



Australian Industry Questionnaire

Case number: 569

Product: Certain Grinding Balls

From: The People's Republic of China (China)

Review period: 1 October 2019 to 30 September 2020

Response due by: 20 January 2021

Return completed questionnaire to:
investigations1@adcommission.gov.au

Anti-Dumping Commission website: www.adcommission.gov.au

DECLARATION

I believe that the information contained in this response is complete and correct.

Signature:

Name: [Name]
Position: [Position]
Company: Commonwealth Steel Company Pty Ltd
ABN: 58 000 007 698
Date: 20 January 2021

TABLE OF CONTENTS

SECTION A MARKET SITUATION	4
A-1 WHETHER SALES ARE SUITABLE.....	5
SECTION B AUSTRALIAN MARKET.....	7
B-1 PREVAILING CONDITIONS OF COMPETITION IN THE AUSTRALIAN MARKET.....	7
B-2 LIKE GOODS IN THE AUSTRALIAN MARKET	9
B-3 RELATIONSHIP BETWEEN PRICE AND COST IN AUSTRALIA.....	10
B-4 MARKETING AND SALES SUPPORT IN THE AUSTRALIAN MARKET	14
SECTION C PRODUCTION AND PRODUCTION COSTS.....	15
C-1 PRODUCTION OF THE GOODS.....	15

SECTION A MARKET SITUATION

Section 269TAC(1) of the *Customs Act 1901* (Cth) (the Act) provides that, subject to this section, the normal value of any goods exported to Australia is the price paid or payable for like goods sold in the ordinary course of trade for home consumption in the country of export in sales that are arms length transactions by the exporter or, if like goods are not so sold by the exporter, by other sellers of like goods.

In addition, section 269TAC(2)(a)(ii) of the Act provides that, subject to this section, where the Minister is satisfied that because of the situation in the market of the country of export is such that sales in that market are not suitable for use in determining a price under subsection (1), the normal value of the goods exported to Australia cannot be ascertained under subsection (1).

In the application from Commonwealth Steel Company Pty Ltd trading as Molycop received by the Commission on 19 November 2020 in respect of certain grinding balls (the goods), it was claimed that a particular market situation exists with respect to the goods within China.

Molycop has based its claim that a particular market situation exists within China primarily on previous findings by the Commission. The application specifically refers to findings relating to Government of China (GOC) influence in steel markets and the impact on steel billet prices, which is the key raw material used in the manufacture of grinding balls.

As part of its investigation, the Commission will consider if a market situation exists in the grinding balls market in China during the investigation period. The Commission will also investigate whether any market situation, if found to exist, influences a comparison between export prices and normal values. To undertake this assessment, the Commission requires further information about the respective markets.

A-1 Whether sales are suitable

If the Minister is satisfied a market situation exists in China during the investigation period, the Minister must consider whether, because of that market situation, exporters' domestic sales of the goods are suitable for determining a price under section 269TAC(1) of the Act.

1. In the event that the Minister is satisfied a market situation is found to exist during the investigation period, please comment and provide any relevant evidence on:
 - (a) the effect of the market situation on exporters' domestic prices in China (as relevant);
 - (b) the effect of the market situation on exporters' export prices;
 - (c) whether the effect of the market situation is such that exporters' domestic prices and export prices cannot be properly compared.

Molycop submits that a particular market situation continues exists for grinding balls sold on the domestic market in China. There has been no change in circumstances on the Chinese domestic market over the intervening period since the publication of Report No. 316 on grinding balls exported from China, which indicates that the Government of China ("GOC") does not continue to exercise influence over raw material input prices for the production of grinding balls.

Molycop detailed in its "Continuation of Measures" application the findings¹ relied upon by the Commission's findings that were accepted by the then Parliamentary Secretary concerning a particular market situation in China. The Commission's finding that a market situation exists in respect of domestic sales of grinding balls in China was based upon a considered assessment of a broad range of key influencing factors. This assessment of the GOC's influence on the Chinese grinding ball industry concluded that:

The Commission holds that the GOC (including central, provincial and local governments) materially contributed to the excess supply of steel billet in the domestic Chinese market and hence significantly influenced domestic price for Chinese grinding bar and hence grinding balls during the investigation period. This influence has occurred through the following mechanisms:

- *GOC directives, subsidy programs and involvement in strategic enterprises; and*
- *Taxation arrangements, including value add taxes and export rebates.*

The Commission's examination of the detail of the policy programs, involvement in the industry and taxation arrangements culminated in the following finding:

".....that the GOC materially influenced conditions within the Chinese grinding ball market during the investigation period. The mechanisms through which the GOC exerted this influence include government directives and oversight, subsidy programs, taxation arrangements and the significant number of state owned steel companies.

