



INVESTIGATION 249

ALLEGED DUMPING OF CERTAIN ZINC COATED (GALVANISED) STEEL EXPORTED FROM INDIA AND THE SOCIALIST REPUBLIC OF VIETNAM

VISIT REPORT - AUSTRALIAN INDUSTRY

BLUESCOPE STEEL LIMITED

**THIS REPORT AND THE VIEWS OR RECOMMENDATIONS CONTAINED THEREIN
WILL BE REVIEWED BY THE CASE MANAGEMENT TEAM AND MAY NOT REFLECT
THE FINAL POSITION OF THE ANTI-DUMPING COMMISSION**

September 2014

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ABBREVIATIONS

ABS	Australian Bureau of Statistics
ACBPS	Australian Customs and Border Protection Service
the Act	<i>Customs Act 1901</i>
the applicant	BlueScope Steel Limited
AUD	Australian dollars
BANZ	BlueScope Australia and New Zealand
BlueScope	BlueScope Steel Limited
BMT	Base metal thickness
BOS	Basic oxygen steelmaking
CIPA	Coated and Industrial Products Australia
the Commission	the Anti-Dumping Commission
CTMS	Cost to make and sell
EDI	Electronic data interface
FIS	Free-into-store
FY	Financial year
the goods	the goods the subject of the application (also referred to as the goods under consideration)
HRC	Hot rolled coil
ISSB	International Steel Statistics Bureau
MCL	Metal coating line
OTIS	Order Tracking Inventory System
REP 190	Trade Measures Report No. 190
SG&A	Selling, general and administrative expenses
SGIS	Steel group invoicing system
TB	Trial balance
TCT	Total coated thickness

1 BACKGROUND AND PURPOSE

1.1 Background

On 8 May 2014 an application was lodged with the Anti-Dumping Commission (the Commission) on behalf of BlueScope Steel Limited (BlueScope) requesting that the Parliamentary Secretary to the Minister for Industry¹ publish a dumping duty notice in respect of certain zinc coated (hereafter referred to as galvanised) steel² exported to Australia from India and the Socialist Republic of Vietnam (Vietnam).

In this application, BlueScope alleges that the Australian industry has suffered material injury caused by galvanised steel exported to Australia from India and Vietnam at dumped prices.

BlueScope claims the industry has been injured through:

- price suppression;
- reduced profit and profitability;
- reduced return on investment;
- reduced employment numbers; and
- reduced ability to raise capital for re-investment.

Public notification of initiation of the investigation was made on 11 July 2014 in *The Australian* newspaper and in Anti-Dumping Notice No. 2014/55.

1.2 Purpose of the visit

As part of the investigation process, the Commission has visited BlueScope with the purpose of:

- obtaining relevant information about the Australian market for galvanised steel;
- gaining a greater understanding of BlueScope's manufacturing, marketing, sales and distribution processes;
- verifying information and data provided in the application;
- obtaining relevant financial data to assist in the analysis of the claimed injury to the Australian industry; and
- gathering information relevant to assessing whether the allegedly dumped imports have caused material injury to the Australian industry.

In acknowledging that BlueScope has been visited by the Commission to undertake verification on a number of occasions in the past three years (including in October 2012

¹ Responsibility for anti-dumping matters was transferred to the Minister for Industry on 25 September 2013. The Minister for Industry subsequently delegated responsibility for anti-dumping matters to the Parliamentary Secretary to the Minister for Industry.

² Refer to the full description of the goods in Section 2.1 of this report.

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for the previous galvanised steel investigation; Section 2.4 refers), the Commission has chosen to carry out an abbreviated verification process in the current instance. Despite the expedited nature of the visit, the Commission remains committed to ensuring that it can be confident in the completeness, relevance and accuracy of the data and information submitted by BlueScope.

1.3 Meeting details

Company	BlueScope Steel Limited Five Islands Road Port Kembla NSW 2505
Date of visit	11 to 13 August 2014

The following representatives were present at various stages of the visit:

BlueScope	Mr Alan Gibbs, Development Manager International Trade Affairs Mr Chad Uphill, Senior Finance Analyst – International Trade Affairs Mr Miles Mihajlovic, Finance Analyst – International Trade Affairs Mr Matthew Hennessy, Manager Distribution Mr Anthony Palermo, Pricing Manager Mr Daniel Castle, Pricing Manager Mr Troy Gent, National Sales Manager – Distribution Mr Luke Sparks, National Sales Manager – Distribution Mr Todd Bryers, Sales Operations Manager Mr Ron Hehl, Product Costing Specialist Mr Esa Mannisto, Manager Costing
John O'Connor & Associates Pty Ltd	Mr John O'Connor, Consultant
the Commission	Mr Geoff Gleeson, Director Operations 1 Ms Heidi Matuschka, Manager Operations 1 Ms Jasna Halilovic, Senior Investigator Operations 1 Mr Nathan Sargent, Policy Officer

1.4 Visit report

The Commission confirmed with BlueScope that, in accordance with the practice at previous verification visits, it would prepare a report of the verification visit (this report) and provide it to BlueScope for review of its factual accuracy and to identify those parts of the report that the company considers confidential.

The Commission further confirmed that, in consultation with BlueScope, it would prepare a non-confidential version of the report for the Public Record.

2 THE GOODS

2.1 Description

The goods the subject of the application (the goods) are defined as follows:

'flat rolled iron or steel products (whether or not containing alloys) that are plated or coated with zinc exported to Australia from India and Vietnam'.

These goods are generically called galvanised steel. Galvanised steel of any width is included in this application.

Exclusions

These goods do not include painted galvanised steel, pre-painted galvanised steel, electro-galvanised steel, corrugated galvanised steel or aluminium zinc alloy coated or plated steel.

2.1.1 Additional information

BlueScope's application also provided additional information to support its description of the goods, as follows:

The goods include the same categories of goods as identified in Trade Measures Report No. 190 and 193, however, this application also includes goods that are alloyed (i.e. with minor additions, e.g. boron, chromium, etc). The goods the subject of this application include all zinc coated product options, including all grades/models of zinc coated steel, all coating mass classes and all surface treatments.

Trade or further generic names often used to describe the goods the subject of the application include:

- *"GALVABOND®" steel*
- *"ZINCFORM®" steel*
- *"GALVASPAN®" steel*
- *"ZINCHITEN®" steel*
- *"ZINCANNEAL" steel*
- *"ZINCSEAL" steel*
- *Galv*
- *GI*
- *Hot Dip Zinc coated steel*
- *Hot Dip Zinc/Iron alloy coated steel*
- *Galvanneal*

The amount of zinc coating on the steel is described as its coating mass and is nominated in grams per meter squared (g/m²) with the prefix being Z (Zinc) or ZF (Zinc converted to a Zinc/Iron alloy coating). The common coating masses used for zinc coating are: Z350, Z275, Z200/Z180, Z100, and for zinc/iron alloy coatings are

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ZF100, ZF80 and ZF30 or equivalents based on international standards and naming conventions.

Surface treatments can include but not be limited to; passivated or not passivated (often referred to as chromated or unchromated), oiled or not oiled, skin passed or not skin passed, phosphated or not phosphated (for zinc iron alloy coated steel only).

There are a number of relevant International Standards for zinc coated products that cover their own range of products via specific grade designations, including the recommended or guaranteed properties of each of these product grades.

These relevant standards are noted below in Table A-3.1 “Relevant International Standards for zinc coated steel”.

Table A-3.1 - Relevant International Standards for zinc coated steel

International Standards	Product Grade Names
General and Commercial Grades	
AS/NZS 1397	G1, G2
ASTM A 653/A 653M	CS type A, B and C
EN10346	DX51D, DX52D
JIS 3302	SGCC, SGHC
Forming, Pressing & Drawing Grades	
AS/NZS 1397	G3
ASTM A 653/A 653M	FS, DS type A and B
EN10346	DX53D, DX54D
JIS 3302	SGCD, SGCDD,
Structural Grades	
AS/NZS 1397	G250, G300, G350, G450, G500, G550
ASTM A 653/A 653M	33 (230), 37 (255), 40 (275), 50 (340), 55 (380), 80 (550)
EN10346	S220GD, S250GD, S280GD, S320GD, S350GD, S550GD
JIS 3302	SGC340, SGC400, SGC440, SGC490, SGC570 SGH340, SGH400, SGH440, SGH490, SGH570

Please refer to Non-Confidential Attachment A-3.1 for a comparison of AS/NZ 1397 with other International Standards for zinc coated steel.

2.2 Tariff classification

The application states that galvanised steel is classified to the following tariff subheadings in Schedule 3 to the *Customs Tariff Act 1995*:

- 7210.49.00 (statistical codes 55, 56, 57 and 58);
- 7212.30.00 (statistical code 61);
- 7225.92.00 (statistical code 38); and
- 7226.99.00 (statistical code 71).

Based on the information provided in the application, it has been confirmed by the Trade Policy and Advice section of the Australian Customs and Border Protection Service (ACBPS) that galvanised steel is correctly classified to these tariff subheadings.

The general rate of duty is currently 5% for goods imported under these tariff subheadings. However, imports from India and Vietnam are subject to a DCS duty rate which is free for non-alloy steel under 7210.49.00 and 7212.30.00 and is 4% for 'other alloy' steel under 7225.92.00 and 7226.99.00.³

Details of the tariff concession orders (TCOs) that are current for galvanised steel are provided at **Attachment GEN 1**.⁴

2.3 Australian standards

BlueScope has confirmed that all hot dipped metallic coated products it supplies are produced to two Australian standards: AS1397 and AS1365. AS1397 lists the:

- mechanical properties the base steel must meet (structural versus formable grades);⁵
- adhesion properties of the coating;
- standard coating classes and limits for each; and
- chemical composition range for the base steel, according to product type.

AS1365 addresses the dimensional and shape tolerances for cold rolled steel products.

The Commission observed that these standards cover not only galvanised steel, but also aluminium zinc coated steel.

BlueScope provided the Commission with examples of product parameter and dimensional requirements, which form **Attachment GEN 2**. As BlueScope believes that most imports of galvanised steel into Australia will be quoted to Australian or Japanese standards, it also provided a comparison (by grade) of the Japanese equivalent standard to AS1397 (JIS3302), noting that grade will be referred to as 'quality' by the Japanese standards. This forms **Attachment GEN 3**.

