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1 September 2022

Ms Kathryn Marnell
Case Manager
Investigations 1
Anti-Dumping Commission
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Public File

Dear Ms Marnell

Re: Investigation No. 595 – Continuation of measures – wire ropes exported from South Africa – Scaw S. A. Exporter Verification Report and Haggie Reid Pty Ltd Importer Verification Report

I. Summary

Bekaert Wire Ropes Pty Ltd (BWR) has reviewed the Scaw S.A. Exporter verification report (“Scaw Report”) and the Haggie Reid Importer verification report (“Haggie Reid Report”).

The findings of the Anti-Dumping Commission (“the Commission”) in respect of the South African exporter Scaw S.A. (“Scaw”) provide no assurances that should the measures be allowed to expire, Scaw will not export at dumped prices that will cause a recurrence of the material injury the measures are intended to prevent.

Further, the Commission’s findings that Scaw’s related party importer has sold imported wire ropes at losses during the investigation period confirms and reinforces the need for revised anti-dumping measures on Scaw to be continued for a further five-year period to ensure the Australian industry does not experience further material injury.

BWR strongly urges the Commissioner to recommend to the Minister that he take steps to ensure the measures on wire ropes exported from South Africa do not expire on 18 December 2022.

II. Scaw S.A. Verification Report

The Scaw Report contains a number of findings that influence the export price for wire rope (i.e. the “goods” subject of the anti-dumping notice) that are relevant to the consideration of normal values and export prices as assessed by the Commission.

(a) *Cost allocations*

It is noted that Scaw was the subject of a corporate restructure in early 2022. The investigation period is 1 January to 31 December 2021. The restructuring of Scaw is therefore outside the investigation period. It is further noted that Scaw has three operating divisions – wire rod products, rolled products and corporate. Wire

rope falls within the wire rod products division. The rolled products division also includes scrap processing, which will impact the rod production division costs due to the transfer price arrangements for scrap being processed for rod production.

Similarly, the costs associated with corporate require allocation to the two manufacturing divisions.

BWR is concerned as to whether the Commission has correctly captured all of the costs across the three divisions that are correctly allocated to the wire rod division.

(b) Related parties

Scaw purchases steel rod used in the manufacture of the exported wire ropes from its shareholder Barnes Fencing Industries Pty Ltd (“Barnes Fencing”). The Commission states that the selling prices by Barnes Fencing (for carbon rod) for the related and unrelated parties “were similar”. BWR holds significant concerns about this finding.

Barnes Fencing sells both low and high carbon steel rod. The high carbon steel rod used in the manufacture of wire ropes sells at a premium (of approx. US\$xx per tonne) to low carbon steel rod that would be sold to unrelated customers in South Africa. If the selling prices for the carbon rod for related and unrelated parties are “similar” it is clear that Barnes Fencing is selling its high carbon steel rod to Scaw at a discount and therefore the selling price must be considered not to be at arms-length.

The findings in the Scaw Report that sales between Scaw and its shareholder-supplier are at arms-length is therefore incorrect.

(c) Model Control Codes and Like Goods

BWR concurs with the Commission’s assessment that there is no justification for a separate MCC category for mining type.

BWR agrees with the Commission that Scaw sells like goods on the domestic market and for export.

BWR opposes Scaw’s request for confidentiality of MCCs as both companies operate in the South African market (BWR through its parent and affiliated companies) and all MCCs are readily available to customers in the South African (and global) markets. There is no commercial sensitivity associated with the publication of MCCs.

(d) Sales transactions

The Commission has correctly included the final selling price(s) to customers for sales by Scaw via its related party that were considered transfers. BWR also agrees with the exclusion of sales from the domestic sales transactions listing that were transactions for transfers back to Scaw.

BWR has observed the Commission’s exceptions identified at Section 4.1 of the Scaw Report. The items identified (ferrule attachments, export packaging, ocean freight, inland transport and port charges, marine insurance, reel retrieval costs, MCC categorization, delivery terms, domestic inland freight, technical support expense) are not insignificant and material impact the listing of the domestic selling prices at the ex-factory level.

