes of imports are from China, India and Thailand.

Grinding balls can be considered a commodity product and customers are able to readily change supplier.

### 3.2 Market structure

The grinding balls supplied to the Australian market are forged, cast and high-chrome<sup>8</sup> cast balls. The market structure for grinding balls in Australia consists of:

- domestic manufacturers of grinding balls (consisting solely of Molycop);
- importers of grinding balls who on sell to domestic customers (end users); and
- importers of grinding balls that are the end users (mainly mining companies).

Molycop manufactures forged grinding balls, with imports comprising forged, cast and high-chrome cast balls. Molycop sells to domestic mining, coal, and construction companies, along with other end users.

#### 3.2.1 Supply and distribution

Molycop distributes its grinding balls directly to the customer from its manufacturing facilities in Waratah and Bassendean, or from its stock depot sites located around Australia. It sells its grinding balls direct to the end user.

Chinese imports, on the other hand, are often sold via Australian based distributors as well as directly to the end user, such as in the mining industry.

Australian based grinding ball consumers typically value the source of grinding media on the basis of "total-cost-ownership", where they will generally assess the total value of product taking into consideration price, consumption rate and supply chain costs. Supply security and technical support may also be taken into consideration.

Grinding balls are sold by Molycop via tenders, as well as negotiations through existing customer relationships.

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<sup>8</sup> When making reference to 'high-chrome' cast grinding balls, the Commission is referring to cast grinding balls with a chromium (Cr) content of 10% and above.



### **3.2.2 Demand**

In its application, Molycop has stated that the market for grinding balls has expanded since the imposition of measures in 2016. This growth has been due to increased demand in the mining industry.

The key source of demand has continued to be from the mining industry, mostly magnetite, copper and gold mines. The construction industry (i.e. cement) is also an industry that is driving demand, although is a relatively small segment in the market.

As mentioned earlier, the Australian-based grinding ball consumers value the source of grinding media on the basis of “total-cost-ownership”. Consumers will generally assess the total value of product taking into consideration price, consumption rate, supply chain costs and security of supply.

Forged steel balls are generally consumed at a higher rate than high-chrome cast balls and importers typically set their resale prices into the market for forged steel balls at a lower point to compensate for the higher consumption rate that will most likely arise.

The high-chrome cast balls will typically result in a lower consumption rate than forged steel grinding balls, due to the more wear resistant microstructure of the product. However, the significant component of chromium in the product inflates the manufacturing cost, and hence high-chrome cast balls are more expensive.

It is noted that SAG mills require a larger forged ball. In Molycop’s case, its upset-forged balls of 94 mm in diameter and above are used in SAG mill operations due to the high impact strength requirements. High-chrome cast balls do not have the same impact strength in the larger diameter grinding balls required for a SAG mill. However, high-chrome cast balls will compete directly with Molycop’s forged roll formed balls from 90 mm diameter and below. These are used in general grinding mills.

### **3.3 Pricing**

Molycop has stated that its selling prices are influenced by import parity prices and that it is not a price leader for the goods in the Australian market. Molycop considers itself a price taker with prices influenced by import pricing.

Molycop does not sell on a cost plus basis. Selling prices for grinding balls are influenced by prevailing steel input prices (i.e. cost of recycled steel, global steel prices, etc.). However, pricing is determined on the basis of import competition and on a customer-by-customer basis dependent upon the customer’s requirements. Prices are also reviewed regularly in accordance with prevailing steel prices and import competitive prices.

Prices can be set through either a tender process, or based on negotiations with existing customers.

### **3.4 Market size**

In its application, Molycop estimated the size of the Australian market using Australian Bureau of Statistics import data, data from an independent recognised international supplier of trade statistics, and its own market intelligence.

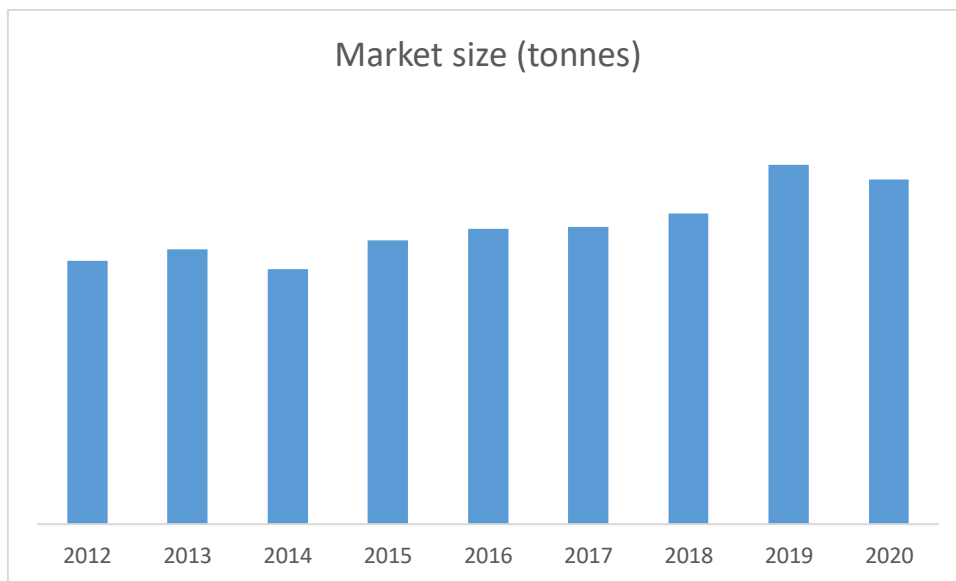
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The Commission compared the estimated import volumes in the application to data contained in the Australian Border Force (ABF) import database, and observed slight variances in Molycop's estimates of the volumes of imported goods. However, the Commission considered these variances to be immaterial.