2.4 Previous investigation

An investigation into the dumping and subsidisation of galvanised steel and aluminium zinc coated steel exported to Australia from the People's Republic of China (China), Korea and Taiwan was finalised on 30 April 2013 (refer Trade Measures Report No. 190) (REP 190). As a result of this investigation, a dumping duty notice was published for all exports of galvanised steel from:

- China by all exporters;
- Korea by all exporters, other than Union Steel Co., Ltd;⁶ and

³ 'DCS' is a code applied to classes of countries and places in relation to which special rates apply as specified in Part 4 of Schedule 1 to the *Customs Tariff Act 1995*.

⁴ In identifying the TCOs applicable to the tariff subheadings in this section, the Commission does not comment on their relevance to the goods the subject of the application.

⁵ Discussed further in Section 3.5.2.

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- Taiwan by all exporters, other than Sheng Yu Co., Ltd and Ta Fong Steel Co., Ltd.⁷

It is observed that the goods in REP 190 were limited to zinc coated products of iron and *non-alloy* steel only.

⁶ On 26 April 2013 the dumping investigation was terminated, in so far as it related to galvanised steel exported by Union Steel Co., Ltd, Sheng Yu Co., Ltd and Ta Fong Steel Co., Ltd, based on a finding that the dumping margins for goods exported by those companies during the investigation period were less than 2% (refer Termination Report No. 190A).

⁷ See above.

3 THE AUSTRALIAN INDUSTRY

3.1 Corporate and organisational structure

BlueScope is a publicly listed company on the Australian stock exchange, limited by shares. BlueScope has a number of subsidiaries and joint ventures both in Australia and internationally, which are outlined in the chart provided by BlueScope with its application; this chart forms **Confidential Attachment GEN 4**.

BlueScope has six internal corporate groups with distinct functions that operate in Australia and internationally. BlueScope's Australian and New Zealand operations (referred to as BANZ) are managed as a single unit and include all affiliated companies. The goods the subject of the application are incorporated under the Coated & Industrial Products Australia (CIPA) group.



Figure 1 – external reporting structure

3.2 Efficiency reviews

BlueScope advised that a number of efficiency reviews have been undertaken within the company, including a review into the sales and marketing function. The outcome of this review was announced on 29 June 2014 and provided [REDACTED]

[REDACTED] [confidential efficiency exercise undertaken].

3.3 Accounting structure and details of accounting systems

BlueScope's financial accounting period is from 1 July to 30 June. The company's accounts are audited in accordance with Australian accounting practices and a copy of its audited financial statements and Annual Report for financial year (FY) 2013 was provided with the application.

During the visit BlueScope advised that it operates two profit centres under [REDACTED] [company], one for its coated products business (1310) and another for the logistics branch (1410). It also has one profit centre (1010) for Hot Rolled Coil (HRC) under [REDACTED] [company].

BlueScope's company accounts are managed through SAP, but the day to day accounting is undertaken in various systems, including the:

- steel group invoicing system (SGIS);
- SRDM debtor management system;
- rebate model;
- freight model; and the
- MAS standard product costing system.

A product costing reporting system, referred to as COGNOS, captures data from the various systems. BlueScope explained that the trial balance from SAP may not agree with COGNOS as that database does not include accounting adjustments such as accruals.

The company's statutory financial reports are generated using Hyperion, a reporting consolidation tool that extracts summary data from SAP.

A summary of the CIPA (1310) financial system forms **Confidential Attachment GEN 5**.

3.4 Relationship with suppliers and customers

3.4.1 Suppliers

During the visit, BlueScope confirmed that the main raw material for its galvanised steel is HRC. As a fully-integrated manufacturer, it purchases all HRC from the [REDACTED] (1010) business, which [REDACTED] manufactures at the Port Kembla hot strip mill (Section 3.5.1 refers).

BlueScope also purchases zinc (at more than AUD [REDACTED] per tonne) from [REDACTED]. This is governed by a contractual arrangement with [REDACTED]; copies of contracts dated [REDACTED] and [REDACTED] (both relevant to purchases made during the investigation period) form **Confidential Attachment GEN 6**.

3.4.2 Customers

BlueScope sells galvanised steel on both the domestic and export markets; however, the Commission observed that domestic sales of galvanised steel comprised around [REDACTED]% of total galvanised steel sales (based on net revenue) in FY2014.⁸

BlueScope sells its galvanised steel products to owned, related and unrelated parties in the Australian domestic market. BlueScope related entities include fully owned subsidiaries Lysaght Building Solutions Pty Ltd (BlueScope Lysaght), BlueScope Water Pty Ltd and BlueScope Distribution Pty Ltd (BlueScope Distribution). During the visit BlueScope stated that prices to affiliated companies are negotiated in the same way as prices to unrelated customers. This will be discussed further in Section 5.4 of this report.

⁸ Not including data for quarter ending June 2014.

3.5 BlueScope's manufacturing facilities and product range

3.5.1 Manufacturing facilities

BlueScope is a fully-integrated flat steel product manufacturer with large capital intensive manufacturing operations in Springhill and Port Kembla in New South Wales and Western Port in Victoria.

BlueScope manufactures HRC at its steel making facility in Port Kembla from liquid steel, via flat steel production. BlueScope does not use imported steel in the manufacture of the goods. HRC is then provided to BlueScope's continuous coating operations in Springhill and Western Port to produce galvanised steel.

3.5.2 Product range

According to BlueScope, galvanised steel is mainly supplied to customers as coil, although it can also be supplied in sheets. The Commission notes that this is confirmed by Confidential Appendix A4 to the application, which identifies that sales of coil comprised around █% of total sales over the investigation period (1 July 2013 to 30 June 2014). BlueScope also manufactures galvanised steel in a range of widths, grades, base metal thicknesses (BMTs),⁹ zinc coatings and finishes.

During the verification BlueScope advised that grades of galvanised steel can be identified as either formable (ductile) grades or structural (strength) grades. During the visit BlueScope provided the Commission with two tables outlining both formable and structural grade products, including a general explanation for each product and its typical applications in the market. These tables are provided below:

⁹ According to BlueScope, the Australian standards will always refer to BMT, as opposed to a total coated thickness (TCT). BMT refers to the thickness of the base steel (substrate) only, whereas TCT refers to the steel base thickness plus the metallic coating thickness. It is possible that products being exported from India and Vietnam might refer to either. References to thicknesses in this report are to the BMT.

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FORMABLE PRODUCTS	GENERAL EXPLANATION	TYPICAL APPLICATIONS
ZINC GALVABOND® G2 (S) GALVABOND® G3N (S) WP only	Commercial forming steel for general purpose forming. (Z275, Z450, Z600)	Air-conditioning panels / ducts Automotive panels and components
GALVASKIN® G2	Low coating mass, Z100 - Z200 for internal applications (Domestic market only)	Internal Structural Members, Shelving
ZINCMATTE® G2S	Commercial forming steel with extra smooth, minimal spangle surface, critical painted applications. (Z100, Z200)	Appliance Panels
ZINCMATTE® G3NS	Deep drawing steel (JO1T) Guaranteed non-ageing, stretcher strain free (Z100, Z200)	Washing Machine Components
ZINC / IRON (WP only) ZINCANNEAL® G2S	Commercial forming steel (A06) with extra smooth finish, critical surface applications (ZF80, ZF100)	Exposed painted panels Fridge, Freezer Doors
ZINCANNEAL® G3NS (S-E)	Drawing Steel with guaranteed non-ageing and stretcher strain free (ZF80, ZF100)	Suitable for exposed automotive panels
ZINCANNEAL®G180BS ZINCANNEAL® G180BS-E	Formable steel, guaranteed min.yield strength of 180MPa (ZF80)	Automotive skins and components
ZINCSEAL® G2S	Low coating mass (ZS30) commercial forming steel (A06), high quality paint finish	Internal applications : White goods Appliance Panels

Figure 2 – BlueScope’s formable grade products

As evident from Figure 2 above, the grade of each formable product includes references to both letters and numbers. The letter ‘G’ references the product type, in this case ‘continuously heat-treated and hot-dip coated’. The following number refers to the degree of formability (for example, all commercial forming grades are numbered with a ‘2’ and drawing grades ‘3’). As such, a G3N product would be more formable than a G2 product. The final letter(s) identify whether the product is skin-passed (S)¹⁰ and/or is non-ageing (N).¹¹

ZINCSEAL® is identified in Figure 2 as a formable grade product with low (ZF30) coating mass. During the visit, BlueScope advised that ZINCSEAL® is an alternative to electro-galvanised steel,¹² which BlueScope does not produce (and has been excluded from the definition of the goods; Section 2.1 refers).

¹⁰ Further detail in relation to skin passing is contained in Section 3.6.2 of this report.

¹¹ Product can be supplied as guaranteed non-ageing and free from stretcher-strain.

¹² Electro-galvanised steel only has a 10 g/m² coating for surface protection during factory processing.

STRUCTURAL PRODUCTS	GENERAL EXPLANATION	TYPICAL APPLICATIONS
ZINC ZINCFORM® G250 ZINCFORM® G300 ZINCFORM® G350	Good ductility, annealed product, high strength steel with guaranteed minimum yield strength. Suitable for severe roll-forming.	Rollformed structural sections
ZINC-HI-TEN® G450 ZINC-HI-TEN® G500 ZINC-HI-TEN® G550	Generic zinc coated, high strength steel, guaranteed minimum yield strength.	Structural Decking, House framing Fence Posts and Rails
DECKFORM® G550	Product name for ZINC-HI-TEN® steel that goes into structural decking in Australia. Supplied with Z350 & Z450, 0.6 x 990, 0.75 x 990, 0.9 x 990 & 1.0 x 990mm	Structural decking (ie permanent formwork for concrete decking) for the building and construction market
GALVSPAN® G450 GALVSPAN® G500 GALVSPAN® G550	Heavy coating mass (Z350, Z450), heavy gauge (1.0 – 3.0mm) structural steel	For the Purlin market (internal structural applications)
ZINC / IRON ZANTS390S ZANTS440S	Smooth, matt finish with high strength, guaranteed min (ZF100)	Non-exposed automotive panels and components

Figure 3 – BlueScope’s structural grade products

As with formable grade products, the use of the letter ‘G’ in Figure 3 refers to the product type (i.e. continuously heat-treated and hot-dip coated). The relevant numbers, ranging from 250 through to 550, refer to the minimum yield strength of the product (in MPa). BlueScope advised that yield strength is the amount of stress a product can withstand before losing its structural integrity.

During verification, BlueScope advised that ZINCHITEN® is a high tensile product, while ZINCFORM® is considered a ‘mid-way’ product. This is confirmed by Figure 3 when comparing the minimum yield strengths of ZINCHITEN® (G450 through to G550) to those of ZINCFORM® (G250 through to G350).