Whereas the Commission states that it is satisfied with the accuracy of the sales data as verified, BWR holds significant concerns as to the volume of exceptions and whether the requested adjustments to the domestic sales listing as observed by the Commission is complete.

(e) Verification of costs

The Scaw Report indicated that the exporter provided cost data based on standard costs. Management reports were used to calculate variances from standard costs.

BWR is concerned as to whether the management reports accurately reflect the increased cost of steel rod used in the manufacture of the goods throughout the investigation period. It is not evident whether the Commission has validated Scaw's steel rod purchases with a reliable, independent source in order that it can be satisfied that Scaw's steel rod purchases are consistent with market prices.

BWR notes that the Commission accounted for scrap costs on a quarterly basis – this value, however, is sourced from another division within Scaw and requires validation as to its reasonableness.

The Commission identified eight exceptions that it raised with Scaw in the verification of cost data. The amount and type of each exception was not insignificant. BWR remains concerned that the cost data assessed by the Commission that is considered to represent the actual costs to produce the goods is understated (and therefore cannot be considered reliable). This reservation is particularly relevant in light of the Commission's determination that Scaw's purchases of wire rod from its related party supplier were considered "arms-length". BWR does not consider this to be the case.

(f) Export price

BWR agrees with the Commission's finding that the relationship between the exporter (Scaw) and the importer (Haggie Reid) influences the selling prices between the related parties (this finding is exclusive of the sales at a loss finding by Haggie Reid Pty Ltd see further below).

The export prices between the exporter and the importer are not at arms length.

(g) Normal value

The Commission has concluded that domestic sales by Scaw in South Africa were made in the ordinary course of trade. This preliminary view is subject to the Commission's assessment of BWR's assertions concerning a particular market situation for wire ropes sold in South Africa.

The Scaw Report includes a high number of exceptions that the Commission has accepted as being corrected by Scaw with amended data. However, BWR is of the view that the costs to manufacture the goods as incurred by Scaw are under stated – due primarily to concerns about the purchase price for wire rod from the related party (Barnes Fencing), the scrap price used for valuation purposes (which is calculated by a division within Scaw), and the correct allocation of the corporate overheads for the third Scaw operating division.

III. Haggie Reid Importer Verification Report

Haggie Reid Pty Ltd ("Haggie Reid") is a wholly owned subsidiary of Scaw. Haggie Reid purchases the goods from its parent company in South Africa.

The Commission established that the weighted average sales of the subject goods by Haggie Reid during the investigation period was unprofitable. Specifically, 6 of the 10 sales selected for verification were found to be unprofitable. The Commission examined whether it considered the losses could be recovered within a reasonable period of time. In the Commission's view, the losses could be recovered. BWR notes that in prior years Haggie Reid also traded unprofitably – in the absence of measures a return to losses will be likely as Haggie Reid seeks to increase market share through reductions in prices. It can be recalled that in Investigation No. 401, the Commission determined that Haggie Reid had incurred substantial losses in the investigation period and the losses would not be recovered within a reasonable period of time and further that there was a "**history of losses made by Haggie Reid in prior years**"¹.

BWR submits that Haggie Reid's sales at a loss during the investigation period are indicative of the importer's likely behavior should the measures be allowed to expire – that is, it is considered likely that Haggie Reid will supply wire ropes from its related-party supplier at dumped prices to again undercut BWR's selling prices resulting in a recurrence of material injury.

¹ Refer BWR submission in response to SEF and PAD 401 dated 4 September 2017.

A further concern not reflected in the Haggie Reid Report is that the export price between Scaw and Haggie Reid has been identified as not being arms-length. The Haggie Reid selling prices that the Commission has determined were at a loss reflect export prices that are influenced by the relationship between the exporter and the importer. Export prices for wire ropes to unrelated parties therefore are higher than the verified export prices during the investigation period.

The Commission has confirmed that with the anti-dumping measures in place – which reflect margins evident in the original investigation period – Haggie Reid has sold its imported South African wire ropes at a loss at prices that have undercut BWR.

BWR has indicated that throughout the duration of the measures Haggie Reid continued to cause injury to BWR due to its circumvention activities (at least until mid 2020 as it continued to supply the nine-strand wire rope). Only following the run-down in inventory of the nine-strand rope did Haggie Reid commence to supply rope that reflected the dumping measure as levied.

