



Australian Government
Australian Customs and
Border Protection Service

R E P O R T

CUSTOMS ACT 1901 - PART XVB

INTERNATIONAL TRADE REMEDIES BRANCH

CONSIDERATION REPORT NO. 188

CONSIDERATION OF AN APPLICATION

FOR A DUMPING DUTY NOTICE

HOT ROLLED COIL STEEL

EXPORTED FROM

**JAPAN, THE REPUBLIC OF KOREA, MALAYSIA AND
TAIWAN**

14 JUNE 2012

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2 SUMMARY AND RECOMMENDATIONS

This report provides the results of the Australian Customs and Border Protection Service's (Customs and Border Protection) consideration of an application by BlueScope Steel Limited and BlueScope Steel (AIS) Pty. Ltd. (BlueScope) for the publication of a dumping duty notice on hot rolled coil steel (HRC) exported to Australia from Japan, the Republic of Korea (Korea), Malaysia and Taiwan.

2.1 Recommendation

Customs and Border Protection recommends that the Chief Executive Officer (CEO) of Customs and Border Protection decide not to reject the application.

If the CEO accepts this recommendation, to give effect to that decision, the CEO must publish the attached notice at **Appendix A** indicating that Customs and Border Protection will inquire into whether the grounds exist to publish a dumping duty notice.

2.2 Application of law to facts

Division 2 of Part XVB of the *Customs Act 1901*¹ sets out procedures for considering an application for a dumping duty notice.

2.2.1 The role of the International Trade Remedies Branch

The International Trade Remedies Branch is responsible for preparing a report for the CEO examining an application for a dumping duty notice.

In this report, the following matters are to be considered in relation to the application:

- whether the application complies with subsection 269TB(4);
- whether there is, or is likely to be established, an Australian industry in respect of like goods; and
- whether there appear to be reasonable grounds for the publication of a dumping duty notice in respect of the goods the subject of the application.

2.2.2 The role of the CEO of Customs and Border Protection

The Division empowers the CEO, after having regard to the International Trade Remedies Branch report, to reject or not reject an application for the publication of a dumping duty notice.

If the CEO decides not to reject the application, the CEO must give public notice of the decision providing details of the investigation.

¹ All references in this report to sections of legislation, unless otherwise specified, are to the *Customs Act 1901*.

2.2.3 Findings and conclusions

Customs and Border Protection has examined the application and is satisfied that:

- the application complies with the requirements of subsection 269TB(4) (the reasons for being satisfied are set out in section 4 of this report);
- there is an Australian industry in respect of like goods (as set out in section 5 of this report); and
- there appear to be reasonable grounds for the publication of a dumping duty notice in respect of the goods the subject of the application (as set out in sections 6 and 7 of this report).

PUBLIC RECORD

3 BACKGROUND**3.1 Application**

On 10 May 2012, BlueScope lodged an application requesting that the Minister for Home Affairs (the Minister) publish a dumping duty notice in respect of HRC exported to Australia from Japan, Korea, Malaysia and Taiwan. On 28 May 2012, BlueScope provided additional information.

BlueScope alleges that the Australian industry has suffered material injury caused by HRC exported to Australia from Japan, Korea, Malaysia and Taiwan at dumped prices. The applicant claims that material injury commenced during 2010/11 and that the industry has suffered injury in the form of:

- price depression;
- price suppression;
- reduced profits;
- reduced profitability;
- reduced revenues;
- reduced employment;
- reduced wages expense; and
- reduced return on investment

3.2 Consideration of the application

Under subsection 269TC(1), the CEO must examine the application and within 20 days of lodgement decide whether or not to reject the application. Following the provision of new information on 28 May 2012, this decision must be made no later than 17 June 2012.

Subsection 269TC(1) specifies that the CEO shall reject the application if he/she is not satisfied that:

- the application complies with subsection 269TB(4); or
- there is, or is likely to be established, an Australian industry in respect of like goods; or
- there appear to be reasonable grounds for the publication of a dumping duty notice in respect of the goods the subject of the application.

The above matters are examined in the following sections of this report.

4 COMPLIANCE WITH SUBSECTION 269TB(4)

Customs and Border Protection is satisfied that the application complies with subsection 269TB(4).

4.1 Legislative framework

Subsection 269TB(4) requires that the application must be in writing, be in an approved form, contain such information as the form requires, be signed in the manner indicated by the form and be supported by a sufficient part of the Australian industry.

4.2 Customs and Border Protection assessment**4.2.1 Approved form**

The application is in writing, is in an approved form, contains such information as the form requires (as discussed in the following sections) and is signed in the manner indicated in the form.

The applicant submitted confidential and public record versions of the application along with numerous appendices and attachments. Customs and Border Protection considers that the public record version of the application contains sufficient detail to allow a reasonable understanding of the substance of the information.

4.2.2 Supported by Australian industry

An application is taken to be supported by a sufficient part of the Australian industry if Customs and Border Protection is satisfied the persons who produce or manufacture like goods in Australia and who support the application:

- account for more than 50% of the total production or manufacture of like goods by that proportion of the Australian industry that has expressed either support for or opposition to, the application; and
- account for not less than 25% of the total production or manufacture of like goods in Australia.

In its application, BlueScope identified itself as the sole producer of HRC in Australia. Based on the evidence provided, Customs and Border Protection considers the application is supported by a sufficient part of the Australian industry.

4.2.3 Conclusion – compliance with subsection 269TB(4)

Based on the information submitted by the applicant, Customs and Border Protection considers that the application complies with subsection 269TB(4).

5 IS THERE AN AUSTRALIAN INDUSTRY IN RESPECT OF LIKE GOODS?

Customs and Border Protection is satisfied that there is an Australian industry in respect of like goods.

5.1 Legislative framework

Subsection 269TC(1) requires that the CEO must reject an application for a dumping duty notice if, inter alia, he is not satisfied that there is, or is likely to be established, an Australian industry in respect of like goods.

5.2 The goods the subject of the application

The goods the subject of the application are described as:

Hot rolled coil (including in sheet form), a flat rolled product of iron or non-alloy steel, not clad, plated or coated (other than oil coated).

Goods excluded from this application are hot rolled products that have patterns in relief (known as checker plate) and plate products.

BlueScope stated that there are a number of relevant International Standards for Hot Rolled Coil steel products that cover the range of HRC products via specific grade designations, including the recommended or guaranteed properties of each of these product grades.

In its application, BlueScope noted that HRC is supplied in a range of thickness, all of which are claimed to be covered by the application. This is the case for HRC that is still in coil form. However, Customs and Border Protection has identified that the thickness of the coil when cut, will determine whether the product is classified as hot rolled sheet (which falls within the description of the goods covered by the application) or hot rolled plate² (which are clearly excluded from the goods description).

Based on its research into this matter, Customs and Border Protection has a preliminary view that plate is 3/16th of an inch (4.75mm) thick or more whilst sheet is below this thickness. Interested parties are invited to provide Customs and Border Protection with further information on this matter should they agree or disagree.

5.2.1 Tariff classification

The tariff classifications and statistical class codes in Schedule 3 to the *Customs Tariff Act 1995* and relevant rates of duty for HRC are shown below.