Figure 3 also shows that GALVSPAN® (produced at structural grades of G450 through to G550) is provided to customers with a heavier coating mass of Z350 or Z450. During the visit BlueScope explained that the thicker the zinc coating, the greater the corrosion protection it provides (and therefore the longer the life of the product). For particular products, such as GALVSPAN®, BlueScope’s purlin market offer supports the philosophy of complementary product building design through matching a higher zinc coating for purlin product that is used in conjunction with COLORBOND® roofing (which has a 30 year life expectancy).

3.6 Production process

Subsections 269T(2) and 269T(3) of the *Customs Act 1901* (the Act)¹³ specify that, for goods to be regarded as being produced in Australia, they must be wholly or partly manufactured in Australia. In order for the goods to be considered partly manufactured in Australia, at least one substantial process in the manufacture of the goods must be carried out in Australia.

During the verification visit, BlueScope provided Commission representatives with a tour of its manufacturing facility in Port Kembla and Springhill, including the No. 5 Blast Furnace, basic oxygen steelmaking (BOS) facility, hot strip mill and continuous metal coating lines (MCLs).

The Commission observed BlueScope's production process of galvanised steel to be as follows:

3.6.1 Hot rolled coil

The main raw materials used in the production of steel are iron ore, coking coal, coke and limestone. The raw materials are fed into the top of the blast furnace in predetermined proportions and sequences. Air that has been heated to around 1200°C is blown into the furnace through nozzles at the lower part of the furnace. This causes the coke to burn, producing carbon monoxide that creates the required chemical reaction. The iron ore is reduced to molten iron by removing the oxygen. Molten iron and slag is drained every two hours through the taphole of the furnace and the molten iron is transported in a torpedo ladle to the BOS steelmaking area.

The BOS process creates liquid steel from molten iron, scrap steel and alloying materials. Pure oxygen is blown onto the steel and iron, causing the temperature to rise and thereby melts the scrap, lowers the carbon content of the molten iron and removes unwanted impurities. The steel can be further refined by adding alloy materials that give the steel special properties required by the customer. It is noted that structural steel properties can be achieved via alloy addition; however, BlueScope utilises its processing technology to achieve the required structural properties with low carbon steel.

The molten steel is cast into slabs of various dimensions so that it can be rolled. The rate of casting and speed is dependent on the grade and width being cast. Spray cooling of the slab aids solidification.

After entering the hot strip mill, the slab is reheated to around 1250°C, is descaled and rough rolled to a thickness of 25mm. It is then coiled in a coilbox to retain heat, before passing through a set of rolling mill stands to finish roll to customer order thickness. The product is control cooled before being finally wound up as a coil of steel (known as HRC). The HRC is then transferred to the Springhill and Western Port coating mills.

¹³ All references in this report to sections of legislation, unless otherwise specified, are to the *Customs Act 1901*.

3.6.2 Coated steel

Pickling

HRC is pickled to remove scale (iron oxide) that is formed during the hot rolling process. The HRC is unwound, side trimmed to the customers required width and passed through a bath of hydrochloric acid, washed, dried and recoiled. Oil is applied during rewinding to prevent rust.

Cold rolling

The pickled HRC is cold rolled to reduce the steel thickness. The cold rolling process (which involves passing the pickled HRC through a number of rolling mill stands) is conducted at ambient temperature and reduces the HRC to the required customer thickness (0.3mm to 3.5mm). As a result of this process, the steel strength increases and the surface finish becomes bright and smooth. This intermediate steel product is known as a 'cold rolled fully hard' product.

Metal coating

The cold rolled coil is uncoiled and annealed to restore the steel to a soft, usable, ductile form. The coil then passes from the furnace through a molten zinc metal bath where the molten metal chemically bonds to the steel surface. As the coil is vertically withdrawn from the bath, air jets control the resulting coating mass.

Finishes

Those products to be skin-passed undergo light rolling through a skin conditioning mill. This increases the length by 0.25% to 1.25%, which improves the surface of the strip by suppressing (i.e. squashing) spangles and surface defects, to produce a smooth surface for painting, and to suppress or eliminate the yield point.

Galvanised steel is generally supplied with a surface passivation treatment (chromating) that provides a measure of protection for the steel against wet storage damage while in transit to the customer or whilst on-site.

Further processing

BlueScope's service centres are capable of undertaking further processing, such as sheeting, slitting and blanking. BlueScope advised that all orders for galvanised steel less than 600mm in width will be slit, rather than sending narrow coils through the production line individually. According to BlueScope, the service centres undertake these processing activities because they are considered closer to the customer.

3.7 Capacity, employment and annual turnover

The capabilities and capacities of BlueScope's MCLs at Springhill (Port Kembla) and Western Port are provided at **Confidential Attachment GEN 7**.

In summary:

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- Port Kembla has three coating lines (MCL 1, 2 and 3); two of these (MCL 2 and 3) can produce galvanised steel:
 - the width range for these lines is 630mm to 1,250mm;
 - the thickness range for these lines is 0.30mm to 3.50mm;
 - MCL 3 has the capability to produce skin-passed and oiled finishes; and
 - the lines have the capacity to produce 560,000 tonnes per annum (335,000 from MCL 2 and 225,000 from MCL 3).¹⁴
- Western Port has two operating MCLs, of which one line (MCL 6) can produce galvanised steel:
 - the width range for this line is 800mm to 1,550mm;
 - the thickness range for this line is 0.40mm to 2.00mm;
 - the line has the capability to produce skin-passed and oiled finishes; and
 - the line has the capacity to produce 350,000 tonnes per annum.

During the verification, BlueScope also advised that Western Port's MCL 6 is the only line capable of producing ZINCANNEAL®¹⁵ (due to [REDACTED]).

Overall, BlueScope's total combined galvanised steel capacity is 910,000 tonnes per annum and its total combined metallic coating capacity¹⁶ is around 1.655 million tonnes per annum; **Confidential Appendix GEN 8** refers.

BlueScope's Confidential Appendix A7 specifies that turnover for galvanised steel was AUD [REDACTED] million in FY2014, or [REDACTED]% of CIPA's 1310 revenue. In addition, total employment in respect galvanised steel was [REDACTED], an [REDACTED] of [REDACTED] people over the previous year.¹⁷ BlueScope advised that [REDACTED] Western Port MCL in March 2014, which is reflected in the [REDACTED] employment numbers for FY2014 in Confidential Appendix A7; [REDACTED].

BlueScope's galvanised steel capacity and employment is further discussed at Section 7.7 of this report.

3.8 Like goods

Subsection 269T(1) of the Act defines like goods as:

¹⁴ It is noted that MCL 3 is a 'dual pot' capable of producing both galvanised and aluminium zinc coated steel. This figure represents a 'shared' capacity between the two products [REDACTED].

¹⁵ Also generically referred to as Galvanneal.

¹⁶ This includes BlueScope's capacity to produce aluminium zinc coated steel.

¹⁷ These numbers reflect wage employees on the Springhill and Western Port galvanised steel MCLs.

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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.

BlueScope considers that its locally produced galvanised steel is 'alike' to the imported goods and possesses the same essential characteristics as the imported goods, because both goods:

- are alike in physical appearance;
- compete directly in the same market;
- are directly substitutable; and
- have the same end-uses.

Although BlueScope does not manufacture galvanised steel containing alloys, its application stated that other alloy zinc coated products are wholly substitutable with iron and non-alloy zinc coated steel products. BlueScope also provided [REDACTED] that indicated the addition of boron has no effect on functionality.

Based on information available, as well as discussions and verification with BlueScope, the Commission considers:

- the primary physical characteristics of the goods and locally produced goods are similar;
- the goods and locally produced goods are commercially alike as they are sold to common users, and directly compete in the same market;
- the goods and locally produced goods are functionally alike as they have a similar range of end-uses; and
- the goods and locally produced goods are manufactured in a similar manner.

In light of the above, the Commission is satisfied that the Australian industry produces like goods to the goods the subject of the application (including those goods that comprise other alloy steel), as defined in subsection 269(T)(1).

The issue of like goods will continue to be assessed throughout the investigation.

3.9 Conclusion

The Commission is satisfied that:

- the galvanised steel produced by BlueScope is like to the imported goods;¹⁸
- the like goods were wholly, or partly, manufactured in Australia by BlueScope;¹⁹
- at least one substantial process of manufacture of galvanised steel is carried out in Australia;²⁰ and

¹⁸ Subsection 269T(1).

¹⁹ Subsection 269T(2).

²⁰ Subsection 269T(3).

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- there is an Australian industry consisting of persons who produce like goods in Australia in the form of BlueScope.

4 AUSTRALIAN MARKET

4.1 Background

BlueScope is the only Australian manufacturer of galvanised steel.

In its application, BlueScope claimed that the Australian market for galvanised steel is supplied, in addition to its own production, by imports from India, Taiwan, Vietnam, China, Korea and other countries.

In its application BlueScope submitted that imports from India and Vietnam emerged in 2013-14 (relative to negligible volumes in 2011-12)²¹ and displaced the imports from the China, Korea and Taiwan. Data obtained from the ACBPS database confirms that import supply from India and Vietnam (as well as relative market share) increased in FY2014; **Confidential Appendix 1** refers.

4.2 Market segmentation

BlueScope stated in its application that the Australian market has two key market segments, namely the building and construction industry segment (largest by volume) and the smaller manufacturing industry segment. BlueScope claimed that locally produced and imported goods are used interchangeably across a variety of applications in the Australian market.

BlueScope provided examples of end use applications for galvanised steel in the building and construction industry (both residential and non-residential), such as purlins and girts, framing, structural decking (flooring systems), air-conditioning ductwork, plastering accessories and nail plate.

Further examples provided by BlueScope of end use applications for galvanised steel in manufacturing include feedstock as input for pipe and tube manufacture, automotive components, racking systems, metre boxes and silo components.

4.3 Marketing and distribution

4.3.1 Marketing

BlueScope sells galvanised steel under several brand names. BlueScope stated that different brands are sold into different market sectors and this enables BlueScope to develop marketing strategies that target particular sectors. For example, DECKFORM® is the product name for ZINCHITEN® that goes into structural decking in Australia (as evident in Figure 3 at Section 3.5.2 of this report). Other brands include:

- GALVABOND® (BlueScope's ██████ selling brand of galvanised steel);

²¹ These comments were based on an April-March year. Refer Galvanised Steel Application, page 29.

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- GALVSPAN® (BlueScope's [REDACTED] selling brand of galvanised steel that is aimed at the construction market for the production of purlins and girts);
- ZINCHITEN®;
- GALVAFORM® (specially developed for the automotive sector); and
- ZINCANNEAL®.