The Commission also concludes that because of the significance of this influence over the Chinese grinding ball market, the domestic price for Chinese grinding balls was substantially different to what it would have been in the absence of these interventions by the GOC. Based on this analysis, the Commission has determined that during the investigation period the domestic price for Chinese grinding balls was influenced by the GOC to a degree which makes domestic sales of grinding balls unsuitable for use in determining normal values under subsection 269TAC(1).

Molycop contends that the effect of the market situation on domestic selling prices for grinding balls is that they are lower than they otherwise would be in the absence of the intervention.

¹ Report No. 316.

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Similarly, the export prices for grinding balls supplied by Chinese exporters are similarly distorted by the GOC's plans and policies that act to suppress the prices of Chinese exporters.

Molycop submits that domestic selling prices for grinding balls in China continue to be distorted by the GOC's influence and that domestic selling prices are not suitable for determining normal values under subsection 269TAC(1) of the Customs Act. The impact of the GOC's policies on raw material input prices (including steel billet) is such that domestic selling prices for grinding balls in China are artificially low.

Molycop therefore does not consider that, for the purposes of determining normal values, that the exporter's domestic prices and export prices for grinding balls can be properly compared.

2. Please provide any further information and evidence you may wish to submit.

Molycop refers to the Commission's recent findings in Review of Measures Investigation No. 520 ("Invest 520") where it was concluded that a particular market situation for grinding balls in China continues to be applicable.

SECTION B AUSTRALIAN MARKET

In responding to the questions in section B please respond to these questions in relation to the investigation period (1 October 2019 to 30 September 2020).

B-1 Prevailing conditions of competition in the Australian market

1. Describe the Australian market for the goods and the prevailing conditions of competition within the market, including:
 - (a) Provide an overall description of the market in Australia for the goods which explains its main characteristics and trends over the past five years;
 - (b) Provide the sources of demand for the goods in Australia, including the categories of customers, users or consumers of the product;
 - (c) Provide an estimated proportion (%) of sales revenue from each of those sources of demand listed in (b);
 - (d) Describe the factors that influence consumption/demand variability in Australia, such as seasonal fluctuations, factors contributing to overall market growth or decline, government regulation, and developments in technology affecting either demand or production;
 - (e) Describe any market segmentations in Australia; such as geographic or product segmentations;
 - (f) Provide an estimated proportion of sales revenue from each of the market segments listed in (e);
 - (g) Describe the way in which Australian manufactured, Chinese and other imported goods compete in the Australian market;
 - (h) Describe the ways that the goods are marketed and distributed in the Australian market; and
 - (i) Describe any other factors that are relevant to characteristics or influences on the market in Australia for the goods.

Provide documentary evidence to support the responses made to questions 1(a) to (i).

Molycop's Response:

The Australian market for grinding balls is supplied by Molycop as the sole Australian manufacturer and from imports primarily from China, India and Thailand.

The key source of demand is the mining industry (i.e. magnetite, copper and gold mines, with coal also a key source of demand) although the construction industry (i.e. cement) is also a key industry. Approximately 90 per cent of demand for grinding balls is from the mining industry with the remaining 10 per cent in other industry sectors (e.g. coal, cement).

The typical Australian-based grinding ball consumers value the source of grinding media on the basis of "total-cost-ownership", that is, 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.

The grinding balls supplied to the Australian market are forged, cast and high-chrome balls. The Australian industry manufactures forged grinding balls, with imports comprising forged, cast and high-chrome balls.

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Forged steel balls are generally consumed at a higher rate than high chrome balls and importers typically set their resale prices into the market lower 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 balls are more expensive.

2. Provide a diagram which describes the Australian market structure for the goods, ensuring that all the categories of participants are included. In this diagram use linkages to illustrate the different levels of trade and distribution channels within the Australian market.

Molycop's Response:

The Australian grinding ball market is supplied by Molycop, and from imports (i.e. mainly China, India, Thailand).

For goods sourced locally and from China, supply is typically direct to end-use customer. There are some examples of traders being involved with some volumes.