The Commission considers that the information submitted by Molycop is reliable, relevant and suitable for estimating the size of the Australian market for grinding balls.

While Molycop's sales data was verified remotely, import data will be verified with importers and exporters during the course of the investigation.

Based on the verified sales data of Molycop and export data obtained from the ABF import database, as well as the data obtained for the purposes of REP 316, the size of the market for grinding balls is shown in Figure 1, below.



**Figure 1 - Australian market size (years ending 30 September)<sup>9</sup>**

Figure 1 shows that there has been a slight upward trend in the size of the market since 2012 with a substantial increase in the year ending 30 September 2019. While the market decreased in 2020, the size of the market was still markedly larger than in any prior year other than 2019.

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<sup>9</sup> Australian industry data for 2016 is based on an estimate due to Donhad information not being available.

## 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 Anti-Dumping Notice (ADN) No. 2016/30.

The verification team verified the relevance and completeness of the sales data as follows:

- Commonwealth Steel Company Pty Ltd (as a consolidated group) is subject to a financial statement audit for the period 1 July 2019 to 30 June 2020 which encompasses a portion of the inquiry period;
- the total revenue as reported in the audited financial statement for the consolidated group was reconciled to Molycop's monthly board management reports;
- Molycop's monthly board management reports disaggregates revenue by income segments, i.e. grinding media, rail and other steel products;
- the total revenue attributable to grinding ball products for the inquiry period as indicated in the monthly board management reports were reconciled to the sales data listing provided by Molycop.

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**.

### 4.1 Import sales by applicant

Molycop imported a small volume of grinding balls from third parties outside China. These were predominately high-chrome cast balls, however they contributed only a very small proportion of Molycop's total sales for grinding balls over the inquiry period. These sales were identified separately during the upwards sales verification process and were not included in the production or sales data listing. The verification team was able to reconcile the volume and value for these sales to Molycop's accounting system.

### 4.2 Export sales by applicant

Molycop exported a small proportion of goods during the inquiry period. Separate costing and sales volumes were provided by Molycop. Sales volumes and values were verified by the team during the upwards sales process.

### **4.3 Sales completeness and relevance finding**

The verification team is satisfied that the sales data provided in the application by Molycop 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 response to the exporter questionnaire (REQ) by reconciling these to source documents in accordance with ADN No. 2016/30.

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**.

### **5.1 Exceptions during verification of sales accuracy**

| <b>No.</b> | <b>Exception</b>   | <b>Resolution</b>   |
|------------|--|---|
| 1          | High unit selling prices per metric tonne (MT) were identified in the sales listing. This was a result of the incorrect sales quantity being entered.                | The verification team advised Molycop which re-submitted a revised sales listing with the correct data. The verification team reconciled the revised listing to source documents. |
| 2          | Foreign re-evaluation adjustments were incorrectly included in the sales listing. This was due to export sales inadvertently being included in the original listing. | Molycop excluded these re-evaluation adjustments in its revised listing.  |
| 3          | Export sales to a related party were incorrectly included in the sales listing.  | Molycop excluded these sales in its revised listing.  |

**Table 3 - Exceptions during verification of accuracy of sales data**

### **5.2 Related party customers**

The verification team observed that Molycop sold goods to a related customer. However, as mentioned in section 1.2.1, these sales were then exported. As a result the verification team has removed these sales from the Australian sales listing.

### **5.3 Sales accuracy finding**

The verification team is satisfied that the sales data provided in the application by the applicant, 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 attachments, at **Confidential Attachment 1**.

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Accordingly, the verification team considers Molycop's sales data suitable for analysing the economic performance of its grinding balls operations from 1 July 2016 to 30 September 2020.

## 6 VERIFICATION OF COST TO MAKE AND SELL - 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 REQ by reconciling it to audited financial statements in accordance with ADN No. 2016/30.

The verification team verified the relevance and completeness of the cost data as follows:

- Total cost of goods sold (COGS) as reported in the audited financial statement for year ending 30 June 2020 was reconciled to the monthly board management reports;
- COGS from monthly board management reports were then used to reconcile the total amount for the inquiry period broken down into business segments (grinding media, rail, other steel products);
- total COGS for the inquiry period was reconciled to cost of production (cost to make (CTM)) through adjustments for grinding media SG&A and other income which are not recorded in management report COGS;
- COGS for each business segment were also reconciled through to the trial balance;
- CTM for grinding media was segregated into the subject goods (grinding balls) and grinding rods using management reports and the trial balance; and
- the total CTM for the subject goods were then reconciled through to Appendix A6.

Molycop allocated its SG&A to MCC's via the following process:

1. Selling expenses – selling and marketing costs were booked directly under the grinding media cost centre; and
2. Central overheads were allocated to cost centres and specific workshops i.e. bar, grinding media, and rail & electric furnace based on a fixed percentage.

The total SG&A costs would then be allocated to each model (MCC) based on sales per tonnes.

Based on the above information, the verification team verified the relevance and completeness of the SG&A data as follows:

- reconciled SG&A costs reported in relation to like goods for each model sold in the Australian market reported in Molycop's costs data at Appendix A6 with the sub-ledger accounts for SG&A allocation; and

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- reconciled the total SG&A costs during the inquiry period in relation to Molycop's like goods sales to the selling expenses in Trial Balance and to the monthly SG&A schedule, an attachment to the monthly management reporting pack.

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**.

### **6.1 CTMS completeness and relevance finding**

The verification team is satisfied that the CTMS data provided in the application by Molycop, is complete and relevant.