² Most plate products are manufactured directly from steel slabs, however, some plate is cut from HRC. All plate products are excluded from the goods description.

Tariff Classification	Statistical class code	Rate of duty - Japan	Rate of duty - Korea	Rate of duty - Malaysia	Rate of duty - Taiwan
7208.25.00	32	5%	0%	0%	0%
7208.26.00	33	5%	0%	0%	0%
7208.27.00	34	5%	0%	0%	0%
7208.36.00	35	5%	0%	0%	0%
7208.37.00	36	5%	0%	0%	0%
7208.38.00	37	5%	0%	0%	0%
7208.39.00	38	5%	0%	0%	0%
7208.53.00	42	5%	0%	0%	0%
7208.54.00	43	5%	0%	0%	0%
7208.90.00	30	5%	5%	4%	5%
7211.14.00	40	5%	0%	0%	0%
7211.19.00	41	5%	0%	0%	0%

Customs and Border Protection's tariff section identified that HRC may also be classified under 7208.51.00 (statistical class code 40) and 7208.52.00 (statistical class code 41), however, these tariff classifications relate to hot rolled products that are not in coils and have a thickness of 4.75mm or more, and therefore Customs and Border Protection considers these to be plate products at this time. BlueScope has also advised that these tariff descriptions describe plate products.

5.3 Locally produced like goods

Subsection 269T(1) defines like goods 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'.

5.3.1 Applicant's claims

BlueScope claims that the locally produced goods are like product to the imported flat-rolled products of iron or steel, not clad, plated or coated, of varying widths and thicknesses. The applicant confirmed that the locally produced goods have a product thickness range of 1.5mm to 12.7mm and a width range up to 1830mm wide.

In relation to physical likeness, BlueScope states that the locally produced goods and imported goods must comply with International and Australian Standards. BlueScope

outlined that the manufacturing process, including the steel chemistry, processing temperature, percentage thickness reduction and coiling temperature are all used to produce the required mechanical properties for each product grade, as designated by the International Standards. BlueScope further outlined:

Typically each International Standard has a range of steel grades nominated as formable, commercial or structural grades. The formable/commercial grades are those with mechanical properties suitable for general pressing and forming, whereas the structural grades are those with guaranteed minimum properties that structural engineers utilize in the design of their final product designs.

BlueScope provided the most common grades of HRC steel at A-3 of the application.

BlueScope explained that Australian grades were interchangeable with international grades. It provided a grade equivalent table which provides the Australian Standard AS1594 with the equivalent Japanese International Standard JIS 3131 and JIS 3101, outlining the mechanical and chemical properties of each. It appears that the mechanical and chemical properties for these particular grades of HRC are similar. Customs and Border Protection is therefore satisfied that there is a physical likeness between the imported and locally manufactured goods.

In relation to commercial likeness, BlueScope claims that Australian industry competes directly with imported HRC in the Australian market. As the imported goods comply with the equivalent Australian standards, outlined above in relation to physical likeness, Customs and Border Protection is satisfied that the imported goods can be used interchangeably in the Australian market with the locally produced goods.

Customs and Border Protection has examined the evidence presented in the application and is satisfied that the Australian industry produces like goods to the goods the subject of the application.

5.4 Manufactured in Australia

BlueScope has two locations at which it manufactured HRC, Port Kembla Steel Works in New South Wales and Western Port in Victoria. The Western Port facility was closed in 2011, but it continues to manufacture HRC at Port Kembla.

BlueScope describes that the process of manufacture involves four key stages, being ironmaking, steelmaking, casting and hot rolling. BlueScope gave the following description of the manufacturing process:

Iron making

Iron is extracted from iron ore in a blast furnace by a process known as reduction.

The raw materials - iron ore, coke and fluxes (Dolomite and Limestone) - are fed into the top of the furnace by conveyor. Air, which is heated to about 1200°C, is blown into the furnace through nozzles that are spaced around the

lower section of the furnace. The air causes the coke to burn, producing carbon monoxide which creates the required chemical reaction. The iron ore (iron oxide) is reduced to molten iron by removing the oxygen.

About every two hours a hole at the bottom of the furnace is opened and the molten iron and slag is drained. The molten iron runs into torpedo ladles that are on rail tracks. These ladles are then transported to the steelmaking area.

Steel making

The Basic Oxygen Steelmaking (BOS) process creates liquid steel from molten iron, scrap steel and alloying materials.

1. The first step is charging the BOS vessel, this comprises one-fifth filled with steel scrap to which molten iron is added until the vessel is full (around 280 tonnes per batch)

2. The BOS vessel is then stood upright and a lance is lowered down into it. The lance blows 99 per cent pure oxygen onto the steel and iron, causing the temperature to rise to about 1700°C. This melts the scrap, lowers the carbon content of the molten iron and helps remove unwanted elements.

3. Fluxes (burnt lime or dolomite) are then fed into the vessel to form slag which absorbs impurities of the steelmaking process. Near the end of the blowing cycle, which takes about 20 minutes, a temperature reading and samples are taken. The samples are tested and a computer analysis of the steel is done to ensure the desired chemistry is achieved.

4. The BOS vessel is then tilted again and the steel is poured into a giant ladle. This process is called tapping the steel. In the ladle furnace, the steel is further refined by adding alloying materials which give the steel special properties required by the customer. Sometimes argon or nitrogen gas is bubbled into the ladle to make sure the alloys mix correctly. The liquid steel now contains the correct customer required chemistry.

5. The final step occurs after the steel is removed from the BOS vessel, when the slag, filled with impurities, is poured off and cooled.

Slab Casting

The liquid steel must be cast into shapes so that it can be rolled. This is done by continuous casting machines that mould the liquid steel into solidified blocks of steel called slabs. The liquid steel is continuously poured from the ladle into a 'bottomless' mould at the same rate as continuous steel cast slabs are extracted. This continuous cast slab is cut to desired lengths and the slabs are then cooled to ambient temperature.

Hot Strip Rolling

The input feed slab runs continuously through five key processes to convert the slab to hot rolled coil.

1. *The first operation is reheating the slab in a furnace to obtain consistent thickness temperature of around 1200 deg celsius.*

2. *The heated slab has scale removed and passed through a roughing mill where the slab is reduced in thickness to around 40mm thick (from the 230mm thickness of the input slab). This is done via passing the slab 5 or 7 times through a set of horizontal rolls, producing a long transfer bar.*

3. *The third operation is where the transfer bar is then further reduced in thickness by passing through a set of five or six rolling mill stands to achieve the customers ordered thickness.*

4. *The fourth operation of the hot strip rolling process is the controlled cooling of the strip after it leaves the last rolling stand and prior to the strip being coiled up.*

5. *The final fifth stage of the process in making hot strip coil is the coiling up of the long flat strip where it is wound up on a mandrel, banded and has its identity marked.*

The Hot Strip Mill is both a shaping device and a metallurgical tool. The steel is not only made hot for ease of rolling to lighter thicknesses but for metallurgical reasons that have a major influence in defining the product's properties.

The temperature at which hot-rolling is completed results in an oxidized strip surface. This oxide film is termed hot-mill scale. Hot strip product can be supplied without this oxide film / scale by further processing the strip through heated acid baths that removes the hot-mill scale. – a process called "Pickling". Pickled strip is generally supplied oiled to preserve this surface finish (ie this is noted as PO).