4.3.2 Distribution

BlueScope is a wholesale manufacturer that sells to both related and unrelated parties in the Australian market. Related entities that BlueScope supplies include:

- BlueScope Distribution;
- BlueScope Lysaght;
- Fielders Manufacturing Pty Ltd (Fielders); and
- Orrcon Distribution Pty Ltd (Orrcon),

which are all ultimately owned by BlueScope. Fielders and Orrcon were previously unrelated to BlueScope, but were purchased from Hills Limited (formerly Hills Holdings Limited) during the investigation period.

Around [REDACTED] % of BlueScope's domestic sales²² are made to distributors (or resellers) such as [REDACTED] [BlueScope distribution customers].

Distributors and resellers may offer a range of services, such as smaller parcels of product, credit facilities and further processing (i.e. sheeting, slitting and blanking). BlueScope explained that these distributors (with the exception of [REDACTED]) generally purchase a combination of imported and locally produced galvanised steel. Each company will choose to buy from BlueScope, or from imported goods, based on an order by order value assessment. As such, there are no contractual arrangements and all purchases are governed by BlueScope's invoice terms and conditions. BlueScope estimated that, of its [REDACTED] customers in the [REDACTED], each purchase between [REDACTED] % and [REDACTED] % of its galvanised steel requirements from imported products.

BlueScope also noted during the verification that it has started to supply small amounts of product to [REDACTED] in the past 12 months, such as [REDACTED].

According to BlueScope, these companies traditionally sourced galvanised steel from [REDACTED], which is [REDACTED].

In addition to sales made to distributors and resellers, another [REDACTED] % of BlueScope's domestic sales²³ are made directly to the domestic building product manufacturing industry. These customers roll form galvanised steel into building products such as structural sections for commercial buildings, garages and sheds. The building product

²² Based on data in Confidential Appendix A4.

²³ As above.

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manufacturers then distribute the manufactured products to builders. Typically delivery is made four to five weeks after the order is placed, but there are many common sizes that may be delivered within three days. Although BlueScope does not generally have contractual arrangements with customers, the Commission observed that BlueScope currently has a supply agreement with [REDACTED]; a copy of this agreement (which is valid to [REDACTED]) was provided at the time of application.

The balance of BlueScope's domestic sales is made directly to customers in the automotive, manufacturing and pipe and tube sectors.

BlueScope submits that it competes with importers of galvanised steel in all states and territories of Australia and across each market segment through the same distribution channels. All customers have the opportunity to purchase imported material either direct from the overseas mill, through an international trader or from an Australian based stockist.

During the visit, BlueScope provided a diagram of the Australian distribution market supply chain, depicting the known channels to end users. This diagram is provided below:

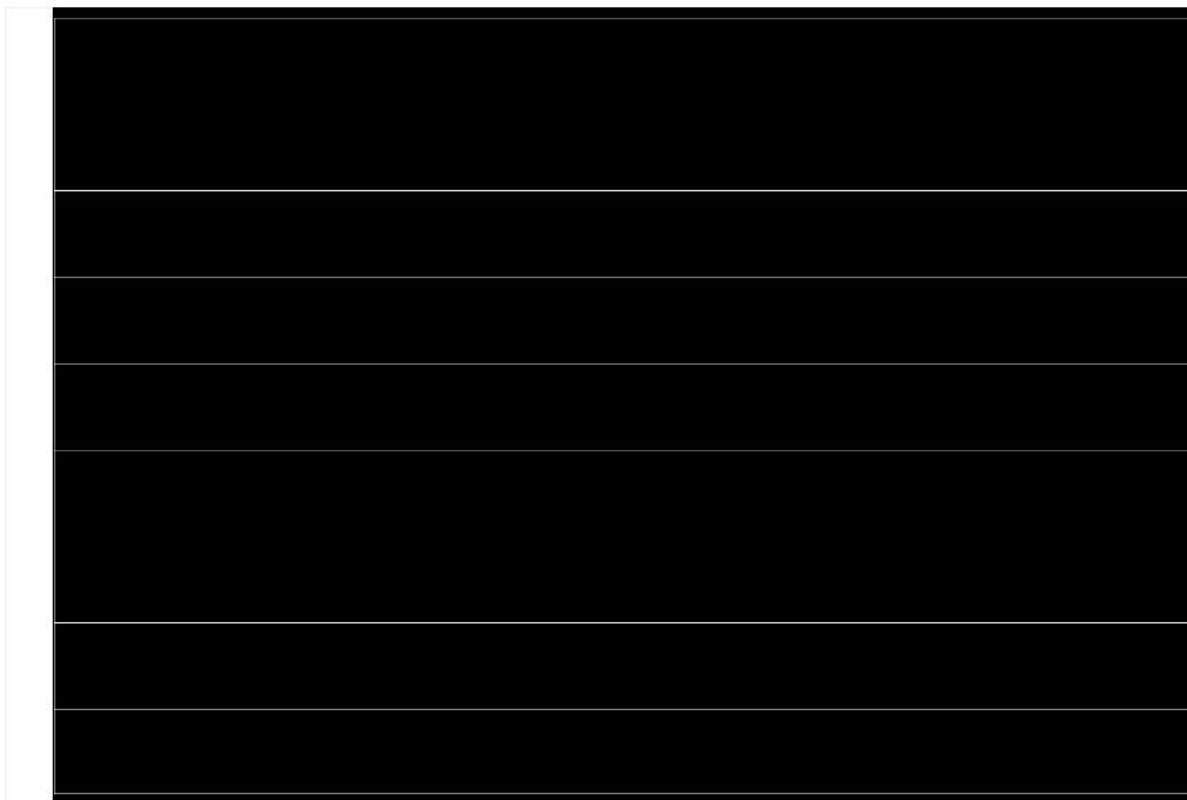


Figure 4 – Australian distribution market, supply chain diagram

BlueScope claimed that the bulk of the imported galvanised steel volume is going through the trading houses, such as [REDACTED]. BlueScope advised that it considers these traders to be the price setters in the market and its main competition. In addition, these traders often provide extended

payments terms, which in some instances [REDACTED].

Further discussion of BlueScope's distribution arrangements is contained in Section 5.2 of this report.

4.4 Demand

In its application, BlueScope claimed there are a variety of factors that influence demand variability for galvanised steel within the Australian market, including wet versus dry season in tropical climates and closures in the building industry over Christmas, both impacting on construction.

Other factors contributing to the overall market growth or decline were identified by BlueScope in its application as:

- availability of capital for infrastructure spending (government and private);
- general macroeconomic factors, such as bank interest rates, directly impacting on investment decisions by home buyers, investors and developers;
- global and domestic economic conditions (gross domestic product, unemployment, inflation, interest rates); and
- global and domestic business and consumer confidence.

BlueScope also observed that there is an increased demand for galvanised steel in the spring months as weather conditions improve in Australia. The Commission observed movements in BlueScope's sales volumes during the investigation period consistent with this claim (specifically, [REDACTED]).

4.5 Market size

At the time of application, BlueScope used import data sourced from the International Steel Statistics Bureau (ISSB)²⁴ and the Australian Bureau of Statistics (ABS), as well as its own sales data, to estimate the size of the Australian market for galvanised steel in 2012-13 and 2013-14.²⁵ Data for the quarter ending June 2014 was not available at this time and therefore market size for the investigation period was not estimated.

Prior to the verification visit, BlueScope provided updated sales data to account for the full investigation period. The Commission has assessed the sales data submitted by BlueScope and considers it reasonable and reliable for this purpose (Chapter 5 refers).

The following graph depicts the Commission's revised estimate of the Australian market size for galvanised steel using data from the ACBPS import database and BlueScope's sales data for the period FY2011 to FY2014. In particular, the Commission estimates that

²⁴ The ISSB is a European agency that specialises in collecting, analysing and publishing import and export trade data. The company is involved in the publication of reports covering UK, European and global trade in steel and raw materials. Refer Galvanised Steel Application, page 45.

²⁵ Based on an April-March year.

the size of the Australian market for galvanised steel appeared to be above 750,000 tonnes in FY2014.

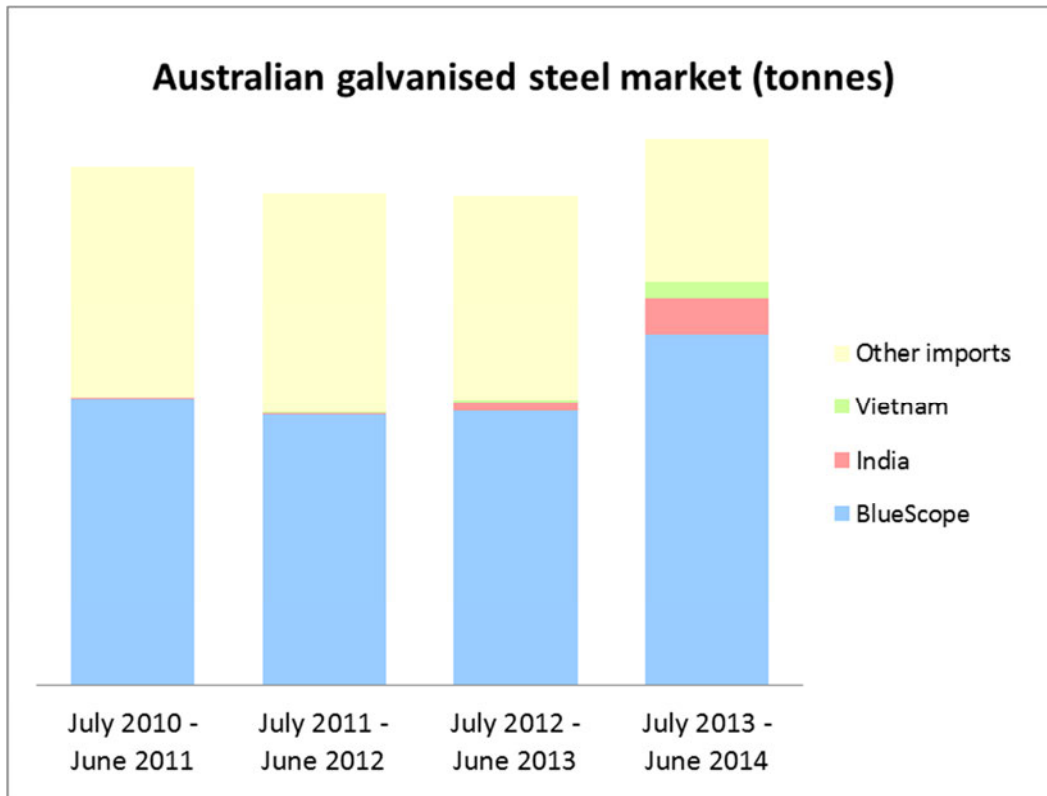


Figure 5 – Australian market for galvanised steel based on ACBPS and BlueScope sales data

The graph above shows that the total Australian market size for galvanised steel has increased by around 10% since FY2012.