## **7 VERIFICATION OF CTMS ACCURACY**

### **7.1 Cost allocation method**

The verification team verified the reasonableness of the method used to allocate the cost information, in accordance with ADN No. 2016/30.

The verification team 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 4 below outlines the allocation method applied to each cost item.

| <b>Cost item</b>        | <b>Method applied</b>  |
|-------------------------|--|
| Raw Materials           | Raw materials are allocated through production orders based on the actual costs of material consumed. Raw materials have been allocated to each model by production quantity and adjusted for scrap input costs. |
| Scrap Allocation        | Scrap is produced in the process and recaptured as an offset to cost of production within the production order.  |
| Manufacturing Overheads | Allocated on an absorption cost basis by production quantity.  |
| Labour                  | Allocated on an absorption cost basis by production quantity.  |
| Depreciation            | Based on the actual cost, as recorded in the relevant general ledger accounts allocated by production quantity and cost centre. Molycop uses the Australian Tax Office depreciation and useful life rates.       |

**Table 4 - 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. 2016/30.

The verification team did not identify any issues during this process. Details of this verification process are contained in the verification work program and its relevant attachments, at **Confidential Attachment 1**.

### **7.3 CTMS verification finding**

The verification team is satisfied that the CTMS data provided in the application by Molycop is complete, relevant and accurate.

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Accordingly, the verification team considers Molycop's CTMS data is suitable for analysing the economic performance of its grinding balls operations from 1 July 2016 to 30 September 2020.

## 8 ECONOMIC CONDITION

### 8.1 Background

The anti-dumping measures were declared by public notice on 9 September 2016 by the then Assistant Minister for Industry, Innovation and Science and Parliamentary Secretary to the Minister for Industry, Innovation and Science.<sup>10</sup> This followed the then Parliamentary Secretary's consideration of the Commissioner's recommendations in REP 316, the original investigation.

The original investigation and the imposition of the anti-dumping and countervailing measures resulted from a joint application made under section 269TB by Molycop and Donhad, representing the Australian industry producing like goods. Molycop acquired Donhad in 2018 and is now the only Australian industry member.

REP 316 found that the Australian industry producing like goods had suffered injury in the form of:

- reduced market share;
- price depression;
- price suppression;
- reduced profits;
- reduced profitability;
- reduced revenue;
- reduced employee numbers; and
- reduced capacity utilisation.

Molycop considers that should the Minister allow the measures to expire on grinding balls exported from China it is likely that the Australian industry would experience a recurrence of dumping, subsidisation and material injury that the measures are intended to prevent. An assessment as to whether the expiration of measures would lead, or would be likely to lead, to a continuation or recurrence of the material injury that the anti-dumping measure is intended to prevent involves a consideration of future outcomes based on an evaluation of the present position. To assist with that assessment, this chapter considers the economic condition of Molycop from 1 October 2016.

### 8.2 Approach to injury analysis

The verification team has assessed the economic condition of Molycop from 1 October 2016 (period of analysis) using the information provided by Molycop and data from the ABF database. The figures presented have been compiled on an annual basis for years ending 30 September.

As noted above, Molycop acquired Donhad in 2018. Molycop was able to provide some financial data relating to Donhad for the years prior to acquisition, however this data has not been verified by the verification team and this report is intended to represent the economic condition of Molycop in isolation. As such, all charts below (excluding market share) relate solely to Molycop. In respect of market share, the

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<sup>10</sup> Refer to ADN Nos. 2016/90 and 2016/91.

verification team has relied on the data provided in relation to Donhad sales volumes to estimate the size of the Australian market during the period of analysis.

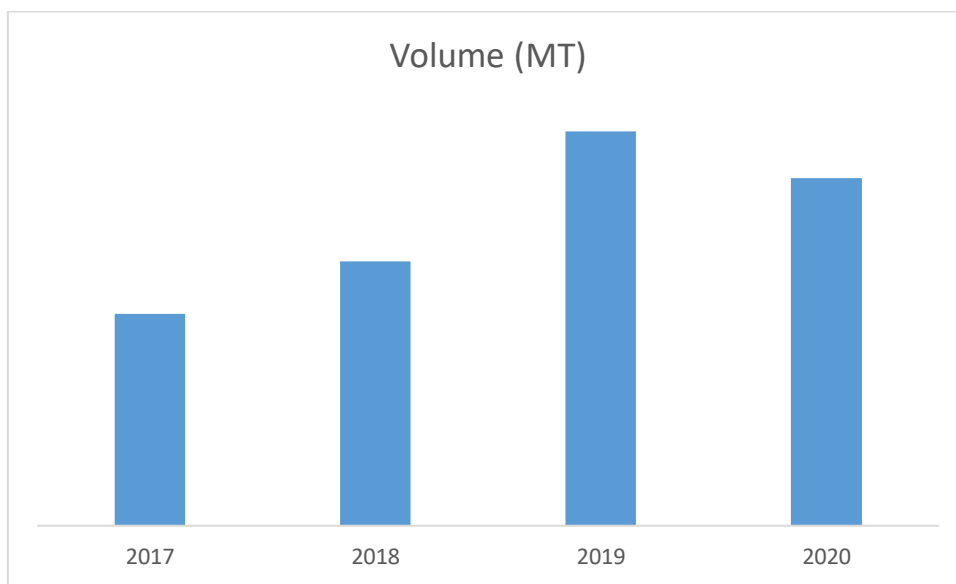
The verification team has endeavoured to note below, where relevant, the impact on the economic factor under consideration of the acquisition of Donhad.

The verification team's assessment of the economic condition of Molycop is at Confidential **Appendix 1**.