BlueScope advised that the process of manufacture up to the slab casting stage occurs entirely at Port Kembla Steel Works. The slab is then transported within Port Kembla Steel Works or to Western Point (until the closure of this plant in 2011) to complete the Hot Strip Rolling phase.

To substantiate the manufacturing description, BlueScope's production flow diagram was provided.

Based on the above description of the manufacturing process, Customs and Border Protection is satisfied that there is at least one substantial process of manufacture performed in Australia and, therefore, that the goods may be taken to have been produced in Australia.

Accordingly, Customs and Border Protection is satisfied that there is an Australian industry producing like goods to the imported goods. The remainder of this chapter examines the Australian HRC market and provides an overview of the financial information provided by the Australian industry.

5.5 Australian market

5.5.1 Background

BlueScope states that HRC is marketed and sold directly to customers within three key Australian market sectors, being the Pipe and Tube market, the Automotive market and the General Manufacturing market. BlueScope provided the following on the typical end uses of HRC in each of the relevant market sectors:

(I) Pipe and Tubing Market Sector

Structural tubing, precision tubing, square hollow sections (SHS), circular hollow sections (CHS), water, oil and gas pipelines.

(II) Automotive Market Sector

Vehicles, structural members and components.

(III) Manufacturing Market Sector

This sector is made up of a number of discreet market segments such as agriculture, engineering, construction, mining, oil and gas, non-residential construction, residential construction and transport. Some end uses within these segments are agriculture plant, machinery and equipment, mining consumables, electrical generation and transmission equipment and plant, racking solutions, steel furniture, household appliances, hardware and tools, commercial and industrial construction, road and rail equipment and plant.

The imported HRC has the same end uses as the HRC produced by the Australian industry.

BlueScope states that it sells directly to pipe and tube manufacturers, automotive manufactures and to general manufacturers within the agriculture, engineering construction, mining, oil and gas, non-residential construction, residential construction and transport industries. BlueScope also sells indirectly into the end use markets via distributors.

BlueScope claims that both the Australian industry and importers of the GUC compete across each market segment in the Australian market via the same distribution channels in order to sell product directly to larger Australian manufacturing companies and to distributors that on-sell into these markets. BlueScope states that distributors and resellers may offer further services, including smaller product sizes, further processing and credit facilities.

BlueScope states that the Australian market for HRC was adversely affected by a reduction in demand in 2009/10 attributable to the global economic slowdown. The market demand recovered in 2010/11 but not to pre-2009 levels.

BlueScope provides a list of factors that impact demand variability at section A4 of its application. These include seasonal fluctuations, such as wet versus dry construction seasons in tropical climates and the seasonal demand for items such as hot water storage; factors which contribute to overall market growth or decline, such as Australian manufacturing's ability to compete with imported products, and global and

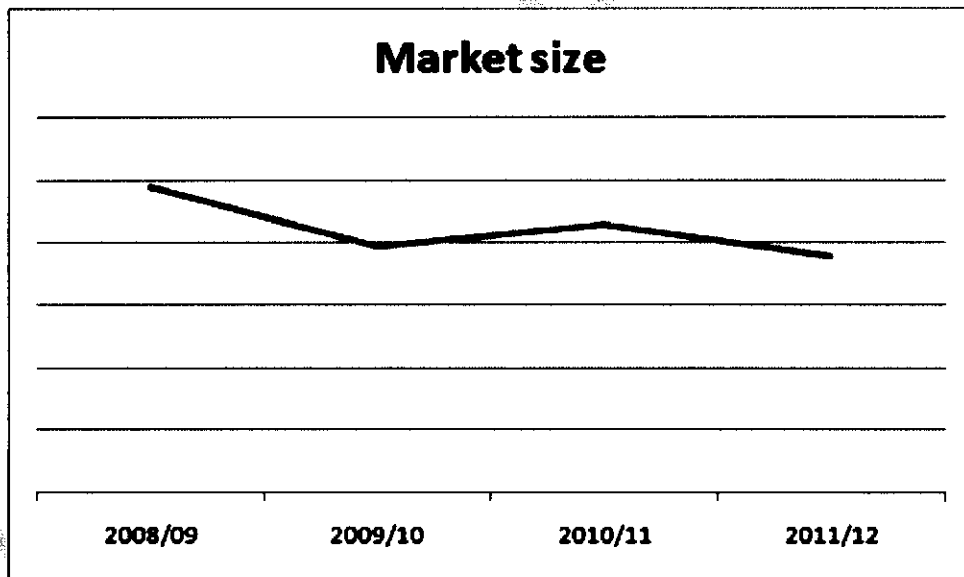
domestic economic conditions; government regulations, such as rebates and carbon credit policy; and short term pricing volatility.

5.5.2 Market size

BlueScope provided its estimate of the size of the Australian market for HRC at Confidential Appendix A2 of the application and summarised indexed movements in the market in section A4 of the application. The data was provided for the period 1 July 2007 to 31 March 2012 inclusive.

For the purpose of constructing import levels at Confidential Appendix A2, BlueScope sourced export data for Japan, Korea, Malaysia and Taiwan from ISSB Ltd, a European company involved in the publication of reports covering the UK, European and Global trade in steel and raw materials. Import data for HRC steel classified to 7208 and 7211 from the Australian Bureau of Statistics (ABS) was not available as it is the subject of suppression orders.

Movements in the size of the Australian market, using information provided by the applicant and from Customs and Border Protection's import database, are illustrated in the following chart. This chart is consistent with the market size estimate provided in the application.



This depicts the downturn in demand described by the applicant in 2009/10 resulting from the global economic slowdown. The chart also indicates that the market did not recover to 2008/09 levels subsequent to this. This is relevant to BlueScope's injury claims, discussed further at subsection 7.2 below.

5.6 Australian industry information

5.6.1 General accounting/administration information

The applicant explained that its audited financial statements are consolidated into the BlueScope Steel Limited annual report. The company operates on a financial year of 1 July to 30 June.

BlueScope provided details of general accounting and administration information.

5.6.2 Australian Industry's sales and costs

BlueScope provided information including a summary of domestic sales volumes and revenue as required in appendices A2, A3, A5 and A6 for the financial years 2007/08, 2008/09, 2009/10, 2010/11 and the first three quarters of 2011/12.

As required by appendix A4, BlueScope included a detailed listing of domestic sales of HRC for the period of 1 April 2011 to 31 March 2012. BlueScope sells some HRC through a related distributor, BlueScope Distribution Pty Ltd. Customs and Border Protection has examined selling prices and has found that the price to BlueScope Distribution Pty Ltd is consistent with prices to unrelated parties. Therefore, these sales are considered to be suitable for injury analysis purposes.

BlueScope completed an appendix A6 cost to make and sell spreadsheet for domestic sales. The information provided in appendix A6 included production and sales volumes, manufacturing costs, selling, distribution and administrative expenses and sales volumes for the period 1 July 2007 to 31 March 2012.

Customs and Border Protection examined the detail in, and link between, these appendices and have found them to reconcile.

5.6.3 Other economic factors

The applicant completed appendix A7 showing movements in assets, capital investment, research and development expenses, return on investment, capacity, capacity utilisation, employment, productivity, stocks, cash flow measures and wages.