Data supporting the Commission’s assessment of the Australian market size for galvanised steel is at **Confidential Appendix 1**.

4.6 Substitutable products

In its application, BlueScope stated that other coated steel products are substitutable for galvanised steel, including:

- 55% aluminium/zinc coated steel (also known as Aluzinc), 5% aluminium /zinc coated steel (also known as Galfan®) and zinc/magnesium coated steel (for certain product applications); and
- painted metallic coated steel substitutes (including painted versions of the products listed above).

Inter-materials are also substitutable for galvanised steel, depending on product end use, and include:

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- timber, hot rolled structural sections, load bearing concrete panels and masonry for framing applications in construction;
- plastic and composite materials (i.e. conduits and ceiling and plaster fittings) for non-framing products for the building industry; and
- aluminium, plastics or advanced composites for automotive applications.

5 SALES

5.1 Domestic sales listing

Following the verification visit, BlueScope provided the Commission with an updated Confidential Appendix A4 that comprised a line-by-line sales listing of its Australian sales of galvanised steel over the investigation period.

The domestic sales data provided in Confidential Appendix A4 includes all sales to BlueScope's affiliated companies (representing around █% of total sales in the period), as well as sales made by its service centres. BlueScope noted that where products are provided direct from the mill to the service centre (Section 5.2 refers) there is no invoicing process as the service centres form part of the 1310 business unit. In such instances, the service centre will undertake invoicing direct with the customer.

The Commission observed from Confidential Appendix A4 that BlueScope has divided its sales into five BMT thickness ranges:

- less than 0.50mm (A1);
- greater than or equal to 0.50mm to less than 1.00mm (A2)
- greater than or equal to 1.00mm to less than 1.50mm (A3);
- greater than or equal to 1.50mm to less than 2.00mm (A4); and
- greater than or equal to 2.0mm (A5).

BlueScope has also divided its sales into four width ranges:

- less than 600mm (B1);
- greater than or equal to 600mm to less than 1000mm (B2);
- greater than or equal to 1000mm to less than 1225mm (B3); and
- greater than or equal to 1225mm (B4).

For each sales listing, BlueScope also identified the model, including both the name of the product (for example, GALVABOND®) and the product grade (for example, G2 or G350), as well as the coating mass and whether the product was sold as sheet or coil.

BlueScope considers that the BMT, coating mass and grade of the galvanised steel are the main price determinates.

The Commission has verified the data within these sales listings, as discussed in Sections 5.5 and 5.6 of this report.

5.2 Ordering, invoice and delivery arrangements

A vast majority of BlueScope's product is made to order, although a small volume, known as 'surplus' product (which is prime product overproduced for an order), is sold █. BlueScope also has surplus (downgrade) product, which is generally sold █ (although small amounts might be sold █).

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██████████). The Commission has observed that surplus sales are included in BlueScope's Confidential Appendix A4 data, which BlueScope confirmed to be both prime and downgrades. Subsequent review of the data in Confidential Appendix A4 indicates that the monthly weighted average net price per tonne of surplus product is between AUD ██████ to AUD ██████ less than the monthly weighted average net price per tonne for all products (not including surplus) over the investigation period.

BlueScope advised that orders can be filled anywhere between ██████████ ██████████, depending on the order and the sector (or segment) being serviced. Demand for common sizes (such as GALVSPAN® for purlins) can be predicted by BlueScope and is generally sent out to the service centres in anticipation of orders, while odd sizes or smaller volumes may not be kept in stock.

Orders can be placed through BlueScope's website 'Steel Connect', as well as by phone, fax or email. Regular customers also have the ability to go through their own system using an electronic data interface (EDI) with BlueScope. Steel Connect and the EDI feed order information into SAP for order processing and loading. This creates a customer order item and generates an order acknowledgement (which is emailed or faxed to the customer). From SAP, the information is sent to the Order Tracking Inventory System (OTIS), which feeds data into the production accounting system, creates a mill order item and sends information to the SGIS invoicing system.

BlueScope sells its products on a free-into-store (FIS) basis. All freight and delivery is organised by its logistics branch (the 1410 business unit), which is located in both Port Kembla and Western Port. The logistics branch arranges:

- outward freight from the mill to either the customer or a service centre;
- a warehousing charge for the service centre; and
- freight from the service centre to the customer, where applicable.

In turn, the logistics branch invoices the CIPA 1310 business unit for any transport and handling costs associated with galvanised steel sales. This includes an amount for its 'labour', although the cost is part of the overall rate and is not separately itemised. As a result, this labour element is included in the transport and handling costs outlined in Confidential Appendix A4.

The cost of transporting finished galvanised steel directly to the customer is allocated in COGNOS using a rate card. This rate card contains standard costing information that relates to the cost of freight (per tonne) based on the type of transport (i.e. rail or truck) (for which BlueScope will use external providers) and the destination. During the visit, BlueScope confirmed that the freight rate is reviewed monthly.

At present, BlueScope believes that exporters in India and Vietnam are offering ██████████ ██████████. In competing with this, BlueScope claimed it is experiencing ██████████ ██████████ [confidential market intelligence].

Freight from the service centre to the customer and any associated warehousing costs are amalgamated in each service centre's works, freight and process costs. These costs are not itemised in the customer invoice, but BlueScope advised that it is accommodated for in the overall rate (i.e. AUD/tonne) of galvanised steel purchased.

Packing costs are calculated using a standard costing model in the MAS system, specific to the product model and destination. BlueScope confirmed that this model takes into account the pack mass extras outlined in the distributor price schedule (Section 5.3.1 refers).

5.3 Pricing

5.3.1 General

BlueScope describes itself as a price-taker in the Australian galvanised steel market. Prices for galvanised steel are set using a methodology BlueScope refers to as import parity pricing (IPP). IPP takes into consideration the market price of the goods using contemporary price information for equivalent imported products. BlueScope uses prices gathered from the import market (including from the countries the subject of the application) to determine the selling price of its goods, with a view to selling at prices considered competitive with imports. As such, galvanised steel can be said to have a market based price, as opposed to a cost based price. The IPP process is described more fully in Section 8.1.1 of this report.

BlueScope also maintains a distributor price schedule. At the time of application, BlueScope submitted two price schedules; one is dated 29 May 2013 and relates to delivery in August 2013 and the other is dated 30 October 2013 and relates to delivery in January 2014. The price schedule for delivery in January 2014 forms **Confidential Attachment SALES 1** to this report and shows that BlueScope utilises a base price mechanism for certain BMT and width combinations. From there, customers add product, pack mass and coating class extras.

For example, GALVABOND® G2 steel is sold [REDACTED], with GALVABOND® G2S costing an additional AUD [REDACTED] per tonne, and ZINCHITEN® an additional AUD [REDACTED] per tonne. Products with a Z275 zinc coating are sold at the base price across all BMT. Between coating classes, the relative cost will decrease for products with a Z200 coating and increase for products with a Z450 or Z600 coating. However, those products with a thicker BMT attract a lower coating extra (within the coating class) because thinner products will require more zinc coating per tonne of product.

It is also observed that ZINCANNEAL® (i.e. special zinc finishes) and GALVASPAN® are managed separately in the price schedule. BlueScope advised that this is because these two products have a different composition to standard galvanised steel, i.e. ZINCANNEAL® has iron in the coating composition and GALVASPAN® has a higher coating mass than standard galvanised steel (Section 3.5.2 refers), coupled with the fact their end use applications are different to standard galvanised steel.

Despite the existence of a pricing schedule, BlueScope advised that it is [REDACTED] [REDACTED] from the agreed final net price that is negotiated with customers by the

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BlueScope sales team. Further, the price paid by customers is typically lower than the list price due to the discount and rebate structures in place (Section 5.3.3 refers), although BlueScope's sales team will take this into account when negotiating.

5.3.2 Premiums

During verification, BlueScope confirmed that it includes a premium on its sales to the Australian market. Whilst BlueScope advised that it currently targets premiums of █% to █% for base grade galvanised steel across a large proportion of its volumes, in some cases it is setting premiums well below this range, particularly for customers (such as █) that traditionally source galvanised steel from offshore mills. It is noted that premiums were in the range of █% to █% in FY2012 and have been higher historically.

According to BlueScope, a price premium recognises the advantages of purchasing from a local producer, including:

- shorter lead times;
- working capital reductions;
- quality product;
- continuity of supply;
- technical support; and
- reduced warehousing requirements.

In general, BlueScope stated █ premiums will be applied to branded products targeted at the █ segment, due to █. However, more often the sales team will negotiate premiums on a █ basis (not a █ basis), depending on █ [confidential customer pricing details].

BlueScope explained that the steel industry has always been willing to negotiate on price; however, the company's willingness to negotiate harder on price to secure volumes in the market has been traded off against █.

5.3.3 Discounts and rebates

Discounts

BlueScope offers an 'early payment' discount, which is applicable when particular customers pay by the invoice due date. This discount is generally between █% and █%.

Rebates

In addition to discounts, BlueScope also offers a range of rebates to its customers. Rebates are a normal part of BlueScope's pricing mechanisms and may be a set price per tonne or a percentage of the gross invoice price. During the verification, BlueScope provided the Commission with a copy of its Rebate Summary Schedule for the 1310 business unit, outlining some of the rebates provided across various market segments in FY2014. This forms **Confidential Attachment SALES 2**.

Confidential Attachment SALES 3). The Commission observed that the revenue amount for coated sales reconciled with the net sales item in the FY2013 profit and loss statement audited trial balance (TB) for the 1310 business unit (**Confidential Attachment SALES 4** refers). In turn, BlueScope showed how that net sales item could be reconciled with its COGNOS data for the year.

Accepting that the COGNOS net sales data for the 1310 business in FY2013 was linked to the audited financial statements, and accepting BlueScope's statement that the sales data for Confidential Appendix A4 was extracted in the same manner for FY2014, the Commission turned its attention to the sales data for quarter ending March 2014.

BlueScope provided a copy of its 'COGNOS to TB reconciliation' for the quarter ending March 2014; this forms **Confidential Attachment SALES 5**. BlueScope demonstrated how the total revenue for the 1310 business unit could be dissected and presented, particularly for the *Galvanised* and *Special Zinc Finishes*²⁶ product groups (**Confidential Attachment SALES 6** refers), which in aggregate agreed with the net sales revenue amount shown in Confidential Appendix A6.1 for that period. That net revenue amount could also be reconciled with net revenue in Confidential Appendix A4, after taking into account the variance adjustment (██████%) arising from the COGNOS to TB reconciliation.