### **8.3 Volume effects**

#### **8.3.1 Sales volume**

Figure 2 below charts Molycop's sales volume in metric tonnes across the period of analysis:



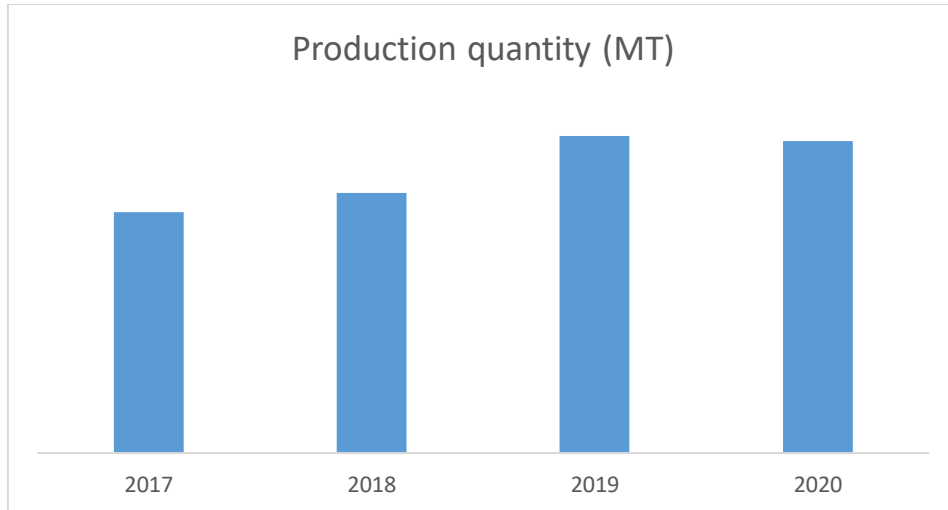
**Figure 2 - Sales volume**

The chart indicates strong growth in Molycop's sales volumes until 2019, noting however that this includes the uptake of sales resulting from the Donhad acquisition. The chart shows however that in 2020 Molycop has seen a significant reduction in sales volumes.

#### **8.3.2 Production volume**

Figure 3 below charts Molycop's production volume in metric tonnes across the period of analysis:

## PUBLIC RECORD

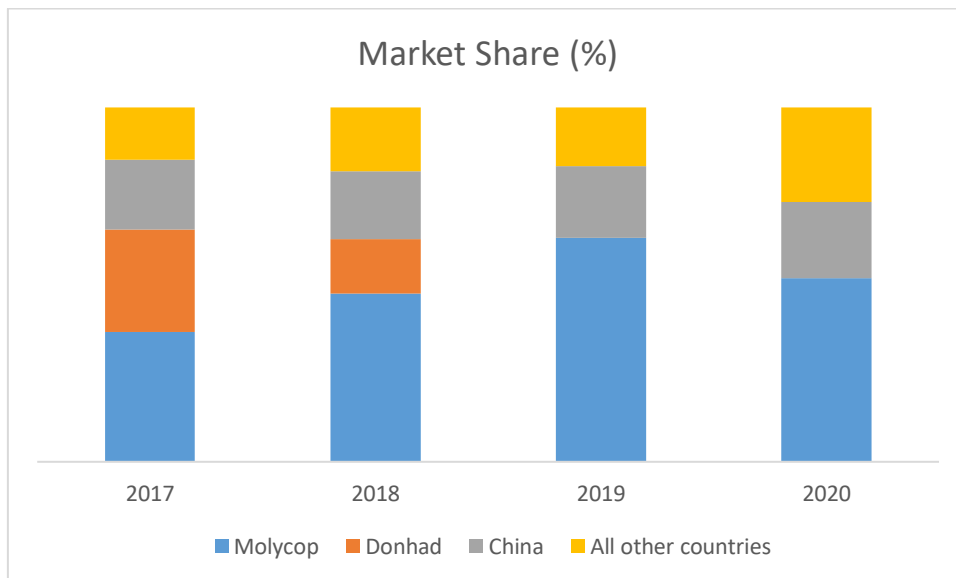


**Figure 3 - Production volume**

Production volumes were boosted by the acquisition of Donhad, but reduced in 2020.

### 8.3.3 Market share

Figure 4 below charts market share of the Australian grinding ball market:



**Figure 4 - Market share**

The chart indicates that:

- as would be expected, Molycop gained market share following the acquisition of Donhad in 2018;
- the total market share for Australian industry participants across the period of analysis has been mostly stable, albeit significantly reducing in 2020;
- imports from China have held a relatively consistent market share; and
- imports from all other countries have increased, with the most significant increase in 2020.

### **8.3.4 Conclusion – volume effects**

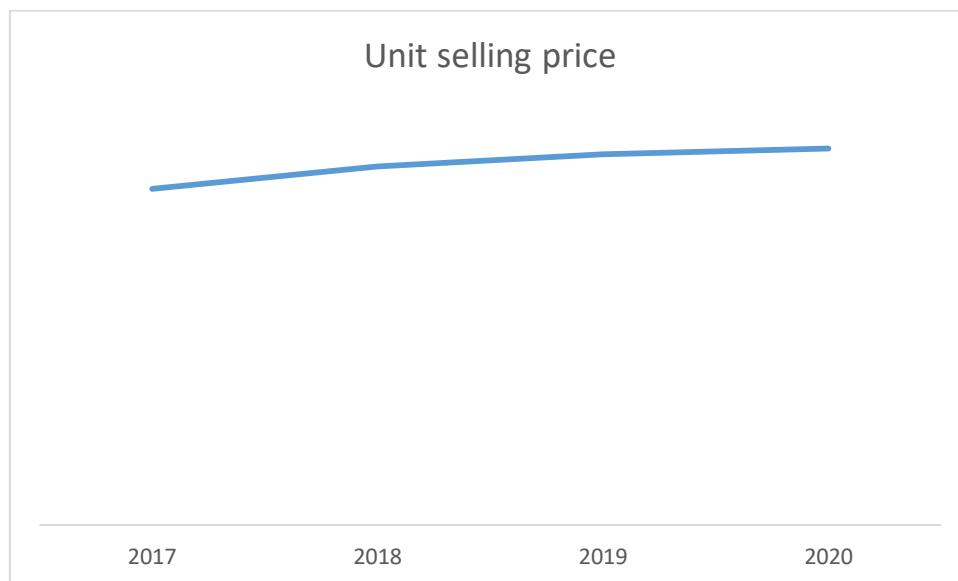
Based on the available information, the verification team considers it reasonable to conclude that during 2020 Molycop has experienced a deterioration in its economic performance in the form of reduced sales volume, reduced production volumes and reduced market share.

