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Public File

Anti-Dumping Continuation 611 – Zinc Coated (Galvanised) Steel exported from China, Korea, and Taiwan

1. Introduction

BlueScope Limited (**BlueScope**) is the manufacturer of zinc coated (**galvanised**) steel in Australia. BlueScope was the applicant company that requested the Anti-Dumping continuation inquiry applicable to exports of the goods from China, Korea, and Taiwan – refer ADN No. 2022/086.

In further support of its position that in the absence of continued trade measures, China, Korea, and Taiwan (**the subject countries**) will resume dumping galvanised steel on the Australian market and cause material injury to the domestic like-goods-producing industry, BlueScope's makes the following comments and representations.

2. *Further Evidence in support of Measures Continuation*

BlueScope reiterates that the expiration of the measures would be likely to lead to a recurrence of material injury that the measures are intended to prevent; subject country export volumes to Australian will increase, and prices will fall, in the absence of measures. BlueScope supports this proposition further with an assessment of the following matters that will then permit the Anti-Dumping Commission (**the Commission**) to reach the informed conclusion that the measures must be retained:

i. subject country track-record of seeking to export the subject goods to the Australian market by whatever means to avoid the trade remedy measures;
ii. quantitative forward-looking price assessments;
iii. qualitative steel industry economic considerations; and
iv. a quantitative forward-looking seaborne freight cost assessment.

i. Circumvention, & Low Volume Exports

Minor Modification Circumvention

Following the imposition of the original measures in August 2013, BlueScope alleged, and the Commission affirmed, that certain Chinese and Taiwanese exporters had engaged in circumvention activity.[1] Subsection 269ZDBB(6) provides for a circumvention activity, in relation to a dumping and/or countervailing duty notice, which occurs in the circumstance (the slight modification of goods exported to Australia) prescribed by Regulation 48 of the Customs (International Obligations) Regulation 2015.

[1] Anti-Circumvention Investigation 290/298/298c; Galvanised steel from China, Korea, and Taiwan (**INV 290/298**).

BlueScope observed the slight modification circumvention activity following the imposition of the original measures; exports of the circumvention goods emerged in the Australian market, sold via the same distribution channels, sold in the same end-use applications, and were marketed in the same manner as traditional non-alloy galvanised steel. Importantly, this form of circumvention via the slight modification of the exported goods was not recognised in Australian trade remedies law at the time.

This form of circumvention compelled not only the Commission to assess how to address this new and obvious form of measures avoidance, but also prompted the Australian House of Representatives to undertake a parliamentary inquiry to assess the scope, prevalence and impact of circumvention practices by foreign exporters and Australian importers:[2]

> *Following numerous approaches from affected industries to the Australian Government and to me as Chair of the Standing Committee on Agriculture and Industry, the Minister for Industry and Science, Ian Macfarlane asked the Committee to investigate the prevalence of circumvention activity, whether recent changes to the anti-dumping regulations are effective and if anything further could be done.*
>
> *It was quite clear from our earliest submissions that the issue of 'like product' (the minor modification of goods to avoid duty) was at the forefront of industry concerns. It is highly likely that the Committee would have recommended strong action in this area were it not for the announcement in March by the Department of Industry that regulations had been altered to empower the Anti-Dumping Commission to deal with this issue.*[3]

During the course of this parliamentary inquiry, the Commissioner of the Anti-Dumping Commission:

> *…described a new regulation to be introduced that captures slight modification as a circumvention activity:*
>
> > *On 1 April 2015, there will be a new type of circumvention activity addressing the issue of slight modification of goods…This new circumvention activity will be prescribed through regulation…The new regulation seeks to prescribe a new circumvention activity in which goods that would have been subject to a dumping or countervailing notice are slightly modified by a foreign exporter to avoid anti-dumping duty.*
>
> *The Commissioner further described the factors that may indicate a slight modification of goods to circumvent the payment of duties, including:*
>
> > *… the general physical characteristics of the goods, commercial characteristics of the goods, function and/or purpose of the original goods and the slightly modified goods, production likeness, intention of the exporter-importer to circumvent, recent evidence of imports of the modified goods to Australia, cost of slight modification, and patterns of trade.*
>
> *The Commissioner explained why the new regulation will be put in place in the framework:*
>
> > *The new regulation has arisen in response to feedback from several stakeholders—and I note from submissions that this is a consistent theme—who allege that certain exporters are adding minute amounts of chemical alloys such as boron to some steel products in order to avoid anti-dumping measures.*

In **INV 290/298**, the Commission concluded that the following exporters had circumvented the measures on galvanised steel, against which the original Notice was then amended to cover all future exports of the alloyed subject goods:

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[2] *Circumvention: closing the loopholes. Inquiry into Australia's anti-circumvention framework in relation to anti-dumping measures.* House of Representatives Standing Committee on Agriculture and Industry. May 2015.
[3] Ibid, p. 8.