Following the verification visit, BlueScope provided the Commission with a copy of its 'Statement of Comprehensive Income' for the year ending 30 June 2014; this forms **Confidential Attachment SALES 7**. In accordance with the verification process undertaken for FY2013 above, the Commission can now observe how the net revenue item in the 'Statement of Comprehensive Income' for FY2014 breaks down into its various revenue categories, including *Coated Sales Revenue* (also at **Confidential Attachment SALES 7**). This includes a further breakdown of coated sales revenue by quarter. As such, the Commission can confirm that the revenue amount for coated sales in quarter ending March 2014 agrees with the net sales item in the (now audited) profit and loss statement TB for the 1310 business unit for quarter ending March 2014 (provided during the visit; **Confidential Attachment SALES 5** refers).

5.5.1 Conclusion

Having regard to the above, the Commission is satisfied that the sales data for galvanised steel shown in BlueScope's Confidential Appendix A6.1 (summary data) and in Confidential Appendix A4 (transactional data) are reasonably complete and relevant accounts of all sales of galvanised steel made by BlueScope in the injury analysis period.

5.6 Verification of sales data to source documents

To further assess BlueScope's sales data for accuracy, verification to source documents has been undertaken by the Commission. To do this, the Commission selected eight sales listings from BlueScope's Confidential Appendix A4 prior to the visit:

²⁶ During the visit BlueScope advised that the 'special zinc finishes' product group relates to its ZINCANNEAL® product.

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No.	Customer name	Product model	Invoice number	Invoice date
1	[REDACTED]	[REDACTED]	[REDACTED]	4/07/2013
2	[REDACTED]	[REDACTED]	[REDACTED]	9/08/13
3	[REDACTED]	[REDACTED]	[REDACTED]	18/10/13
4	[REDACTED]	[REDACTED]	[REDACTED]	18/11/13
5	[REDACTED]	[REDACTED]	[REDACTED]	17/12/13
6	[REDACTED]	[REDACTED]	[REDACTED]	9/01/14
7	[REDACTED]	[REDACTED]	[REDACTED]	6/02/14
8	[REDACTED]	[REDACTED]	[REDACTED]	18/02/14

The selected transactions cover various quarters, products, sectors and customers (both related and unrelated) within the investigation period. For those four transactions highlight in yellow, the Commission requested that BlueScope provide a full range of supporting documentation. For those remaining four transactions only invoices were required.

In reference to the selected sales listings that required a full range of supporting documentation, BlueScope provided:

- sales invoices;
- SAP screen shots, evidencing purchase orders;
- credit adjustment notes;
- rebate model screen shots, evidencing rebate amounts;
- despatch advice;
- remittance advices and bank statements; and
- SGIS screen shots, evidencing journal entries for payment.

The source documents for all eight transactions form **Confidential Attachment SALES 8**. The Commission reconciled the documentation for each selected sale to the corresponding information in Confidential Appendix A4.

5.6.1 Sales invoices

By reviewing the invoices provided for all eight transactions, the Commission was able to reconcile the following product and transaction details contained in Confidential Appendix A4:

- customer name;
- invoice number;
- invoice and sales date;²⁷

²⁷ These were the same in Confidential Appendix A4.

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- payment due date and (where applicable) the 'early payment' discount percentage;
- delivery terms;
- supplier order number;
- product name and grade;
- zinc coating;
- sheet or coil;
- skin passed (or not);
- prime or surplus product;
- BMT and width;
- quantity (in tonnes); and
- gross invoice amount (ex GST).

It was observed from the invoices provided by BlueScope that multiple sales listings from Confidential Appendix A4 might be contained in the same invoice. BlueScope confirmed this during the visit. As such, the net invoice amount for sales listings in Confidential Appendix A4 could not always be directly reconciled to the sales invoice, but rather have been indirectly verified by confirming the accuracy of the gross invoice amount and associated discounts and rebates. It was further observed by the Commission that the net invoice AUD/tonne in Confidential Appendix A4 was formula based. As such, this figure has been verified by confirming the accuracy of the net invoice and quantity values.

The Commission also observed that the payment terms listed in Confidential Appendix A4 (i.e. due [REDACTED]) were not specifically stated in the sales invoices, or in other source documentation provided by BlueScope, nor were the packing and transport and handling costs. In relation to the payment terms, the Commission was able to confirm the terms identified in Confidential Appendix A4 by comparing the invoice and payment due date on the relevant invoice with the term identified in Confidential Appendix A4. There was only one payment term that did not reconcile exactly with the invoice and payment due dates, but this difference was observed to be minimal and therefore considered to be immaterial by the Commission.

In relation to transport and handling costs, Section 5.2 of this report has already noted that these are incurred by the logistics branch (i.e. the 1410 business) and are recharged to the CIPA 1310 business. As galvanised steel is sold FIS, the amounts are not specifically itemised on the sales invoice and BlueScope has not provided any additional documentation that supports these costs. However, the Commission has observed that documentation to support freight costs was provided at the time of the previous verification visit, and that no issues were identified as part of that exercise. In light of this, and the abbreviated nature of the current process, it is therefore considered reasonable to accept the transport and handling costs in the current instance.

5.6.2 Early payment discounts

As noted in Section 5.6.1 above, the Commission was able to identify whether a 'pay on time' discount applied to a particular sales listing, and if so the relevant percentage, from the sales invoices provided by BlueScope.

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In addition to this, BlueScope provided the Commission with credit adjustment notes for the four transactions selected for full verification. These adjustment notes break the total invoice 'pay on time' discount down by product ordered (i.e. by sales listing). As such, the discount amount in Confidential Appendix A4 can be reconciled directly to the credit adjustment note. The total credit adjustment can also be reconciled back to the relevant invoice (as the invoice notes the net amount due should that invoice be paid by the due date).

5.6.3 Rebates

BlueScope provided screen shots from its rebate model system, evidencing rebate amounts for particular sales listings. The Commission was able to confirm the following information in each screen shot to link the rebate amounts to the relevant sales listing:

- customer name;
- supplier order number;
- invoice date and number;
- BMT, width and zinc coating;
- quantity;
- product name; and
- gross invoice amount (for that sales listing).

As discussed in Section 5.3.3, calculations in the rebate model system are based on [REDACTED]. The screen shots provided by BlueScope from the rebate model system demonstrate the dollar value of each applicable rebate, as well as the total rebate amount, but not the detail of the [REDACTED]. Regardless, the Commission was still able to verify that the total rebate amounts in the rebate model screen shots reconciled back to the amounts (per sales listing) in Confidential Appendix A4 (noting that Confidential Appendix A4 has not broken down the rebate amount individually).

It is also observed from Confidential Appendix A4 that the rebate percentages are [REDACTED], taking [REDACTED] as a percentage of the [REDACTED]. As such, this figure is considered to be indicative of the proportion of rebates applicable, but has no value in itself to the relevant sales listing.

5.6.4 Proof of payment

BlueScope provided remittance advice and associated bank statements to evidence proof of payment from its unrelated customers. Each remittance advice contained a number of transactions, but the Commission was able to identify the relevant sales listing by its invoice number. As there were no discounts, rebates or other sales listings relevant to the invoices in this case, it is noted that the amount in the remittance advice reflects the GST inclusive amount of the gross (and net) value in Confidential Appendix A4. The Commission was then able to reconcile the total remittance amount in the advice to the bank statements BlueScope provided.

BlueScope also provided SGIS screen shots, evidencing 'ledger entries' between related entities for 'payment'. The Commission was able to confirm that the SGIS screen shots were relevant to the selected sales listings by the:

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- company name;
- invoice date and number;
- payment due date;
- gross invoice amount due (for the entire invoice amount, not the sales listing); and
- total discounts (for the entire invoice, not the sales listing; per related credit adjustment note).

The Commission observed that the 'banked' date in the ledger entry matched the date payment was due in all cases. It also observed that the amount paid in the ledger entry was equal to the gross invoice amount minus the total discounts for that invoice. In the case of transactions where 'rebates' and 'other charges' were applicable, BlueScope advised that this is accounted for in a separate ledger entry, which credits the rebate amount back to the related entity.

It is noted that no proof of payment has been provided for the [REDACTED] transaction dated 4 July 2013. BlueScope has advised that this company (contrary to Confidential Appendix A4) is a related entity and that SGIS has archived the relevant ledger entry to an offshore IT provider. The Commission does not consider this omission to be material, given proof of payment has been provided for other related entity transactions that occurred later in the investigation period and the fact sales to [REDACTED] [REDACTED] comprise no more than [REDACTED]% of total domestic sales.

5.7 Export sales

According to data in BlueScope's Confidential Appendix A3, exports of galvanised steel accounted for approximately [REDACTED]% (volume) and [REDACTED]% (net revenue) of all BlueScope products in FY2014.²⁸ In that same period, exports of galvanised steel accounted for approximately [REDACTED]% (volume) and [REDACTED]% (net revenue) of all galvanised steel products.

At the visit BlueScope submitted that its preference is to provide galvanised steel to the domestic market, but advised it will export [REDACTED] if needed. Exports of [REDACTED] are usually provided to [REDACTED].

5.8 Conclusion

The Commission has verified the sales information provided by BlueScope in the Confidential Appendix A4 for galvanised steel and is satisfied that the data is complete, relevant and accurate, and therefore suitable for the purposes of injury analysis.

²⁸ Not including data for quarter ending June 2014.

6 COST TO MAKE AND SELL

6.1 General

In Confidential Appendix A6.1 to its application, BlueScope provided cost to make and sell (CTMS) data for domestic sales of galvanised steel. The information provided in this appendix included production and sales volumes, manufacturing costs, selling, general and administrative (SG&A) expenses (including distribution costs) for the period FY2008 to FY2014 (not including quarter ending June 2014). Prior to the verification visit, BlueScope provided an updated Confidential Appendix A6.1 to account for quarter ending June 2014.

As BlueScope manufacture and supply a wide range of galvanised steel products at varying widths and thickness, Confidential Appendix A6.1 includes data that has been disaggregated for different widths (less than 600mm, and equal to or greater than 600mm), as well as for key product specifications, representing products with the highest sales volumes ([REDACTED]). The Commission noted that the sum of the data for these three products (as well as a fourth category called 'other') reconciled with the total for galvanised steel (subject to a few minor discrepancies).