## **8.4 Price effects**

### **8.4.1 Price depression**

Price depression occurs when a company, for some reason, lowers its prices.

Figure 5 below charts Molycop’s per unit selling price across the period of analysis:



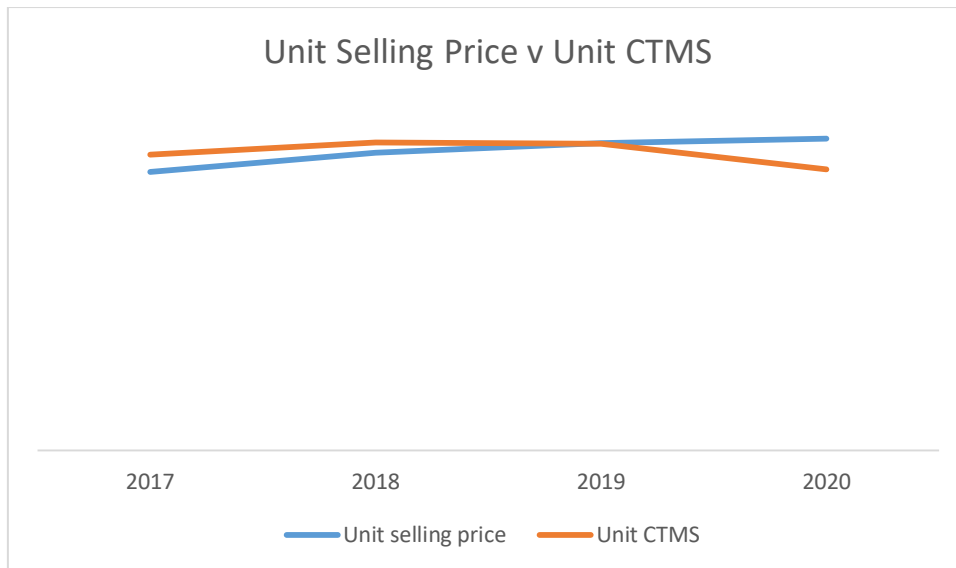
**Figure 5 - Unit selling price**

The chart indicates that Molycop experienced increasing per unit selling prices throughout the period of analysis. Molycop submitted that a key driver in the increase in pricing through the period of 2017 to 2020 is driven by raw material increases, in particular scrap price increases.

### **8.4.2 Price suppression**

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.

To assess whether Molycop has experienced injury in the form of price suppression, the verification team has had regard to Molycop’s per unit selling prices and CTMS. This relationship is presented in Figure 6 below:



**Figure 6 - Unit price and CTMS**

Having regard to the relationship between the trends in the above chart, the verification team makes the following observations:

- selling prices have increased throughout the period of analysis;
- per unit CTMS was relatively stable until 2019, after which Molycop has experienced reducing CTMS per unit;
- Molycop has moved from per unit CTMS exceeding per unit selling prices at the commencement of the period of analysis to per unit selling prices exceeding per unit CTMS, primarily due to the reductions in CTMS enjoyed.

Based on the observation that per unit selling prices have increased coincident with a reduction in per unit CTMS from 2018, the verification team does not consider that price suppression is evident.

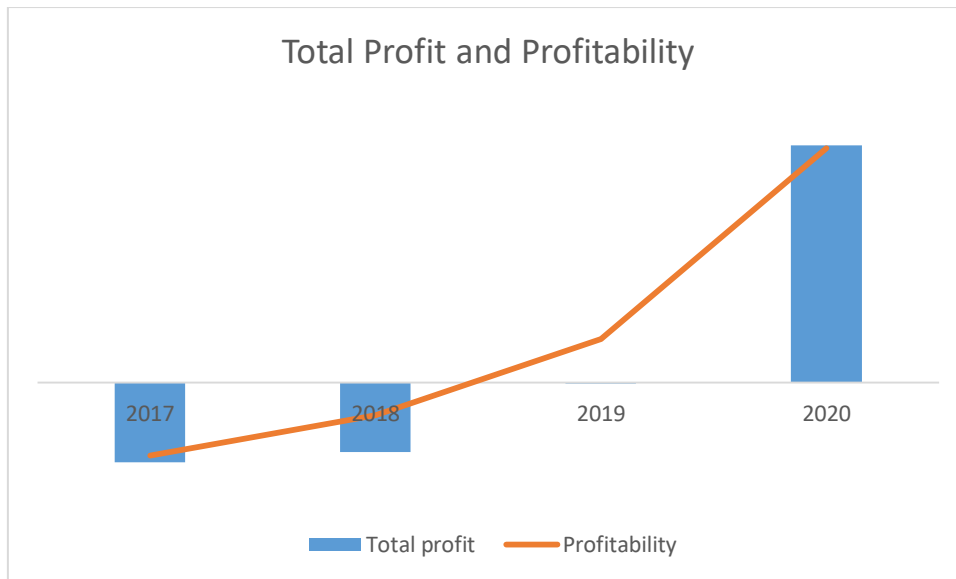
### **8.4.3 Conclusion – price effects**

The verification team does not consider price depression or price suppression has been evident. The reasons for the changing relationship between costs and price will be considered during the course of the inquiry.