- Yieh Phui Enterprise Co., Ltd (Taiwan);
- Angang Steel Co., Ltd (China); and
- Benxi Iron and Steel (Group) International Economic & Trading Co. (China).

The sourcing switch to alloyed galvanised steel from China and Taiwan clearly highlights that Australian importers actively sought to import goods not subject to the measures, and that subject produces were complicit in this form of circumvention.

Low Volume Exports

In its continuation application to the current inquiry, BlueScope referred to the Continuation 449 (**CON 449**) market share assessment finding that:

- exports from China to Australia had dropped significantly following the imposition of the original measures. Volumes of galvanised steel from China to Australia had however increased significantly between 2015 and the CON 449 inquiry period;

- exports from Korea to Australia had dropped significantly following imposition of the original measures. Volumes then remained constant between 2013 and 2017; and

- exports from Taiwan to Australia had dropped significantly following imposition of the original measures. Volumes decreased from 2013 to 2015 before increasing sharply in 2016 and decreasing during the inquiry period.

The increase in volumes noted above was the result of variable factor review outcomes from *Anti-Dumping Commission Report No's 365, 366, 367, 368, 371, 372, 375, 376, 385, and 386* (**REP 365 et al**). In observing the impact of these, the Commission noted that:[4]

> *…the outcomes of REP 365 et al and REP 385 and 386 resulted in anti-dumping measures which proved to be favourable to certain exporters in the context of a rising market for both products. These outcomes appear to have been **a catalyst for an increase in export volumes from certain exporters (which proved to be dumped), a switch in source of export volumes (which proved to be dumped)** or for improved competitiveness on price.* [**emphasis** added].

The favourable anti-dumping outcomes from REP 365 et al was the revision downwards of dumping margins (in certain cases to nil), and the lowering of floor prices, for a multitude of low/nil volume subject country exporters. The legislative shortcoming that led to these outcomes was later remedied by *Customs Amendment (Anti-Dumping) Bill 2017*. In an immediate application of this new Bill, the Minister-initiated variable factors review no. 457 was undertaken (aligning with the CON 449 investigation period), revising upwards dumping margins and floor prices for subject country exporters.[5]

Demonstrated here is the effectiveness of anti-dumping measures on dumped and injurious galvanised steel exports to Australia, and that in their absence (via circumvention avenues and/or a legislative loophole that permits similar – both of which required legislative amendment to address), subject country producers will transact additional volumes through already well-established and well-utilised distribution links at materially dumped and injurious prices.

ii. Galvanised Steel Price Forecast Expectations

Globally, regionally, and domestically, Hot-Dipped Galvanised (**HDG**) steel prices (and associated hot-rolled (**HRC**) and cold rolled (**CRC**) steel prices) are forecast to fall significantly over the next 12-18 months. According to [*commercial-in-confidence data source*], actual average world HDG selling prices realised since the end of the FY2022 continuation inquiry period have already fallen by [*XX*]% (HRC and CRC prices have

[4] CON 449, Final Report, p. 51.

[5] BlueScope's Confidential Appendix A2 evidences the import volumes trends resulting from, firstly, REP 365 et al, then consequently REV 457. The Chinese trend is particularly notable.

also fallen, by [XX]% and [XX]% respectively).[6] Monthly forecast data to August 2023 indicates a full price decline for world HDG prices, from the end of the continuation inquiry period, of [XX]% (HRC and CRC prices will decline by a full [XX]% and [XX]% respectively).[7]

The Far East Asian HDG price, as the most relevant proxy for the subject countries, has declined by [XX]% since full-year FY2022 (HRC and CRC have declined by [XX]% and [XX]% respectively).[8] Monthly forecast data to August 2023 indicates a full price decline for East Asian HDG, from the end of the continuation inquiry period, of [XX]% (HRC and CRC prices will decline by a full [XX]% and [XX]% respectively).[9]

In summary:[10]