3. Describe the commercially significant market participants in the Australian market for the goods at each level of trade over the investigation period. Include in your description:
 - names of the participants;
 - the level of trade for each market participant (e.g., manufacturer, reseller, original equipment manufacturer (EOM), retailer, corporate stationer, importer, etc.);
 - a description of the degree of integration (either vertical or horizontal) for each market participant; and
 - an estimation of the market share of each participant.

Molycop's Response:

The following market participants were identified in Report 316:

- *Molycop (Australian producer);*
- *Karara Mining Limited (importer);*
- *CIA Electrometalurgica SA (importer)*
- *Sino Grinding International Pty Ltd (importer)*
- *CITIC Pacific Mining Management Pty Ltd (importer)*

It is understood that Changshu Longte Grinding Ball Co. Ltd ("Longte") is the major exporter of grinding balls to Australia. There has been limited volumes by other Chinese exporters.

4. Identify the names of commercially significant importers in the Australian market for the goods over the investigation period and estimate their market share. Specify the country each importer imports from and their level of trade in the Australian market, if known.

Molycop's Response:

See above.

5. Describe the regulatory framework of the Australian market for the goods as it relates to competition policy, taxation, product standards and the range of the goods. Provide a copy of any regulation described, if available.

Molycop's Response:

This question does not apply to grinding balls as there are no specific individual policies or taxation applicable to the goods (as distinct from other broader industry sectors).

6. Describe any entry restrictions for new participants into the Australian market for the goods. Your response could include information on:
- resource ownership;
 - patents and copyrights;
 - licenses;
 - barriers to entry;
 - import restrictions; and
 - government regulations(including the effect of those government regulations).

In responding to question 6 ensure that relevant regulations are referenced.

Molycop's Response:

Not applicable. There exist no barriers to entry to the manufacture of grinding balls in Australia.

B-2 Like goods in the Australian market

1. Generally describe the range of products/models of the goods offered for sale in the Australian market. The description should include all goods under consideration including those produced by your company. Your description could include information about:
- quality differences;
 - price differences;
 - supply/availability differences;
 - technical support differences;
 - the prevalence of private labels/customer brands;
 - the prevalence of generic or plain labels;
 - the prevalence of premium labels; and
 - product segmentation.

Molycop's Response:

The goods the subject of anti-dumping measures that are due to expire on 9 September 2021 are as follows:

Ferrous grinding balls, whether or not containing alloy, cast or forged, with diameters in the range 22 mm to 170 mm (inclusive).

Goods that fall within the goods description include all ferrous grinding balls, typically used for the comminution of metalliferous ores, that fall within the goods description regardless of the particular grade or alloy content.

Goods excluded from the coverage of the measures include stainless steel balls, precision balls that have been machined and/or polished, and ball bearings.

2. Describe the end uses of the goods in the Australian market from all sources.

Molycop's Response:

Grinding balls are primarily used in the mining industry in magnetite, copper and gold mine processing applications, with the balance used in coal pulverizing for electricity production and grinding plaster and cement for the building industry.

3. Describe the key product attributes that influence purchasing decisions or purchaser preferences in the Australian market. Rank these preferences or purchasing influencers in order of importance.

Molycop's Response:

Grinding ball consumers value the source of the grinding media on the basis of "total-cost-ownership". Consumers 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.

4. Identify if there are any commercially significant market substitutes in the Australian market for the goods.

Molycop's Response:

There are no commercially significant substitutes to grinding balls on the Australian market.

5. Identify if there are any commercially significant market complements in the Australian market for the goods.

Molycop's Response:

There are currently no commercially significant complements to grinding balls.

6. Have there been any changes in market or consumer preferences in the Australian market for the goods in the last five years? If yes, provide details including any relevant research or commentary on the industry/sector that supports your response.

Molycop's Response:

There have been no significant changes in consumer preferences on the Australian market over the last five years.

B-3 Relationship between price and cost in Australia

1. Is your organisation/business entity the price leader of the goods in the Australian market? If no, please explain the reasons behind your response and specify the name(s) of the price leaders.

Molycop's Response:

Molycop's selling prices are influenced by import parity prices. Molycop is not a price leader for the goods on the Australian market.

2. Describe the nature of your product pricing (e.g., market penetration, inventory clearance, product positioning, price taker, price maker, etc.) and your price strategies (e.g., competition-based pricing, cost-plus pricing, dynamic pricing, price skimming, value pricing, penetration pricing, bundle pricing, etc.) in Australia. If there are multiple

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strategies applied, please rank these by importance. If there are different strategies for different products, please specify these. Provide copies of internal documents which support the nature of your product pricing.