The Haggie Reid Report establishes that an extension of the anti-dumping measures is required to ensure the wire ropes exported from South Africa are not at dumped and injurious prices and to further ensure that the importer does not sell the imported goods at a loss.

IV. Haggie Reid's claims re causation

In the Haggie Reid Report the importer claims:

- *Its selling prices are greater than the non-injurious price.*
- *BWR have increased profit over the years, which Haggie Reid stated was evident from BWR's financial report, registered with the Australian Securities and Investment Commission (ASIC).*
- *BWR has a large market share, whilst Haggie Reid's market share is small.*
- *BWR was expanding its market share, at Haggie Reid's expense.*

BWR rejects each of the four statements made by Haggie Reid as misrepresentations that do not reflect all of the available facts, namely:

- The non-injurious price was established based upon 2016 data – steel prices have increased substantially since 2016 and the non-injurious price does **not** reflect these cost increases;
- BWR has returned an improved profit in 2020 and 2021 – albeit significantly short of the profits achieved over the 2013-2015 years that were achieved in the absence of dumping on the Australian market by Scaw. During this 2013-2015 period Haggie Reid's market share was approximately xx%. This is the same share position as 2021. The profit achieved in 2021 falls well short of an adequate return on investment.
- BWR's market share declined during the 2019 & 2020 period **only** returning to the 2017 level in 2021. The market share analysis needs to be made recognizing the contraction of the Australian market – amplifying the need for the anti-dumping measures to ensure that dumped and injurious prices do not occur in a smaller market;
- Haggie Reid benefited from selling down inventory manufactured in lower cost environment 2019-2020 in 2021, therefore contributing to reducing losses;
- Haggie Reid has maintained its share of the market by selling dumped wire ropes at a loss throughout the period covered by the measures (including during the investigation period).

The claims that Haggie Reid has not been a cause of the injury sustained by BWR since the measures were imposed in December 2017 are fanciful and misrepresentations.

Haggie Reid has also sought to deflect the injury it has caused to factors that it alleges are other than price, including customer preference and performance. Haggie Reid is the only significant supplier on the Australian market with imported wire ropes (other importers account for immaterial sales). BWR is a well-established and recognized supplier of quality wire ropes that perform and are used by the same customers and in the same applications where BWR is a supplier. Price is a critical influencing factor in the customers' purchasing decision and dumped prices by Scaw combined with sales at a loss by its related party Australian importer undermine the true value of quality wire ropes supplied by the sole Australian manufacturer of the goods.

Haggie Reid's assertion that it is not the cause of injury (including future injury that is likely in the absence of measures) is incorrect and disingenuous. Given Scaw's previous activities to circumvent the measures imposed on 18 December 2017 (refer Investigation No. 483), the continued supply of wire ropes at dumped prices, and the sales at a loss by its related party importer during the investigation period, it is likely that the Australian industry would again be subjected to dumping and material injury should the measures be allowed to expire on 18 December 2022.

BWR calls upon the Commission to disregard Haggie Reid's claims that it is not the cause of injury experienced by the Australian industry due to Haggie Reid's supply of dumped wire ropes that it has sold at losses during the investigation period.

V. Conclusion

The findings of the Commission in the Scaw Report and the Haggie Reid Report confirm that the export prices for South African wire ropes (as supplied by Scaw) are the cause of injury to the Australian industry.

BWR submits that the available information (dumping and sales at a loss by Haggie Reid) have prevented BWR from recovering from the injurious effects of the dumping that were confirmed in 2016. It is therefore reasonable to conclude should the measures be allowed to expire it is likely that BWR will experience a continuation or recurrence of the dumping and material injury that the measures are intended to prevent.

BWR urges the Commission to recommend to the Minister that he take steps to secure the continuation of the measures for a further five years from 18 December 2022.

If you have any questions concerning this submission, please do not hesitate to contact me on (02) 4968 6539 or BWR's representative Mr John O'Connor on (07) 3342 1921.

Yours sincerely



Brad Reed
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