Steel Price	Actual % decrease[11] since June 2022	Forecast % decrease to August 2023
HRC – World Price	[XX]	[XX]
CRC – World Price	[XX]	[XX]
HDG – World Price	[XX]	[XX]
HRC – Far East Asia	[XX]	[XX]
HRC – China Domestic	[XX]	[XX]
HRC – U.S. Midwest	[XX]	[XX]
HRC – German Domestic[12]	[XX]	[XX]
CRC – Far East Asia	[XX]	[XX]
CRC – China Domestic	[XX]	[XX]
CRC – U.S. Midwest	[XX]	[XX]
CRC – German Domestic	[XX]	[XX]
HDG – Far East Asia	[XX]	[XX]
HDG – China Domestic	[XX]	[XX]
HDG – U.S. Midwest	[XX]	[XX]
HDG – German Domestic	[XX]	[XX]

Confidential Table 1: Steel Forecast Summary

These price declines are significant. These price declines will impact HDG and other metallic coated prices on regional and domestic markets, including galvanised steel prices on the domestic subject country markets.

Subject country producers have been found to have dumped the subject goods onto the Australian market throughout the duration of measures. Lower home market prices for the like goods will therefore result in lower (by material margins) export prices for the subject goods, resulting in a recurrence of material injury to the domestic industry.

iii. Economic Considerations

Macroeconomic indicators support BlueScope's proposition that prices for steel generally, and for galvanised specifically, will fall in the medium term. The price declines expected in the Asian region have been quantified in the above-referenced official price forecasts and indicate that subject country export prices to Australia will fall below non-injurious levels in the absence of measures. Further macroeconomic support for the decline in steel prices is provided as follows:

[6] Confidential Attachment 1.
[7] Ibid.
[8] Ibid.
[9] Ibid.
[10] Ibid.
[11] All percentage declines are shown as positive numbers.
[12] German steel prices are considered by BlueScope as an appropriate proxy for broader European Union steel prices.

- A 10 August 2022 article by [*confidential source*] highlights that global steel demand is seasonally weak and prices are coming under pressure. Steel production is being cut due to squeezed margins, amid surging costs and falling prices. Prices are expected to continue to trend lower for the remainder of 2022 as supply improves, global economic growth slows, and China's real estate sector remains subdued.[13]

[*Confidential Charts 1&2: Steel price and production forecasts*]

[*Confidential source*] predicts average annual HRC price declines in China, the U.S. and Europe as follows:[14]

[*Confidential Table 3: Short Term Price Growth forecast*]

- [*Confidential source*] has assessed that prices are falling across the steelmaking value chain:[15]

  [*Confidential source quote*]

[*Confidential Chart 3: Steel and steel making price assessments*]

- [*Confidential source*] also notes that:[16]

  [*Confidential source quote*]

[*Confidential Chart 4: Modelled spot HRC EBIT margins*]

- On the Chinese economy specifically:

  The Caixin China General Manufacturing PMI unexpectedly fell to 48.1 in September 2022 from 49.5 in the previous month, amid the impact of COVID controls. This was the lowest reading since May, as output fell for the first time in four months, new orders shrank the most since April, and export sales declined at the steepest rate in four months. Also, firms trimmed their buying activity and inventories, while employment fell the most since April 2020. On the cost side, input prices decreased at the steepest rate since January 2016 due to falls in commodity prices, and output prices declined the most since December 2015. Finally, sentiment hit its lowest since November 2019, on concerns over repeated outbreaks and prolonged containment measures. At present, ***policy implementation should focus on*** *promoting employment,* ***granting subsidies****, boosting demand, and fostering market confidence by sending policy signals.*[17] [**emphasis** added].

- On the Korean economy specifically:

  Manufacturing PMI declined to 47.3 in September 2022 from 47.6 in August. This was the third straight month of contraction in factory activity and one that was the steepest since July 2020, as another drop in new orders drove output volumes down to the quickest extent since the midst of the first COVID-19 wave in 2020. New orders fell strongly, reflecting weak demand conditions in both domestic and external markets, amid subdued economic conditions at key trading partners and high inflation. Meanwhile, employment levels were broadly stable, with declining in backlogs of work. Delivery times lengthened to the least in over two-and-a-half years, as weaker demand conditions eased pressure on supply chains. On prices, input cost inflation slowed, while output cost inflation eased to the softest since February 2021. Lastly, business confidence weakened amid the impeding global economic downturn and a further deterioration in demand due to rapid inflation.[18]

- On the Taiwanese economy specifically:

[13] Confidential Attachment 2, p. 1, 5.
[14] Ibid, p.11.
[15] Confidential Attachment 3, p. 3.
[16] Ibid, p. 4.
[17] Refer China Caixin Manufacturing PMI - September 2022 Data - 2011-2021 Historical (tradingeconomics.com)
[18] Refer South Korea Manufacturing PMI - September 2022 Data - 2011-2021 Historical (tradingeconomics.com)

the S&P Global Taiwan Manufacturing PMI declined to a 27-month low of 42.7 in August 2022 from 44.6 in July. The figure also marked the third straight month of contraction in the sector, as both output and new orders shrank at the steepest pace since May 2020, due to weaker demand conditions. New export business fell at a faster rate, which led to sharp drops in purchasing activity and inventories, which fell at the fastest pace in 27 months. On prices, input prices fell for the first time in over two years, which in turn led to a renewed drop in selling prices as firms sought to attract sales. Finally, business confidence weakened to the lowest since April 2020 on concerns of rising costs and a deteriorating global economic outlook.[19]

In August 2022, Taiwan cut its forecast for 2022 growth for a second time as slowing global demand for its manufactured items, high inflation and rising geopolitical pressure from China cloud the economy's outlook:[20]

Taiwan faces several headwinds this year, including waning worldwide demand for electronics and semiconductors -- critical exports for the economy. Warning signals from China and the US, Taiwan's two largest export markets, are also weighing on the outlook. An economic slowdown in the US has sparked recession talk, while the Chinese economy has struggled with ongoing Covid outbreaks and lockdowns, as well as a property crisis.

Then there's the threat of military conflict ***and trade sanctions****.*

China launched a series of military drills around Taiwan following US House Speaker Nancy Pelosi's recent visit to the island, escalating geopolitical tensions. ***Beijing also slapped trade curbs on some agricultural goods and construction materials.***

Taiwan officials, however, have downplayed the impact of those trade restrictions, saying China's economic measures against Taiwan are unlikely to have a major impact on trade between the two economies given how closely they're intertwined.

Still, ***the statistics department lowered its outlook for exports this year*** [to China]*, saying shipments are likely to grow 13.51%, down from their previous forecast of 14.62%.* [**emphasis** added].

Subject country producers are susceptible to the current and likely expected future contraction of their home-market economies. The Commission has previously found that Chinese, Korean, and Taiwanese exporters have spare production capacity – capacity of which cannot be idled in an economic downturn, and which will hence be directed towards the Australian market in the absence of measures. Subject country exporters are also clearly motived by the presence of, or absence of, trade sanctions, and (in the case of China) will likely receive additional countervailable subsidies going forward to address the worsening economic situation. Permitting the expiration of the galvanised steel measures will therefore result in the exportation of the subject goods to Australia at less than non-injurious prices.

BlueScope submits that the above-referenced official steel industry price forecasts for HDG, quantitatively assessed to provide an informed estimate of likely future subject country export prices vis-à-vis Australian industry non-injurious levels, coupled with a macroeconomic assessment of the highly likely future position of global, regional, and domestic steel producing industries, are the most contemporary and relevant considerations before the Commission.

iv. Seaborne Freight Costs

The COIVID-19 pandemic impacted international steel supply into the Australian market during the inquiry period. BlueScope submits however that freight rates have now peaked, supply chain bottlenecks will likely resolve, and freight costs are now rapidly normalising. In support of this position, BlueScope provides the following evidence:

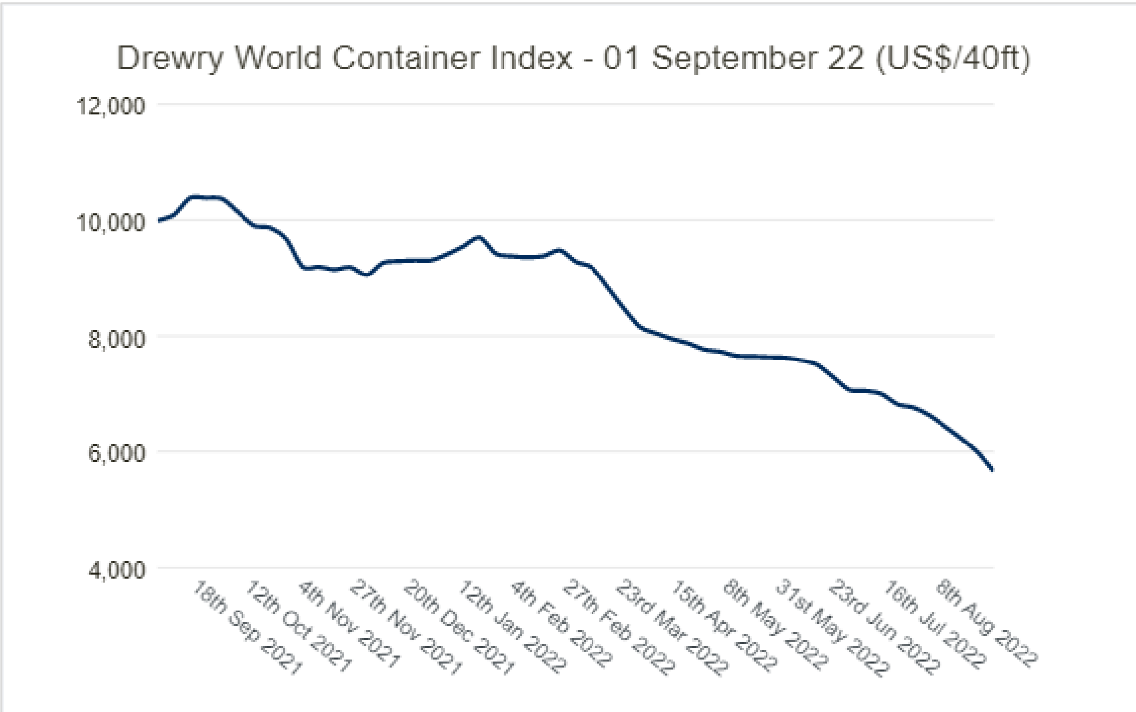
[19] Refer https://tradingeconomics.com/taiwan/manufacturing-pmi

[20] Taiwan Cuts Growth Forecast as Global Headwinds Intensify. Bloomberg. August 12, 2002. Available at Taiwan Economic Growth Forecast Cut as Global Headwinds Intensify - Bloomberg

- The Baltic Dry Index, which measures the cost of shipping goods worldwide, has normalised back to historical levels, down approximately [*XX*]% from its peak:[21]

Non-Confidential Chart 5: Baltic Dry Index; 2018-2022

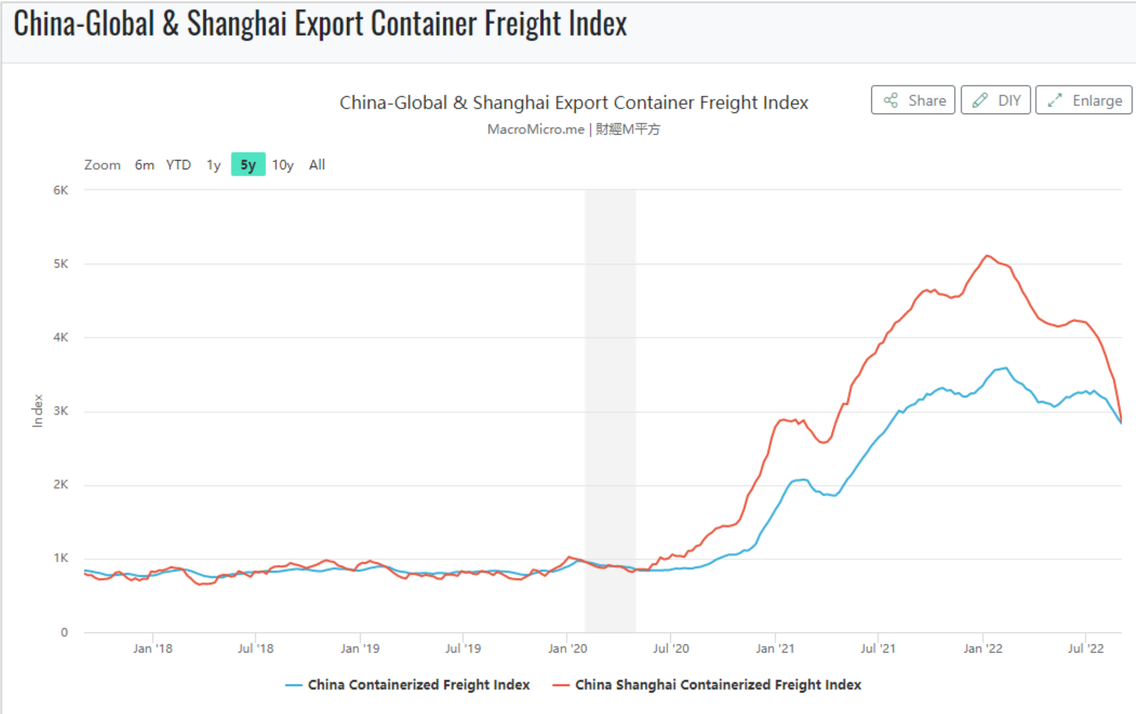
- The world container index, whilst still higher than historic levels, is down approximately [*XX*]% from its peak:[22]