Molycop's Response:

Molycop considers itself a price taker with prices influenced by import pricing.

3. Explain the process for how the selling prices of the goods for the Australian market by your business are determined. Provide copies of internal documents which support how pricing is determined.

Molycop's Response:

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.

4. How frequently are your Australian selling prices reviewed? Describe the process of price review and the factors that initiate and contribute to a review. Provide the names and positions of all persons involved.

Molycop's Response:

Prices are reviewed regularly in accordance with prevailing steel prices and import competitive prices.

5. Rank the following factors in terms of their influence on your pricing decisions in the Australian market, with the most important factor ranked first and the least important factor ranked last:

- Competitors' prices
- Purchase price of raw materials
- Cost to make and sell the goods
- Level of inventory
- Value of the order
- Volume of the order
- Value of forward orders
- Volume of forward orders
- Customer relationship management
- Supplier relationship management
- Desired profit
- Brand attributes
- Other [please define what this factor is in your response]

Molycop's Response:

As indicated above grinding ball consumers value the source of the grinding media on the basis of "total-cost-ownership". Consumers 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.

6. Describe the relationship between selling price and costs to make and sell in the Australian market. Does your company maintain a desired profit margin for the goods? If not, does your company seek to maintain a desired profit margin for the goods? Provide copies of internal documents which support your response to this question.

Molycop's Response:

Molycop does not sell on a cost plus basis. Molycop selling price are influenced by import prices and hence price undercutting by imports contributes to a deterioration in profit and profitability.

7. Do you offer price reductions (e.g., commissions, discounts, rebates, allowances or credit notes) in the Australian market? If yes, provide a description and explain the terms and conditions that must be met by the customer to qualify. Explain how the cost to make and sell are considered in establishing these price reductions. Provide copies of internal documents which support your claims in response to this question.

Molycop's Response:

Molycop typically does not provide rebates.

8. Do you offer bundled pricing in the Australian market? If yes, explain how the pricing for bundled sales is determined. Explain how the costs to make and sell are considered in establishing these bundled prices. Provide copies of internal documents which support your claims in response to this question.

Molycop's Response:

Not applicable.

9. Does the volume of sales to a customer or the size of an order influence the selling price? If yes, advise how volume is used to determine selling prices. Explain how the costs to make and sell are considered in establishing volume based prices for the goods. Provide copies of internal documents which support your claims in response to this question.

Molycop's Response:

Prices are determined on a customer-by-customer basis dependent upon the customer's requirements.

10. Does your organisation/business entity use sales contracts in the Australian market? If yes:
- What proportion of your sales revenue would come from contracted sales versus uncontracted sales?
 - Do you offer exclusivity contracts? If yes, what proportion of your sales revenue would come from exclusivity contracts?
 - How frequently are sales contracts renegotiated?
 - How frequently are price reviews conducted between contracts?
 - Do you provide opportunities for price reviews for customers within contracts? If yes, provide a description of the process and an explanation of the circumstances that might lead to a price review.
 - Do changes in your costs to make and sell enable you to review prices for customers within contracts?
 - Provide a list of the customers under contract during the review period and copies of the two largest contracts in terms of sales revenue.

Molycop's Response:

Molycop does use contracts for the supply of grinding balls. This information is commercially sensitive.

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11. Provide copies of any price lists for the goods used in the Australian market during the investigation period. If you do not use price lists, describe the transparency of your prices in the Australian market.

Molycop's Response:

Molycop does not use price lists for grinding balls.

12. How do you differentiate pricing for different products/models of the goods in the Australian market? Describe how your products are grouped for price differentiation and the methodology used. Describe any cost to make or selling cost differences between differentiated products. Describe how these cost differences (if any) influence pricing decisions. Provide copies of internal documents which support your claims in response to this question.

Molycop's Response:

Prices are determined on the basis of competitive offerings and historic pricing.

13. Do you tier or segment your customers for the goods in terms of pricing? If yes, provide:
- (a) a general description of how this is done;
 - (b) list the factors that influence pricing differentiation in different tiers or segments; and
 - (c) explain how cost to make and selling costs are considered in making pricing decisions for different tiers or segments.

Provide copies of internal documents which support your claims in response to this question.

Molycop's Response:

Not applicable.