During the verification visit, the Commission queried the minor discrepancies identified within Confidential Appendix A6.1 during consideration of BlueScope's application. As a result, BlueScope found that its 'other' category contained new product descriptions in the data set that were not identified in the pivot table filter. This was amended and a revised Confidential Appendix A6.1 was provided to the Commission (**Confidential Appendix 2** refers). BlueScope also confirmed that the total galvanised steel data and the data disaggregated for different widths was inclusive of downgrade product, whereas the data disaggregated for key product specifications was at a prime level only. As a result, there is a difference between the two that can be accounted for by certain [REDACTED] downgrades.

6.2 Approach to verification of costs to make and sell

As discussed in Section 1.2, the Commission has decided to conduct this verification in an expedited manner given the nature and extent of verification visits to BlueScope in recent years. In relation to BlueScope's CTMS data for galvanised steel, the Commission has focused on:

- verification of production cost data upwards to the audited financial statements;
- verification of production cost data downwards to source documents, in particular:

²⁹ BlueScope advised that these two products are essentially the same, except [REDACTED] has a higher coating mass (Z [REDACTED] as opposed to Z [REDACTED] for [REDACTED]) and is branded for the purlin market. As such, the two have been grouped together.

- HRC feed costs;
 - zinc costs; and
 - direct labour and manufacturing overheads; and
- verification of SG&A expenses.

In doing so, the Commission has focused on data for the investigation period, in particular the quarter ending March 2014.

6.3 Verification of cost of goods data to audited financial statements

To assess the CTMS data submitted by BlueScope for completeness and relevance, the Commission has sought to trace the CTMS data submitted by BlueScope in Confidential Appendix A6.1 up through management reports to audited financial statements.

BlueScope advised that the cost of goods sold for the 1310 business unit can be reconciled to the TB, but not clearly and directly to the BlueScope audited accounts. However, BlueScope explained that the auditors examine and sign off on the TB as a routine and essential part of the audit process.

Accepting that the sales data for galvanised steel was traced through to the audited financial statements (Section 5.5 refers) and accepting BlueScope's statement that auditors would be signing off on the TB for FY2014 after the visit, the Commission sought to link the cost of goods sold data contained in Confidential Appendix A6.1 to the TB. As with verification of the sales data in Section 5.5, the Commission chose the quarter ending March 2014 for this exercise.

BlueScope demonstrated how the total cost of goods sold data for all galvanised steel from Confidential Appendix A6.1, for the quarter ending March 2014, could be matched to the COGNOS data, allowing for the fact that costs for packaging were accounted for as an SG&A item in Confidential Appendix A6.1, but as a cost of goods sold in COGNOS (refer **Confidential Attachment CTMS 1**). In doing so, the Commission noted that only the cost of goods sold (allowing for packaging) for *Galvanised* and *Special Zinc Finishes* product groups were included. BlueScope demonstrated a similar link in relation to the costs for *feed* (refer **Confidential Attachment CTMS 2**), noting that the 'manufacturing cost' in Confidential Appendix A6.1 is simply a balancing item between the total cost of goods sold and the costs for feed.

BlueScope then demonstrated how the COGNOS data for the *Galvanised* and *Special Zinc Finishes* product groups can be linked to the total cost of goods sold for all 1310 business unit products by turning off the filter for those two groups (**Confidential Attachment CTMS 3** refers). The Commission observed that this total figure matched the cost of goods sold figure in **Confidential Attachment SALES 5**, which is reconciled to the TB.

6.3.1 Conclusion

Based on the above, the Commission is satisfied that the cost of goods sold data for galvanised steel, as shown in BlueScope's Confidential Appendix A6.1, is a reasonably complete and relevant account of the cost of goods sold data in the injury analysis period.

6.4 Production volumes

BlueScope confirmed that its reported production volumes for each quarter are the same as its sales of coated steel; this is consistent with the previous verification visit undertaken to BlueScope for galvanised steel. BlueScope explained that it considered sales to be an appropriate measure of production, as goods are generally made to order (Section 5.2 refers).

BlueScope explained that its sales tonnes are captured from the OTIS system, which includes various products sold to both export and domestic customers. As discussed above, the sales volumes in Confidential Appendix A4 and Confidential Appendix A6.1 were verified through to COGNOS and to the TB.

6.5 Verification of production cost data to source documents

To further assess BlueScope's CTMS data for accuracy, verification to source documents has been undertaken by the Commission.

As outlined in Section 6.2, verification of production cost data downwards to source documents has been undertaken for:

- HRC feed costs;
- zinc costs; and
- direct labour and manufacturing overheads.

6.5.1 HRC feed costs

BlueScope is a fully-integrated manufacturer that sources HRC from related company BlueScope AIS (Section 3.4.1 refers). BlueScope is invoiced at cost for HRC, but this price is later adjusted to a market price using [REDACTED]

[REDACTED] [confidential HRC feed cost pricing methodology].

During the verification, the Commission requested that BlueScope demonstrate how the HRC feed costs for the GALVABOND® G2 product could be linked to source documents for quarter ending March 2014. In the first instance, BlueScope showed how all line items for HRC costs in that quarter (for GALVABOND® G2) could be readily identified within COGNOS (refer **Confidential Attachment CTMS 4**), and that the amounts take account of the [REDACTED] adjustment. The Commission noted that the magnitude of the [REDACTED] adjustment for this quarter was approximately [REDACTED]%. The Commission

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selected one line item and requested source documents to support the invoice details in COGNOS.

BlueScope provided a copy of its invoice (for GALVABOND® G2) and copies of screenshots from the OTIS system for tracing to the HRC feed. The supplier order number (and volume of HRC) can be traced from the invoice to OTIS. BlueScope also provided copies of screenshots from SGIS for the related HRC purchases from the 1010 business unit, which can be linked with reference to the unique coil identifier (or folio ID). In turn, the invoice for supply of the HRC can be identified from the SGIS screenshots (and BlueScope provided the Commission with a copy of that invoice).

The Commission found there was an immaterial difference between the price per tonne from the 1010 HRC feed invoice and the 'works feed cost' demonstrated to Commission representatives from the detailed COGNOS data. BlueScope explained that this variance was due to differences in the costing parameters/groupings for grade and section extras between the 1010 and 1310 business units. Copies of the source documents to support the HRC feed costs form **Confidential Attachment CTMS 5**.

6.5.2 Zinc costs

BlueScope provided detailed standard cost breakdowns (referred to as MAS cost breakdowns) for selected galvanised steel products. These cost details provide significantly more detail surrounding the various cost components than is contained in Confidential Appendix A6.1. One of these is the cost of zinc.

The Commission requested that BlueScope provide evidence of zinc costs in the period ending March 2014 to compare with the budgeted cost in its MAS cost breakdowns. BlueScope provided a copy of its supply contract for zinc dated [REDACTED] and an invoice for purchase of zinc ingot in February 2014. BlueScope explained that the price is linked directly to the London Metal Exchange rate for zinc, but also contains [REDACTED].

Copies of the source documents supporting the cost of zinc are at **Confidential Attachments GEN 6 and CTMS 6**.

6.5.3 Direct labour and manufacturing overheads

Given the expedited nature of this verification, the Commission chose to limit its request for documentation to that which allows a comparison of the costs, and cost drivers, for direct labour and manufacturing overheads with respect to galvanised steel and other products. The rationale here was to establish that BlueScope's approach to assigning direct and indirect costs to galvanised steel was reasonable.

BlueScope provided the Commission with its MAS detailed cost breakdowns for this purpose. At the Commission's request, BlueScope provided breakdowns for three

³⁰ Only when purchases are made from [REDACTED] ([REDACTED] of the current 'zinc and zinc alloys supply agreement' dated [REDACTED] refers).

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GALVABOND® products and (for comparison purposes) an aluminium zinc coated product and a galvanised painted product. The Commission observed that the detail included labour and overheads for the:

- CPCM pickling and oiling line;
- MCL 2 metal coating line; and
- auto packline.

The Commission observed that the approach to costing direct labour and manufacturing overheads was consistent across the products. The Commission observed that the prime drivers of differences in unit cost were the variations in operating hours and variations in zinc costs. The Commission also observed that the painted product included labour and overheads for an additional process, the painting line.

Copies of the MAS breakdowns for the five products are at **Confidential Attachment CTMS 7**.

6.5.4 Conclusion

Having regard to the above, the Commission considers that the costs recorded in BlueScope's systems, and reflected in Confidential Appendix A6.1, accurately reflect the incurred purchase costs of materials and production overheads.

6.6 Verification of SG&A expenses

It is observed that BlueScope used SG&A expenses from COGNOS, adjusted for differences from SAP. This is the same approach used by BlueScope in the previous galvanised steel investigation.

The Commission noted that the COGNOS data at **Confidential Attachment SALES 5** shows the total SG&A expenses to be approximately ■■■% of net revenue for the quarter ending March 2014. The calculation of SG&A expenses at Confidential Appendix A6.1 in the same period was consistent with this calculation

As such, the Commission has accepted the SG&A expenses presented by BlueScope.

6.7 Conclusion

The Commission has verified the cost information provided by BlueScope and is satisfied that the data is reasonably complete, relevant and accurate, and that it is suitable for the purposes of injury analysis. A copy of the (revised) Confidential Appendix A6.1 is at **Confidential Appendix 2**.

7 ECONOMIC CONDITION

7.1 Applicant's injury claims

In its application, BlueScope submitted that the Australian industry has suffered material injury caused by galvanised steel exported to Australia from India and Vietnam at dumped prices. BlueScope claimed that the industry has been injured through:

- price suppression;
- reduced profit and profitability;
- reduced return on investment;
- reduced ability to raise capital for re-investment; and
- reduced employment numbers.

The following analysis, in the context of the alleged injury, has been completed using data provided by BlueScope. This data has been subject to verification testing (Sections 5 and 6 of this report refer).

7.2 Commencement of injury and analysis period

BlueScope's application stated that REP 190 found the Australian industry had suffered material injury in FY2012 from dumped and subsidised exports of galvanised steel (not containing alloys) from China, Korea and Taiwan. Following the imposition of measures, BlueScope claimed that dumped exports of galvanised steel from India and Vietnam emerged (relative to negligible volumes observed in 2011-12 and 2012-13).³¹ It is BlueScope's position that injury from dumped exports from India and Vietnam has displaced the injurious exports from China, Korea and Taiwan, resulting in a continuation of material injury to the Australian industry in 2013-14.³²

The Commission will examine the Australian market and the economic condition of the Australian industry from 1 July 2008 for the purposes of its injury analysis.

7.3 Approach to injury analysis

The injury analysis detailed in this section is based on:

- BlueScope's updated and verified sales and cost data (Chapters 5 and 6 refer);
- ISSB and ABS import data provided in BlueScope's application for 2008-09 to 2013-14;³³ and
- BlueScope's other injury factors data.