5.6.4 Conclusion – Australian industry

Based on the information in the application, Customs and Border Protection is satisfied that there is an Australian industry producing like goods to the goods the subject of the application and that the information contained in the application is sufficient for the purposes of a preliminary analysis of the economic condition of the industry from 1 April 2008 to 31 March 2012.

6 REASONABLE GROUNDS – DUMPING

Customs and Border Protection is satisfied that HRC appears to have been exported to Australia from Japan, Korea, Malaysia and Taiwan at dumped prices.

6.1 Legislative framework

Subsection 269TC(1) requires that the CEO must reject an application for a dumping duty notice if, inter alia, he is not satisfied that there appear to be reasonable grounds for the publication of a dumping duty notice. Under section 269TG, one of the matters that the relevant Minister must be satisfied of to publish a notice is that the export price of goods that have been exported to Australia is less than the normal value of those goods.

6.2 Source of exports

In part B-1.4.1 of the application, BlueScope identified producers, exporters and importers of HRC from Japan, Malaysia, Taiwan and Korea.

Due to suppression orders on steel import information from the Australian Bureau of Statistics, BlueScope obtained data regarding imports from ISSB, a European agency that specialises in the supply of export import and export trade data. The ISSB data contains information based on exports. Accordingly, BlueScope notes that the import volumes will be slightly different due to timing difference. At the time the application was submitted, BlueScope was unable to get export data for Malaysia in February and March 2012 and Taiwan in March 2012.

Using this data, BlueScope estimated the volume of imports from Japan, Malaysia, Taiwan and Korea separately and collectively for all other countries for 2008/09 to 2011/12 (using March to April years). The proportion of these imports in 2011/12 is shown below:

Japan	Korea	Malaysia	Taiwan	Other Countries	Total Imports
16.0%	16.0%	2.7%	42.9%	22.4%	100%

Whilst the volume of imports for Malaysia is below 3% from the data currently available, BlueScope considers that the volume of imports from Malaysia would be above 3% of imports if the remaining months were included.

To test the accuracy of these estimates, Customs and Border Protection has compared the information submitted in the application with its import database. The database showed import volumes similar to those provided by ISSB. However, Customs and Border Protection noted that some goods within these tariff classifications were not hot rolled coil but were other hot rolled products, such as flat bars, or misclassified goods, such as cold rolled coil.

Customs and Border Protection found that the proportion of imports of hot rolled coil (excluding as far as possible items that were not the goods under consideration) was

similar to the estimates provided by the industry. The proportion of imports from all nominated sources was above 3%.

However, Customs and Border Protection notes that a more accurate assessment of these import volumes will need to be conducted during an investigation into HRC from these countries and territory.

6.3 Dumping from Japan

BlueScope presented monthly data for period January 2011 to March 2012 to demonstrate that HRC had been exported from Japan at dumped prices.

6.3.1 Export prices

BlueScope submitted monthly free-on-board (FOB) export prices for HRC exported from Japan, as reported by the data sourced from ISSB, converted from British Pounds to Australian Dollars using its corporate monthly average rate of exchange.

Customs and Border Protection has examined the Japanese export prices provided by BlueScope within its application and compared these to its import database. The export prices provided by BlueScope do not differ significantly from the export prices in the import database.

Neither the ISSB export data nor the data in Customs and Border Protection's import database identified goods by finish.

Customs and Border Protection therefore considers the export prices submitted by BlueScope for Japan to be reliable, relevant and suitable for establishing reasonable grounds that dumping has occurred for the purposes of initiation of an investigation.

6.3.2 Normal Values

BlueScope submitted domestic price information for HRC sold in Japan sourced from the Tokyo Steel website (in Japanese) which reflected the prevailing domestic prices in Japan. BlueScope provided a screenshot of the website in Japanese which showed where the prices were listed. These prices were in Japanese Yen and were converted to Australian Dollars using BlueScope's corporate monthly exchange rate.

BlueScope stated that the normal values for Japan were free-into-store (FIS) prices and therefore were inclusive of domestic inland freight. As export prices at the FOB level are also inclusive of inland freight, BlueScope considers that no adjustment is necessary.

Customs and Border Protection compared the data provided by the applicant with historical pricing data for Japan from Steel Business Briefing, a group that provides information on steel and found that it was consistent with the information provided by BlueScope. However, this information indicated that the domestic prices shown were free-on-truck (FOT).

Based on the information submitted in the application, Customs and Border Protection considers that the amounts used by BlueScope to estimate domestic selling prices in Japan appear to be reasonable. BlueScope has supported its estimates with information that is reliable and reasonably available to it.

Customs and Border Protection is also satisfied that, based on the information submitted in the application, no adjustments to domestic selling prices are required. Whilst it would be preferable to include an adjustment for domestic inland freight, the inclusion of this adjustment would increase the normal value and therefore any dumping margin found.

To calculate a weighted average normal value, Customs and Border Protection has used the domestic selling prices over the period of April 2011 to March 2012 and multiplied this by the declared monthly import volumes of HRC from Japan. Customs and Border Protection has used the average monthly exchange rate to convert the prices from Japanese Yen to Australian Dollars.

6.3.3 Conclusion – dumping from Japan

BlueScope's application estimates dumping margins for HRC exported to Australia from Japan to be 5.11%.

Customs and Border Protection has calculated a dumping margin that is similar to that submitted by BlueScope.

Customs and Border Protection considers that the applicant has provided sufficient information to demonstrate that HRC from Japan has been exported to Australia at dumped prices and that the dumping margin was not negligible.

Customs and Border Protection's analysis is within confidential attachment 1.

6.4 Dumping from Korea

BlueScope presented monthly data for period January 2011 to March 2012 to demonstrate that HRC had been exported from Korea at dumped prices.

6.4.1 Export prices

BlueScope submitted monthly free-on-board (FOB) export prices for HRC exported from Korea, as reported by the data sourced from ISSB, converted from British Pounds to Australian Dollars using its corporate monthly average rate of exchange.

Customs and Border Protection has examined the Korean export prices provided by BlueScope within its application and compared these to its import database. The weighted average export price in the import database was significantly lower than the weighted average price provided by BlueScope. This lower export price was driven by imports in one month in which prices appear to have been incorrectly recorded. This month was therefore excluded from Customs and Border Protection's analysis for the purpose of calculating an export price and the resulting export price was similar to that provided by the applicant.

Neither the ISSB export data nor the data in Customs and Border Protection's import database identified goods by finish.

Customs and Border Protection considers the export prices submitted by BlueScope for Korea to be relevant and suitable for establishing reasonable grounds that dumping has occurred for the purposes of initiation of an investigation.

6.4.2 Normal Values

BlueScope submitted domestic price information for HRC sold in Korea sourced from a local independent steel based business. These prices were in Korean Won and were converted to Australian Dollars using BlueScope's corporate monthly exchange rate.

BlueScope stated that the normal value for Korea were ex-works (EXW) prices and therefore were exclusive of domestic inland freight. As BlueScope does not have any information regarding domestic freight costs in Korea, it considers that it is reasonable not to include an adjustment for domestic freight, as to do so would only increase the normal value and dumping margin.