## **8.5 Profit and profitability**

### **8.5.1 Profit and profitability**

Figure 7 - Profit and profitability  
Figure 7 - Profit and profitability below charts Molycop's total profit and profitability as a percentage of revenue across the period of analysis:



**Figure 7 - Profit and profitability**

The chart shows that Molycop has experienced improving profit and profitability on the manufacture and sale of grinding balls since the time of imposition of measures. Molycop submitted that the main drivers for the recovery to a positive profit position were internal cost reductions and capacity rationalisations.

### **8.5.2 Conclusion - profit effects**

Based on the available information, the verification team does not consider that Molycop has experienced a deterioration in its economic performance in the form of reduced profit and profitability. Molycop submitted that it does not consider that the profit achieved represents an adequate return on investment. This will be considered during the course of the inquiry.

## **8.6 Other economic factors**

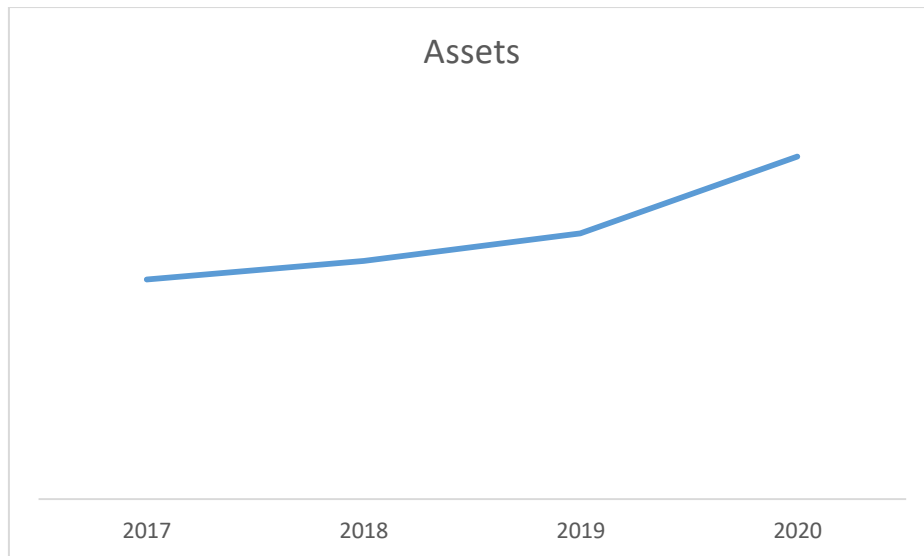
Molycop provided data relating to the period of analysis for a range of other economic factors.

### **8.6.1 Assets**

Figure 8 below charts Molycop's assets across the period of analysis:



## PUBLIC RECORD

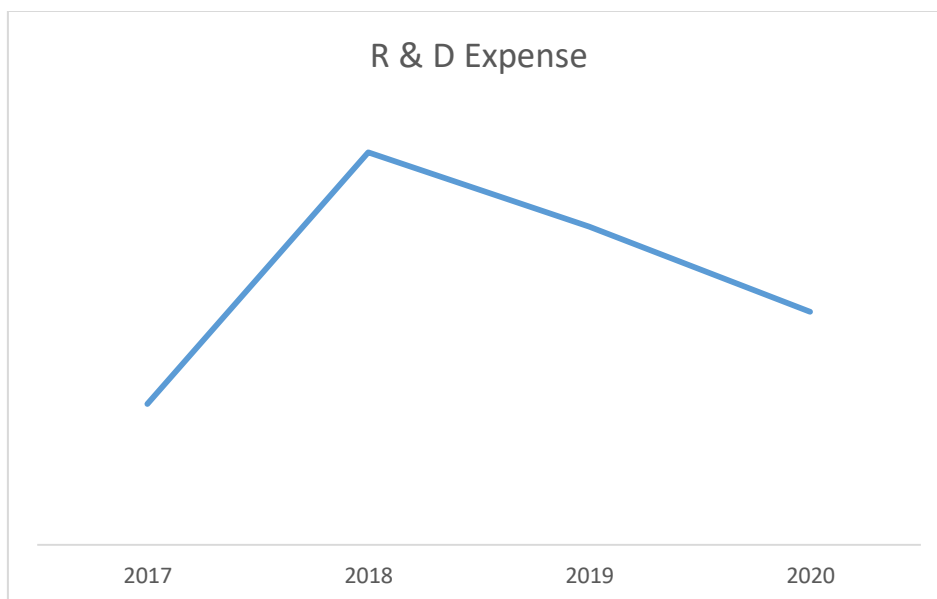


**Figure 8 - Assets**

The chart indicates that Molycop has increased assets across the period of analysis. Some of this increase is attributable to the acquisition of Donhad.