14. Do you sell the goods to related entities in Australia? If yes, describe how prices are set for related party transactions and specify what proportion of your sales in terms of sales revenue are to related party entities. If available, provide copies of any internal documents relevant to establishing pricing to related parties.

Molycop's Response:

Not applicable.

B-4 Marketing and sales support in the Australian market

1. How does your company market the goods in the Australian market? Include in your response the value proposition used (e.g., competitive price, superior quality, reliability, availability, etc.).

Molycop's Response:

Molycop engages directly with its customers and competes on value driven by quality, reliability of supply, and technical service.

2. Does your company conduct brand segmentation in the Australian market for the goods? If yes, describe the brand segmentation used and provide the proportion of sales revenue derived from each brand segment.

Molycop's Response:

Molycop does not conduct brand segmentation in the Australian market. The Molycop brand is well-established and known in the industry.

3. Provide examples of your Australian advertising of the goods over the past five years. If you have not used advertising in Australia, provide examples of any other promotion campaigns for the goods you have conducted over the investigation period.

Molycop's Response:

Not applicable.

4. How many people are in your Australian sales team and where are they located? In general terms, how are they remunerated? If they are offered performance pay based on sales, describe the performance indicators used to establish the performance pay. Provide copies of internal documents which support your claims in response to this question.

Molycop's Response:

Molycop has a team xxx people in sales and marketing, with offices in Waratah, NSW and in Perth, W.A. There are a further xxx team members in the technical services team supporting the sales team and customers.

5. Describe what parameters are provided to sales staff to assist in establishing pricing for the goods when negotiating sales with customers. Provide copies of internal documents which support your claims in response to this question.

Molycop's Response:

Prices are negotiated with customers by sales and marketing personnel, with approval sought from Head Office at Waratah.

SECTION C

PRODUCTION AND PRODUCTION COSTS

In responding to the questions in section C, please respond to these questions only in relation to the investigation period.

C-1 Production of the goods

1. Describe how your company determines its volume of production for the goods, product mix of production and the factors that contribute to these decisions. How frequently are production volumes determined? How frequently is the product mix determined? Provide copies of internal documents which support your claims in response to this question.

Molycop's Response:

Molycop operates production "runs" or campaigns for the manufacture of different sized forged grinding balls. Production runs are influenced by demand for the product, by size.

2. What lead times are typically needed to adjust volumes of production for the goods? Provide copies of internal documents which support your claims in response to this question.

Molycop's Response:

Typical lead times from purchase to supply are xx weeks for new orders. Established contractual commitments are supported via a make to stock policy.

3. Do you have warehousing facilities for the goods? If no, what do you do with excess inventory? If yes:
 - (a) What is the volume capacity of these facilities?
 - (b) What was the monthly amount of inventory maintained during the review period?
 - (c) What is the average period of time that inventory is retained (describe how this is calculated)?

Provide copies of internal documents which support your claims in response to this question.

Molycop's Response:

Molycop operates a number of strategic stock depots located at:

- xxxx
- xxxx
- xxxx
- xxxx
- xxxx
- xxxx
- xxxx
- xxxx
- xxxx

4. Have there been any changes to the type of capital or technology utilised by your company in the manufacturing of the goods in the last five years? If yes, provide details.

Molycop's Response:

Molycop seeks to improve and enhance the technical capability of its grinding balls. This is an ongoing research and development process.

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5. For each plant capable of producing inputs that could be utilised to make the goods, provide the date that production facility came into operation and the production capacity of the plant over the past five years. The production capacity should be based on an actual production capacity, not a budgeted production capacity. Provide copies of internal documents which support your claims in response to this question.

Molycop's Response:

Molycop's production capacity at Waratah is approximately xxxxxx tonnes per annum. The facility at Bassendean, W.A can produce xxxxxx tonnes p.a. Molycop has recently mothballed a Townsville production facility xxxxxx tpa and a former Donhad facility at Newcastle that had an installed capacity of xxxxxx tpa.

6. Confirm whether management reports are prepared on production costs. If yes:
- (a) specify how often these cost reports are prepared;
 - (b) describe the level of detail in those reports and whether they enable the establishment of costs of producing the goods; and
 - (c) specify to whom within the company these reports are provided; and
 - (d) provide copies of these reports for each month of the review period.

Molycop's Response:

Molycop prepares monthly management reports that includes production and sales information for grinding balls. A September 2020 monthly report extract has been provided.