Customs and Border Protection has access to verified information relating to domestic sales of HRC in Korea and considers that, based on the information submitted in the application, the amounts used by BlueScope to estimate domestic selling prices in Korea appear to be reasonable. BlueScope has supported its estimates with information that is reliable and reasonably available to it.

Customs and Border Protection is also satisfied that, based on the information submitted in the application, no adjustments to domestic selling prices are required. Whilst it would be preferable to include an adjustment for domestic inland freight, the inclusion of this adjustment would increase the normal value and therefore any dumping margin found.

To calculate a weighted average normal value, Customs and Border Protection has used the domestic selling prices over the period of April 2011 to March 2012 and multiplied this by the declared monthly import volumes of HRC from Korea. Customs and Border Protection has used the average monthly exchange rate to convert the prices from Korean Won to Australian Dollars.

6.4.3 Conclusion – dumping from Korea

BlueScope's application estimates dumping margins for HRC exported to Australia from Korea to be 20.46%.

Customs and Border Protection has calculated a dumping margin similar to that submitted by BlueScope.

Customs and Border Protection considers that the applicant has provided sufficient information to demonstrate that HRC from Korea has been exported to Australia at dumped prices and that the dumping margin was not negligible.

Customs and Border Protection's analysis is within confidential attachment 1.

6.5 Dumping from Taiwan

BlueScope presented monthly data for the period January 2011 to March 2012 to demonstrate that HRC had been exported from Taiwan at dumped prices.

6.5.1 Export prices

BlueScope submitted monthly free-on-board (FOB) export prices for HRC exported from Taiwan, as reported by the data sourced from ISSB, converted from British Pounds to Australian Dollars using its corporate monthly average rate of exchange.

Customs and Border Protection has examined the Taiwanese export prices provided by BlueScope within its application and compared these to its import database. The export prices in the import database were similar to the export prices provided by BlueScope.

Neither the ISSB export data nor the data in Customs and Border Protection's import database identified goods by finish.

Customs and Border Protection considers the export prices submitted by BlueScope for Taiwan to be reliable, relevant and suitable for establishing reasonable grounds that dumping has occurred for the purposes of initiation of an investigation.

6.5.2 Normal Values

BlueScope submitted domestic price information for HRC sold in Taiwan sourced from a local independent steel based business. These prices were in New Taiwan Dollars and were converted to Australian Dollars using BlueScope's corporate monthly exchange rate.

BlueScope stated that the normal value for Taiwan was based on ex-works (EXW) prices and therefore were exclusive of domestic inland freight. As BlueScope does not have any information regarding domestic freight costs in Taiwan, it considers that it is reasonable not to include an adjustment for domestic freight, as to do so would only increase the normal value and dumping margin.

Customs and Border Protection has access to verified information relating to domestic sales of HRC in Taiwan for a part of the investigation period. Whilst the verified prices were significantly lower than the prices provided by BlueScope for the same period of time, both sets of domestic pricing information were well above corresponding export prices and therefore demonstrated dumping.

Customs and Border Protection considers that, based on the information submitted in the application, the amounts used by BlueScope to estimate domestic selling prices in Taiwan appear to be reasonable. BlueScope has supported its estimates with information that is reliable and reasonably available to it.

Customs and Border Protection is also satisfied that, based on the information submitted in the application, no adjustments to domestic selling prices are required. Whilst it would be preferable to include an adjustment for domestic inland freight, the inclusion of this adjustment would increase the normal value and therefore any dumping margin. To calculate a weighted average normal value, Customs and Border Protection has used the domestic selling prices over the period of April 2011 to March 2012 and multiplied this by the declared monthly import volumes of HRC from Taiwan. Customs and Border Protection has used the average monthly exchange rate to convert the prices from New Taiwan Dollars to Australian Dollars.

6.5.3 Conclusion – dumping from Taiwan

BlueScope's application estimates dumping margins for HRC exported to Australia from Taiwan at approximately 19.95%.

Customs and Border Protection has calculated a dumping margin that is similar to that submitted by BlueScope. Customs and Border Protection also conducted a dumping margin assessment for the period of time for which it had other evidence for the normal value. This normal value information and the concurrent export prices resulted in a similar dumping margin.

Customs and Border Protection considers that the applicant has provided sufficient information to demonstrate that HRC from Taiwan has been exported to Australia at dumped prices and that the dumping margin was not negligible.

Customs and Border Protection's analysis is within confidential attachment 1.

6.6 Dumping from Malaysia

BlueScope presented monthly data for period January 2011 to April 2012 to demonstrate that HRC had been exported from Malaysia at dumped prices.

6.6.1 Export prices

BlueScope submitted monthly free-on-board (FOB) export prices for HRC exported from Malaysia, as reported by the data sourced from ISSB, converted from British Pounds to Australian Dollars using its corporate monthly average rate of exchange.

Customs and Border Protection has examined the Malaysian export prices provided by BlueScope within its application, comparing these to the data within its import database. The export prices in the import database were similar to the export prices provided by BlueScope.

Neither the ISSB export data nor the data in Customs and Border Protection's import database identified goods by finish.

Customs and Border Protection considers the export prices submitted by BlueScope for Malaysia to be reliable, relevant and suitable for establishing reasonable grounds that dumping has occurred for the purposes of initiation of an investigation.

6.6.2 Normal Values

BlueScope submitted that it was unable to obtain actual domestic selling prices for HRC sold within Malaysia and therefore it has constructed a normal value.

BlueScope explained that it was able to obtain information relating to the price of cold rolled coil and that cold rolled coil was made by further working HRC. Therefore, BlueScope constructed a normal value for HRC in Malaysia by deducting the costs for cold rolling from the selling price of cold rolled coil.

In doing so, BlueScope:

- started with monthly cold rolled coil selling prices in Malaysia;
- deducted the cold rolling costs of its Western Port factory, as it considered that this plant is similar to the Megasteel facility in Malaysia;

- adjusted labour costs downwards and energy charges upwards, as it considered that there are lower labour costs and higher energy charges in Malaysia; and
- added an amount for selling, general and administrative (SG&A) expenses of approximately 5%, due to the additional sales and market requirements of HRC as opposed to cold rolled coil, based on published data for two HRC producers in Korea and its own SG&A costs.

Customs and Border Protection's assessment

Customs and Border Protection considers that, based on the information submitted in the application, the amounts used by the BlueScope to estimate domestic selling prices in Malaysia appear to be reasonable. The applicant has supported its detailed cost model with information that is reasonably available to it and, where assumptions have been made, has explained the basis for those assumptions.

BlueScope has provided evidence of cold rolled coil selling price in Malaysia, which was consistent with the estimates provided. It also has provided the conversion cost for cold rolled coil at its Western Port plant, as well as the calculations used to make adjustments for gas and energy differences. To support its estimated SG&A costs, BlueScope has provided the SG&A data from two manufacturers in Korea, as well as its own and used an average of the three as the basis of the Malaysia SG&A rate.

Customs and Border Protection has access to verified information relating to domestic sales of HRC in Malaysia for part of the investigation period and considers that, based on the information submitted in the application, the amounts used by BlueScope to estimate domestic selling prices in Malaysia appear to be reasonable.