### 8.6.2 Research and development expenses

Figure 9 below charts Molycop's research and development expenses across the period of analysis:



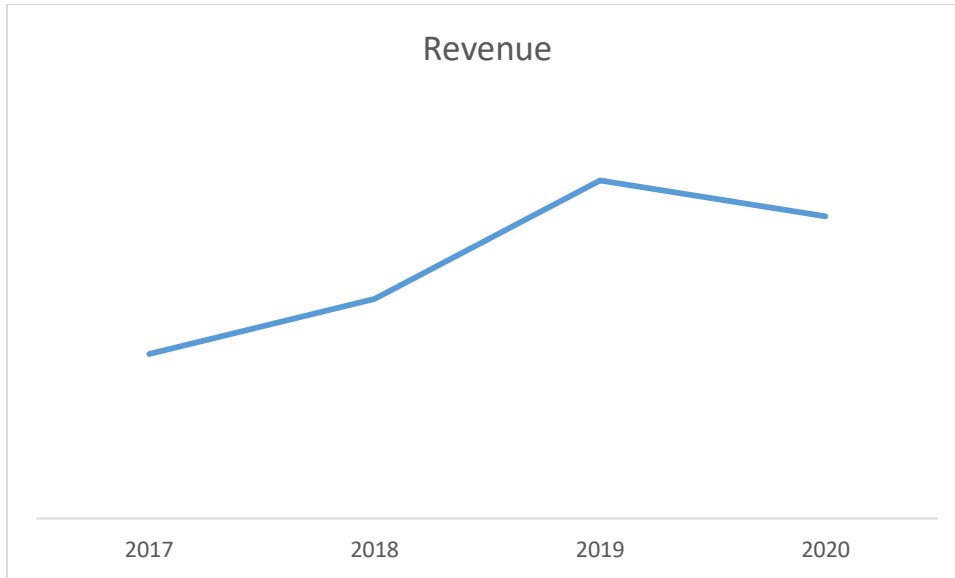
**Figure 9 - Research and development expenditure**

The chart indicates that Molycop engaged in increasing research and development expenditure until 2018, after which time research and development spending has declined.

### 8.6.3 Revenue

Figure 10 below charts Molycop's revenue across the period of analysis:

## PUBLIC RECORD

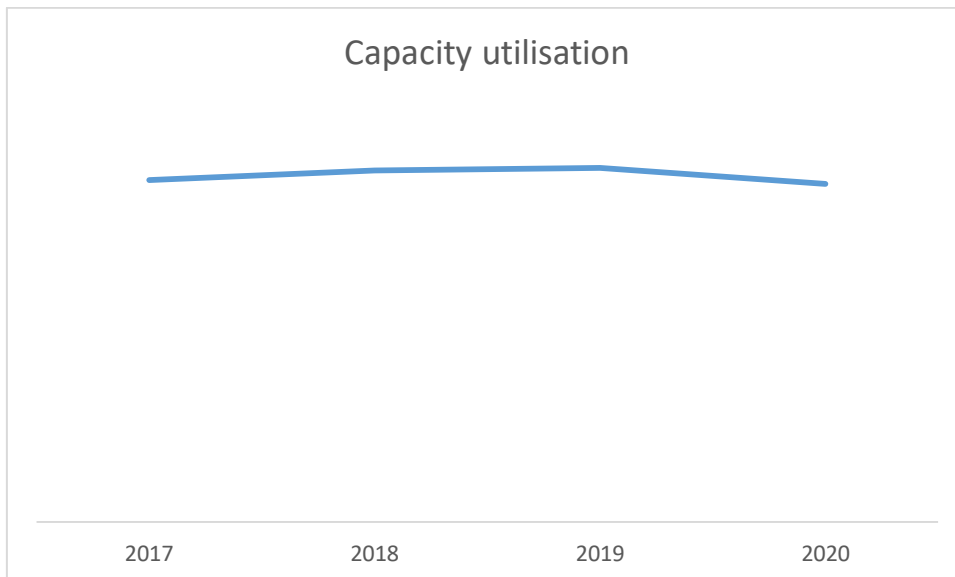


**Figure 10 - Revenue**

The chart indicates that Molycop experienced increasing revenues until 2019. Some of the increase in revenue is attributable to the acquisition of Donhad. Revenue decreased during 2020.

### 8.6.4 Capacity utilisation

Figure 11 below charts Molycop's capacity utilisation across the period of analysis based on Molycop's production assets only:

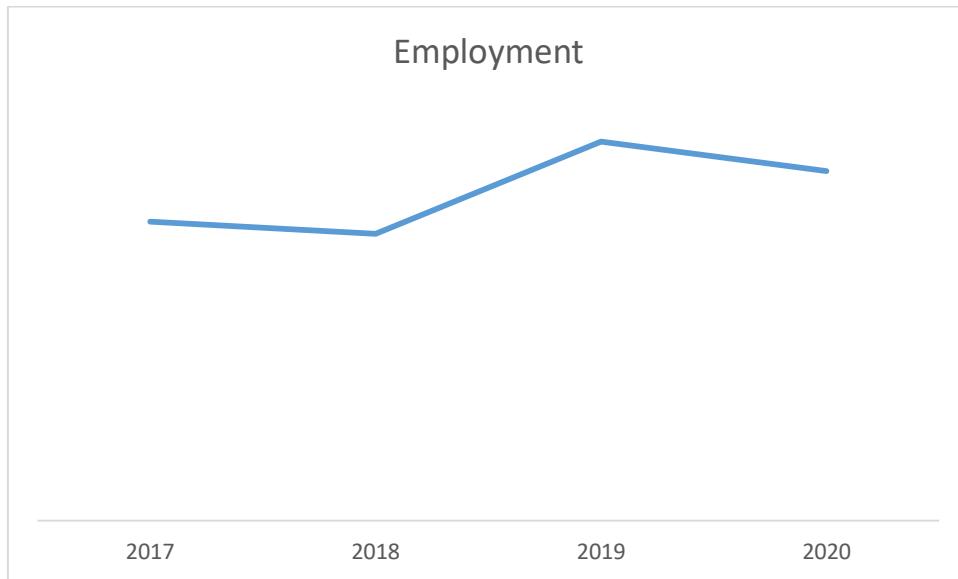


**Figure 11 - Capacity utilisation**

The chart indicates that Molycop's capacity utilisation was stable until 2019 before reducing in 2020.