Non-Confidential Chart 6: Drewry World Container Index; Sept. 21 – Sept. 22

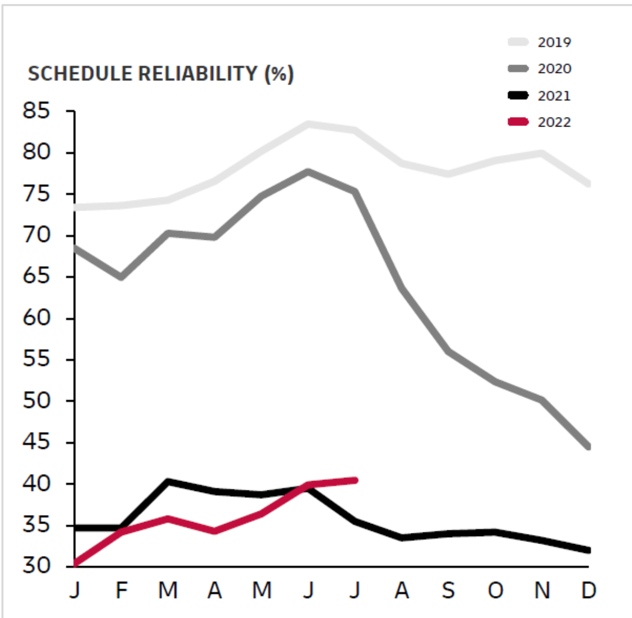
[21] Confidential Attachment 4.
[22] Ibid.

– China-specific seaborne freight indices are showing similar trends, with the Shanghai export container freight index down approximately [*XX*]%:[23]



Non-Confidential Chart 7: China-Global & Shanghai Export Container Freight Index

– Shipment schedule reliability measures are improving, as the demand side of the seaborne freight equation declines:[24]



Non-Confidential Chart 8: Shipping Schedule Reliability

– The forward curve for dry bulk charter rates for Handysize vessels (often used to ship commodity steel products, including galvanised steel) is declining,[25] and the average time charter rate (i.e. the specified daily rate for the hire of a vessel) has nosedived, reverting back close to 2019 levels:[26]

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[23] Ibid.
[24] Ibid.
[25] Confidential Attachment 5.
[26] Confidential Attachment 6.

[*Confidential Chart 9: Handysize and Supramax Time Charter Rates; 2019-2022*]

- BlueScope's assessment of Korea/Australia freight costs (Liner In – Liner Out)[27] shows an AU$[*XX*]/metric tonne decline in cost over the past three months, from a June 2022 peak, with a further AU$[*XX*]/metric tonne decline expected over the coming months:[28]

[*Confidential Chart 10: Liner In – Liner Out Freight from Korea to Australia*]

- Shipping rates between China and Australia are also now declining:[29]

[*Confidential Chart 11: Historical freight costs between China and Australia*]

The Commission has also recently assessed the seaborne freight implications for HRC in the Statement of Essential Facts to Continuation inquiry No. 594 (**CON 594**). CON 594's investigation period was calendar year 2021, and therefore a six-month cross-over with the current inquiry. SEF 594 concluded that:[30]

> *In terms of supply, the commission expects that in the medium to long-term, freight costs would likely return to lower levels than those seen during the inquiry period, as the rebalancing in demand will address issues of port congestion and container movements. In time, export supply will likely be as cost effective and timely as had been the case prior to the pandemic.*

BlueScope concurs with this assessment, and submits that the same applies for galvanised steel. The Commission's conclusions in the current inquiry will be supported by this view, alongside the above independent analysis evidencing actual declines, and expected further declines, in seaborne freight costs.

For and on behalf of BlueScope.

[27] Liner In / Liner Out refers to the rate/cost of freight. The rate includes both the costs of loading goods at the port of departure and the costs of unloading the goods at the destination port.
[28] Confidential Attachment 5.
[29] Ibid.
[30] SEF 594, section 8.5.3, p. 52.