To calculate a weighted average normal value, Customs and Border Protection has used the domestic selling prices over the period of April 2011 to March 2012 and multiplied this by the declared monthly import volumes of HRC from Malaysia.

6.6.3 Conclusion – dumping from Malaysia

BlueScope's application estimates dumping margins for HRC exported to Australia from Malaysia at approximately 7.5%.

Customs and Border Protection has calculated a dumping margin that is similar to that submitted by BlueScope.

Customs and Border Protection considers that the applicant has provided sufficient information to demonstrate that HRC from Malaysia has been exported to Australia at dumped prices and that the dumping margin was not negligible.

Customs and Border Protection's analysis is within **confidential attachment 1**.

7 REASONABLE GROUNDS – MATERIAL INJURY CAUSED BY DUMPED IMPORTS

Customs and Border Protection is satisfied that exports to Australia of HRC from Japan, Korea, Malaysia and Taiwan at allegedly dumped prices appear to have caused material injury to the Australian industry.

The following injury analysis is based on the financial information submitted by BlueScope and import information from Customs and Border Protection's import database. In 2011 BlueScope shut down its Western Port plant and underwent a restructure, which incurred significant costs. These costs have been removed from the charts and analysis in this section.

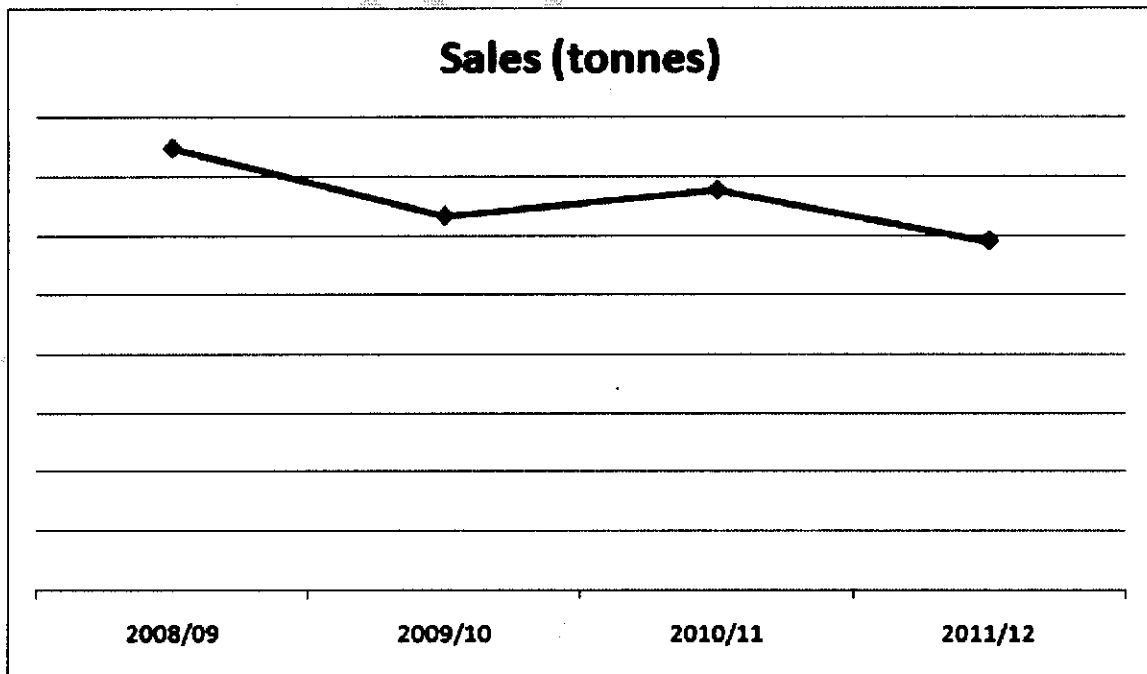
7.1 Legislative framework

Subsection 269TC(1) requires that the CEO must reject an application for a dumping duty notice if, inter alia, he is not satisfied that there appear to be reasonable grounds for the publication of a dumping duty notice. Under section 269TG, one of the matters that the relevant Minister must be satisfied of to publish a dumping duty notice is that because of the dumping, material injury has been or is being caused or is threatened to the Australian industry producing like goods.

7.2 Volume Effects

7.2.1 Sales volume

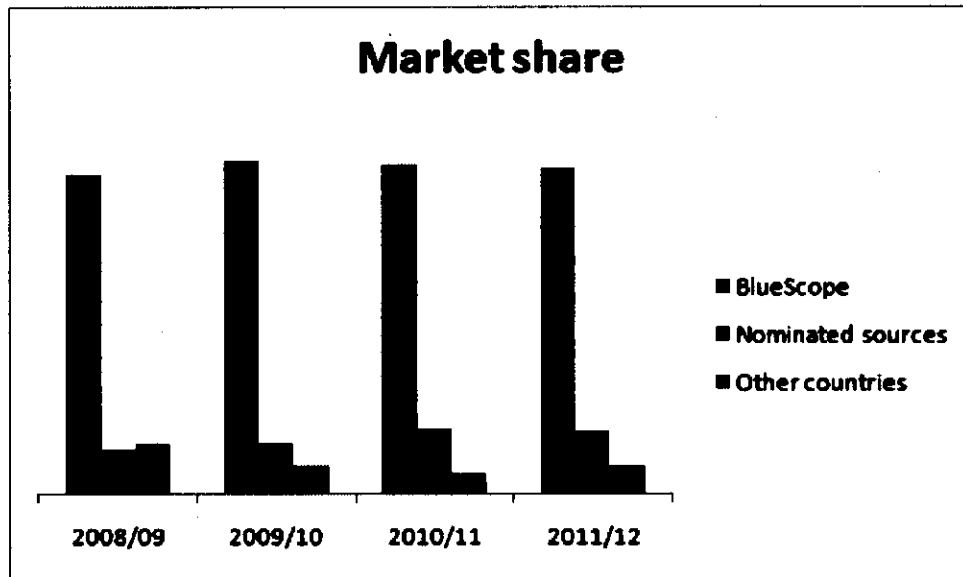
Movements in the applicants' sales volumes are illustrated in the following chart.



The data shows that BlueScope's sales volumes of HRC fell in 2009/10 (this was a result of the global financial crisis), partially recovered in 2010/11 before falling again in 2011/12.

7.2.2 Market share

Movements in the market share are illustrated in the following chart.