### 8.6.5 Employment

Figure 12 below charts Molycop’s employment numbers across the period of analysis:

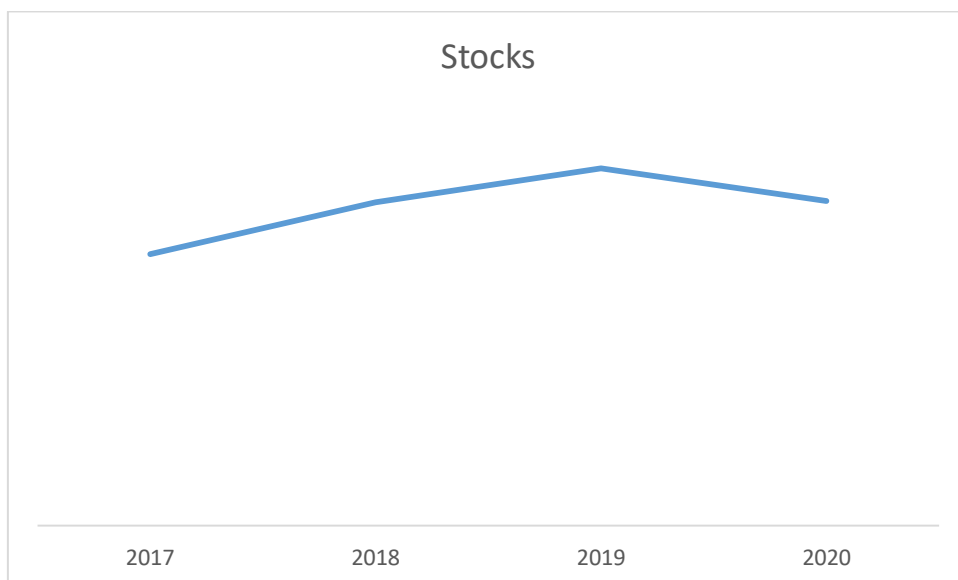


**Figure 12 - Employment**

The chart indicates that Molycop’s employment increased coinciding with the acquisition of Donhad, however has reduced in 2020. Molycop claims that this is due to continued injury from imports.

### 8.6.6 Stocks

Figure 13 below charts Molycop’s closing stocks across the period of analysis:



**Figure 13 - Closing stocks**

The chart indicates that Molycop’s closing stocks were building until 2019, however have reduced in 2020.

### **8.6.7 Conclusion – other economic factors**

Based on the verification team's analysis of the data provided by Molycop in respect of other economic factors, it appears that Molycop has experienced a deterioration in its economic performance in the form of:

- reduced revenue;
- reduced research and development expenditure;
- reduced capacity utilisation; and
- reduced employment.

## **9 IMPACT OF EXPIRY OF MEASURES**

### **9.1 Background and approach to analysis**

Under the terms of section 269ZHF(2), in order to recommend that the Minister take steps to secure the continuation of the anti-dumping measures, the Commissioner must be satisfied that the expiration of measures would lead, or would be likely to lead, to a continuation or recurrence of:

- dumping and/or subsidisation; and
- the material injury,

that the anti-dumping measure is intended to prevent.

Accordingly the verification team sought Molycop's views on these matters, and collected evidence to support those claims. This evidence will be considered further during the course of the inquiry.

### **9.2 Continuation or recurrence of dumping and subsidisation**

Molycop did not calculate dumping and subsidy margins for Chinese exporters as part of its application. Molycop instead noted that REP 520 was published in November 2020 and likely remains reflective of the Chinese exporters' dumping activity throughout 2019/2020.

During the course of the inquiry the Commission will assess the level of dumping and subsidisation relating to the goods exported to Australia during the inquiry period by relying on questionnaire responses received from cooperating exporters.

### **9.3 Continuation or recurrence of material injury**

#### **9.3.1 Ongoing level of imports from China and maintenance of distribution links in Australia**

As part of its application Molycop submitted that Chinese exporters have continued to export the goods from China since the imposition of measures and that these exporters have maintained distribution links into the Australian market.

As part of its consideration of the application, the verification team examined information obtained from the ABF import database and found that exporters from China have continued to export the goods to Australia since the imposition of the measures.<sup>11</sup> The verification team observed China continues to be a major source of the goods compared to other countries.

The verification team also observed that, based on ABF data, certain exporters of the goods from China have continued trading with the same Australian importers since measures were imposed.

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<sup>11</sup> Initiation Notice - ADN 2019/86 - 517 Public Record Item No. 2

## **PUBLIC RECORD**

The verification team considered that the existing and long standing supplier relationships are indicative that Chinese exporters intend to export the goods to Australia in the future.

A further analysis of importer supply chains will be undertaken in the Statement of Essential Facts.

### **9.3.2 Selling prices**

Molycop asserted in its application that the Australian market for grinding balls remains price sensitive and provided several case studies showing the presence of Chinese exports in the market at pricing levels which are undercutting its prices.

Molycop submitted that these examples demonstrate that Chinese exporters of grinding balls have been actively seeking out supply to customers on the Australian market. Molycop further submitted that Chinese export prices for grinding balls influence the pricing levels of other import suppliers.

An analysis of pricing within the Australian grinding ball market will be undertaken in the Statement of Essential Facts.

**10 APPENDICES AND ATTACHMENTS**

|                                  |   |
|----------------------------------|---|
| <b>Confidential Attachment 1</b> | Verification work program and attachments |
| <b>Confidential Appendix 1</b>   | Australian market assessment              |