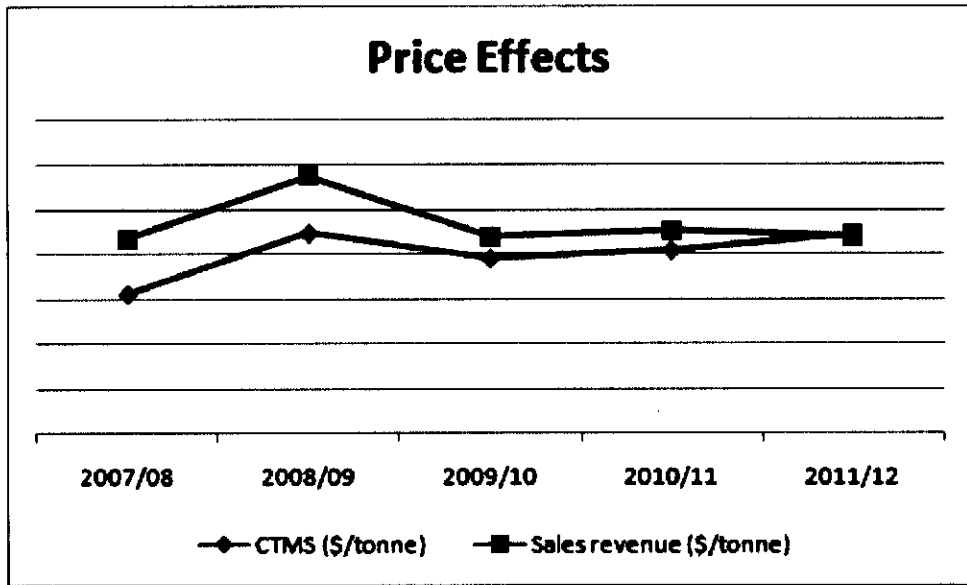
BlueScope's market share has remained constant. The volume of imports from the nominated countries and territory has increased while the volume of imports from other sources has decreased.

7.3 Price effects

7.3.1 Price depression and price suppression

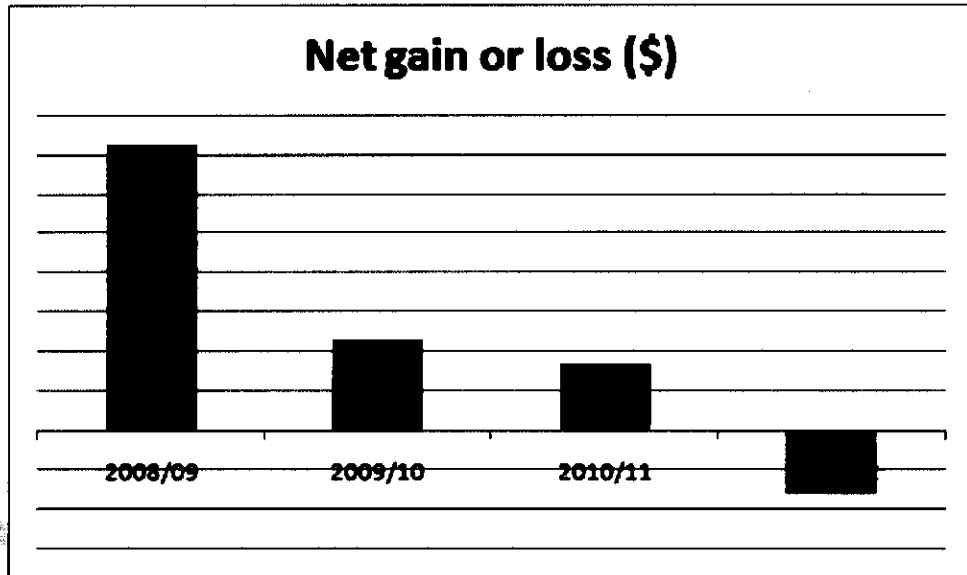
Price depression occurs when a company, for some reason, lowers its prices. Price suppression occurs when price increases, which otherwise would have occurred, have been prevented. An indicator of price suppression may be the margin between revenues and costs.

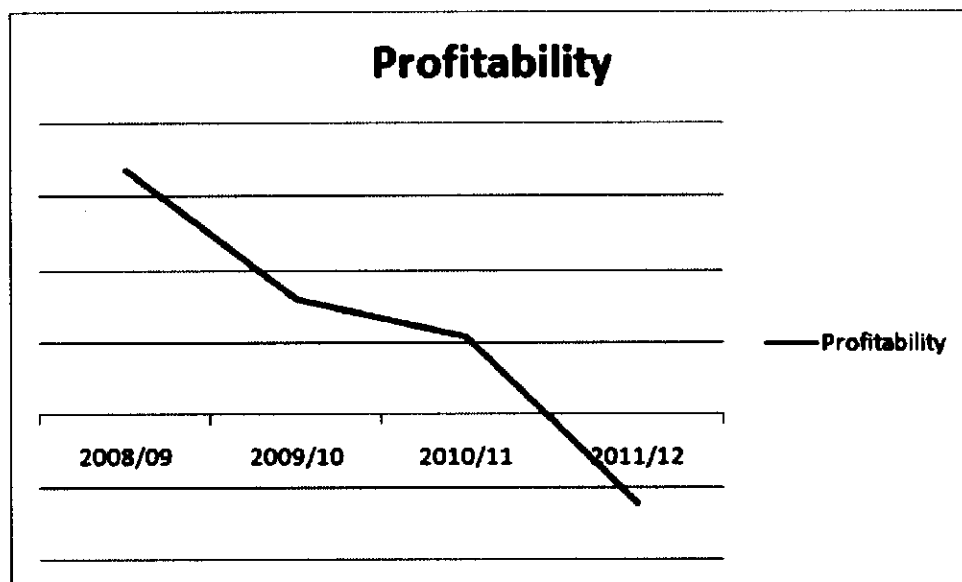
Movements in the applicant's unit revenues and costs are illustrated in the following chart. It shows that the margin between the unit costs and the unit selling price has decreased and in 2011/12 costs exceeded the selling price.



7.4 Profit effects

Movements in the applicant's profits and profitability are illustrated in the following chart.





BlueScope has had reduced profits and profitability since 2008/09. In 2011/12, BlueScope's domestic sales of HRC were unprofitable.

7.5 Other injury factors

BlueScope completed an Appendix A7, which looks at other injury factors. This data relates to BlueScope's domestic and export business. As the export business was closed down in 2011, while the domestic business was restructured, Customs and Border Protection cannot draw any conclusions from the A7 data at this point in time. The A7 data will be subject to further investigation at a verification visit to BlueScope.

7.6 Link between injury and dumped imports

7.6.1 Import trends

As outlined above at 7.2.2, the imports from the countries and territory subject to the application have increased over the period of analysis, whilst imports from other sources declined throughout this period.

7.6.2 The applicant's claims

BlueScope claims that injury from dumped imports from Japan, Korea, Malaysia and Taiwan first commenced in 2010/11.

BlueScope notes that in 2009/10, the Australian market for HRC contracted due to the global financial crisis. In 2010/11, the market started to recover but BlueScope faced increasing competition from imports. In 2011/12 BlueScope argues that to protect its market share from dumped imports, it lowered its prices.

BlueScope claims that its objective has been to maintain sales volumes to hold market share where possible. To do so, it has sought to meet import parity offers of competitive HRC imports from the nominated countries and territory. BlueScope provided evidence of negotiations for HRC supply with customers where BlueScope

reduced its prices in response to competitive offers of imported HRC at Confidential Attachment A-9.2.2.

BlueScope also provided evidence at Confidential Attachment A-9.2.3 of price depression in the distributor segment of the Australian market, whereby the selling price was lowered to meet competitive offers through the provision of discounts.

BlueScope argues that these price reductions have result in price depression and price suppression, impacting profit and profitability. BlueScope experienced losses on domestic HRC sales in 2011/12, having deteriorated from a significant profit in 2010/11.

BlueScope also argues price depression and suppression has occurred as it has been unable to increase its prices in line with increasing costs. BlueScope provided information that the cost to make and sell has increased from 2010/11 to 2011/12 by 10%, whilst prices have declined by 2%. BlueScope claims that price suppression and depression is particularly evident in sales to the pipe and tube sector.

BlueScope argues that its reduced profits have also impeded its return on sales and ability to re-invest in domestic HRC production. This has forced reductions in employment of personnel involved in HRC production in 2011/12. BlueScope claims that the negative return of the capital-intensive investment of BlueScope's HRC operations that result from the alleged dumping of imported goods from the nominated countries and territory undermines the future viability of local HRC production.

7.6.3 Injury caused by factors other than dumping

The applicant accepts that the global downturn experienced in 2009/10 has contributed to the loss of sales volume. While the market subsequently increased, it has not yet grown back to the size it was in 2008/09. However, BlueScope argues that this reduction in market size has not impacted all suppliers equally but that imports from the nominated sources have actually increased since 2008/09. Furthermore, it argues that given the smaller market size it is more susceptible to the effects of dumping.

BlueScope also notes that it incurred significant costs in the shutdown of its export business and the restructure of its import business, however, as mentioned above, these costs have been excluded from the profit and cost analysis.

7.6.4 Comparison of export prices and estimated non-injurious prices

As an additional test of the causal link between the alleged dumping and injury, Customs and Border Protection compared the estimated weighted average export price from each of the countries and territory in 2011/12 with a conservative non-injurious price based on BlueScope's costs to make and sell in 2011/12 with a zero profit margin.

The comparison showed that export prices were below the non-injurious price, a further indication of the dumping causing injury to the Australian manufacturers.

7.6.5 Customs and Border Protection's assessment

Based on information provided in the application and information from Customs and Border Protection's import database, the Australian industry's share of the Australian market has remained stable since 2008/09. Whilst sales volumes have fluctuated in part due to the global economic crisis in 2009/10, this has not impacted industry's overall share in the Australian market during the relevant period.

However, the application contains probative evidence that the prices offered for the imported goods from the nominate countries and territory have undercut the applicant's prices of the locally manufactured goods. Furthermore, correspondence from customers shows that the price of imports is used in price negotiations with the Australian industry. In order to maintain market share, BlueScope has necessarily reduced its prices to remain competitive in the Australian market.

This has inhibited BlueScope's ability to raise prices in line with the increase in the cost to make and sell the locally manufactured product. Both this price depression and price suppression has adversely impacted BlueScope's profit and profitability. This is confirmed by Customs and Border Protection's assessment of profit and profitability at 7.4 above. This indicates that, whilst BlueScope has maintained market share, the profitability of its sales of HRC have been declining since 2008/09 and in 2011/12 were unprofitable.

The apparent price undercutting and price suppression indicates that the allegedly dumped imports from the nominated countries and territory caused injury to the Australian industry. The estimated product dumping margin for imports from Japan, Korea, Malaysia and Taiwan during 2011/12 is considered material. On the available information, the injury caused by the dumping appears to be material.

7.7 Conclusion on material injury caused by dumped imports

Customs and Border Protection is satisfied that, based on the information submitted in the application, the applicant has demonstrated that:

- it appears to have suffered injury; and
- there appear to be reasonable grounds for concluding that the dumping of HRC exported to Australia from Japan, Korea, Malaysia and Taiwan has caused material injury to the Australian industry producing like goods.

8 CONCLUSION

Customs and Border Protection has examined the application and is satisfied that:

- the application complies with s. 269TB(4); and
- there is an Australian industry in respect of like goods; and
- there appear to be reasonable grounds for the publication of a dumping duty notice in respect of the goods the subject of the application exported from Japan, Korea, Malaysia and Taiwan.

Accordingly, Customs and Border Protection recommends that the CEO decide not to reject the application for the publication of dumping duty notices under s. 269TC(1).

For the purposes of the investigation:

- the investigation period to determine whether dumping has occurred will be from 1 April 2011 to 31 March 2012; and
- Customs and Border Protection will examine the Australian market and the economic condition of the industry from 1 April 2008 for the purposes of injury analysis.

9 APPENDIX A**Customs Act 1901 – Part XV****Hot Rolled Coil Steel****exported from Japan, the Republic of Korea, Malaysia and Taiwan****Initiation of an Investigation into alleged dumping****Notice under s. 269TC**

The Chief Executive Officer (CEO) of the Australian Customs and Border Protection Service (Customs and Border Protection) has initiated an investigation into alleged dumping of hot rolled coil steel (HRC) from Japan, the Republic of Korea (Korea), Malaysia and Taiwan following an application lodged on behalf of BlueScope Steel Limited and BlueScope Steel (AIS) Pty. Ltd. (BlueScope). The investigation will commence on 15 June 2012.

The goods the subject of the application are described as:

Hot rolled coil (including in sheet form), a flat rolled product of iron or non-alloy steel, not clad, plated or coated (other than oil coated).

Goods excluded from this application are hot rolled products that have patterns in relief (known as checker plate) and plate products.

HRC may be classified under sub-heading 7208.25.00 (statistical code 32), 7208.26.00 (statistical code 33), 7208.27.00 (statistical code 34), 7208.36.00 (statistical code 35), 7208.37.00 (statistical code 36), 7208.38.00 (statistical code 37), 7208.39.00 (statistical code 38), 7208.53.00 (statistical code 42), 7208.54.00 (statistical code 43), 7208.90.00 (statistical code 30), 7211.14.00 (statistical code 40) and 7211.19.00 (statistical code 41), in Schedule 3 to the *Customs Tariff Act 1995*. The general rate of duty for these tariff classifications for Japan is 5%. The general rate of duty for Korea, Malaysia and Taiwan is free with the exception of 7208.90.00, which is 5% for Korea and Taiwan and 4% for Malaysia.

The application alleges that the goods have been exported to Australia at prices less than their normal value and that the dumping has caused material injury to the Australian industry through price depression, price suppression, reduced revenues, reduced employment, and reduced return on investment.

The CEO specifies that goods exported to Australia during the period 1 April 2011 to 31 March 2012 will be examined to determine whether dumping has occurred. The Australian market will be examined from 1 April 2008 for injury analysis purposes.

The date of initiation of this investigation is the date of publication of this notice.

Interested parties, as defined by subsection 269T(1) of the *Customs Act 1901* (the Act), are invited to lodge submissions concerning the publication of the dumping duty notice sought in the application, no later than the close of business on 25 July 2012, addressed to:

Director Operations 1
International Trade Remedies Branch
Australian Customs and Border Protection Service
Customs House
5 Constitution Avenue
CANBERRA ACT 2601
Or by email: itrops1@customs.gov.au

Australian Customs Dumping Notice (ACDN) No. 2012/30, containing important procedural details, and Consideration Report No 188 are available at www.customs.gov.au. Both documents should be read in conjunction with this notice. These documents and other non-confidential documents relevant to the investigation are also available on the public record. This can be accessed electronically at www.customs.gov.au or alternatively, the public record may be examined at the above office address during business hours by contacting the International Trade Remedies Branch on 02 6245 5434.

Enquiries concerning this notice may be directed to the case manager on telephone number (02) 6245 5453, fax number (02) 6275 6990 or email itrops1@customs.gov.au.

Kim Farrant
Delegate of the Chief Executive Officer
14 June 2012