³¹ Assessment based on an April-March year.

³² Based on an April-March year.

³³ Based on an April-March year.

7.4 Volume trends

BlueScope has not claimed that the Australian industry suffered material injury in relation to loss of sales volume or market share. Rather, the company stated in its application that it experienced increased production, sales volume and market share in 2013-14,³⁴ albeit by reducing its unit prices.

7.4.1 Sales volume

The following graph shows BlueScope's total sales volume for galvanised steel in the Australian market since July 2008.

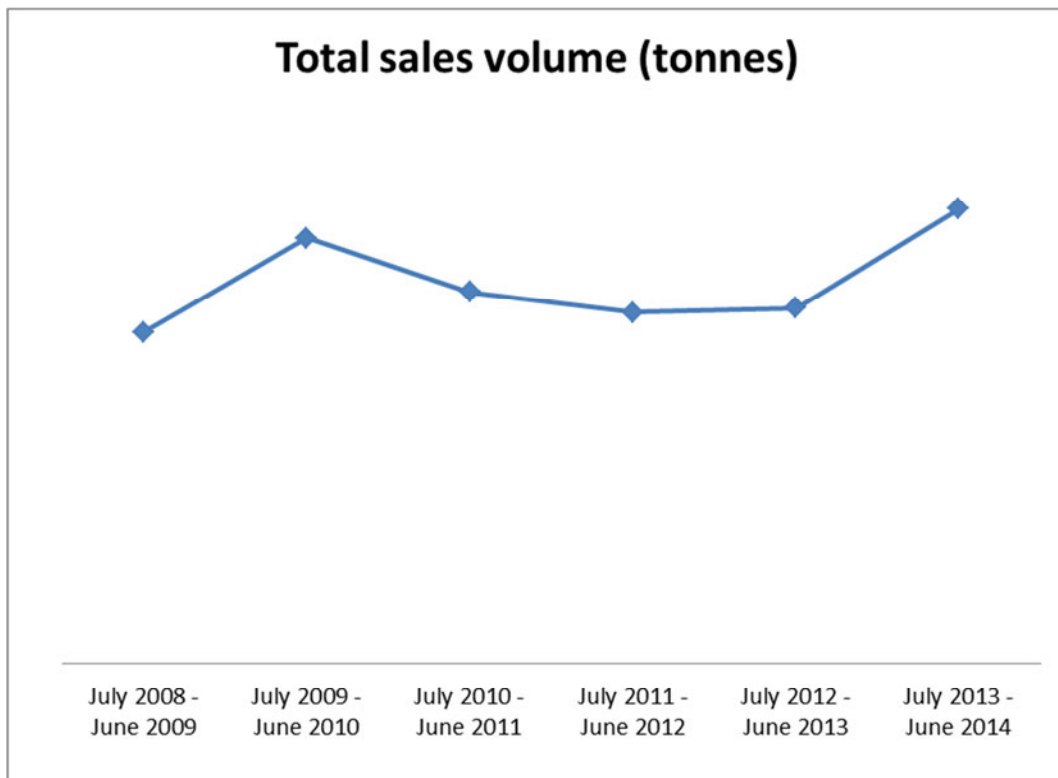


Figure 6 – domestic sales volume of galvanised steel

This graph shows that BlueScope's domestic sales volumes of galvanised steel has noticeably increased in FY2014 and is above levels in FY2010.

The following graph shows BlueScope's sales volume since July 2008, broken down into two width groups (galvanised steel equal to or greater than 600mm wide and galvanised steel less than 600mm wide).

³⁴ Assessment based on an April-March year.

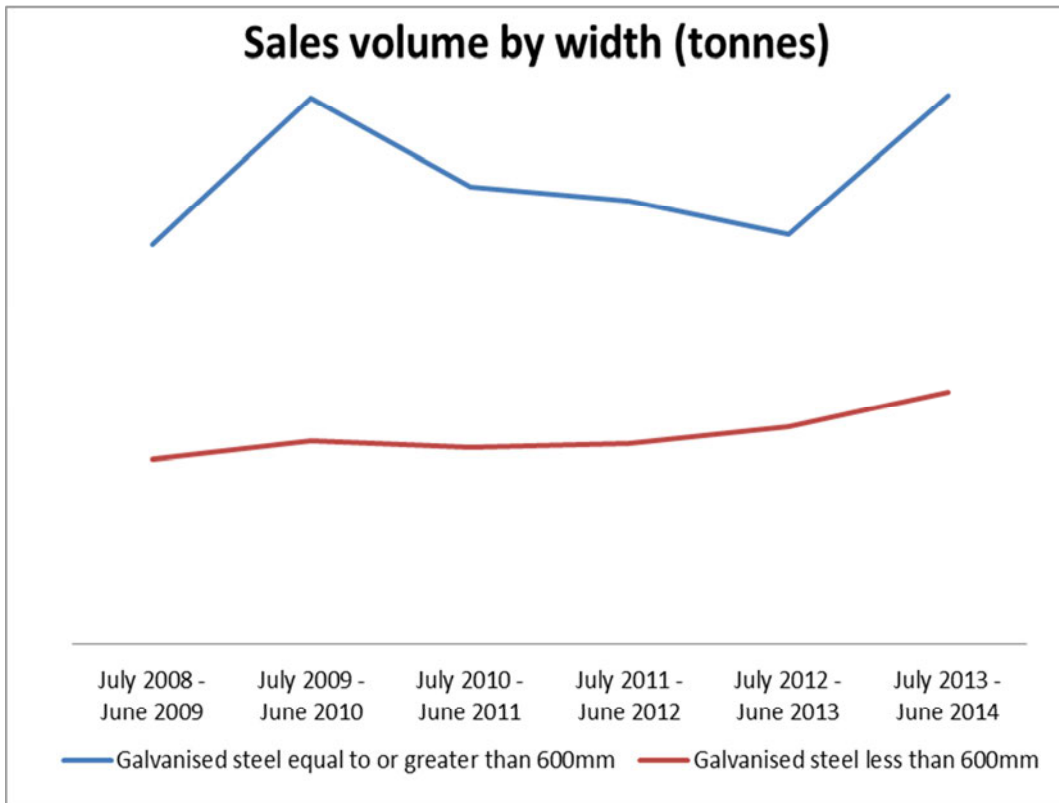


Figure 7 – domestic sales volume by width group

The graph above shows a similar trend in relation to volume by width group as that seen for aggregate volume in Figure 6, with an increase evident in FY2014, particularly for widths equal to or greater than 600mm.

The Commission also assessed sales volume across BlueScope’s products with the highest sales volume,³⁵ including the other category. These graphs form **Confidential Appendix 3**.

In summary, the Commission observed that there was an increase in volume across most products in FY2014, except for [REDACTED] (which decreased). The Commission also noted that the most marked increase in volume during that period was for [REDACTED], followed by [REDACTED].

7.4.2 Market Share

The following graph shows changes in the domestic market share between BlueScope and importing countries using ISSB and ABS import data from BlueScope’s application.

³⁵ These products represented approximately two-thirds of all galvanised steel sales.

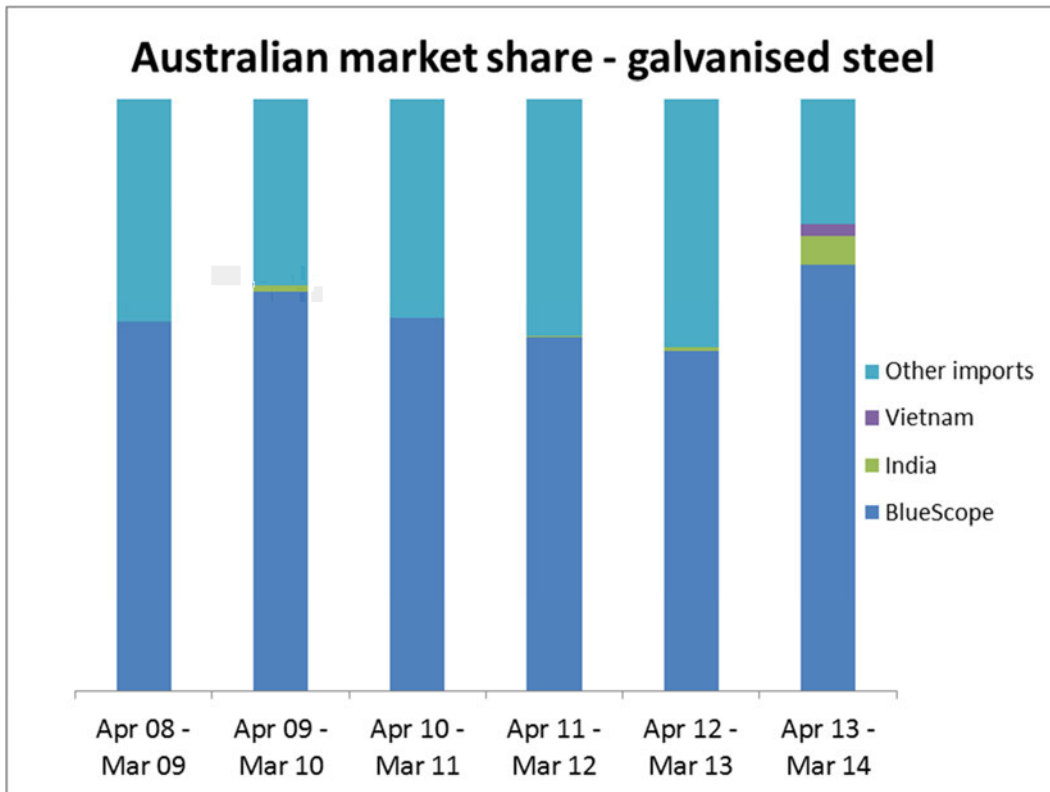


Figure 8 – Australian market share based on ISSB, ABS and BlueScope sales data

The above graph shows that BlueScope’s share in the Australian galvanised steel market increased in 2013-14, after decreasing progressively since 2009-10. The graph also shows that there was a noticeable increase in the market share of imports from India and Vietnam in 2013-14.³⁶

7.4.3 Conclusion – volume trends

Based on this analysis, and consistent with BlueScope’s assessment, the Commission considers that there is no evidence of injury to the Australian industry in the form of loss of sales volume or market share.

7.5 Price effects

In its application BlueScope claimed that the Australian industry suffered material injury in the form of price suppression. BlueScope alleges that the price suppression experienced by the Australian industry has been due to dumped exports undercutting the Australian industry’s selling 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.

³⁶ Assessment based on an April-March year.

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In particular, BlueScope’s application claimed that its unit CTMS for galvanised steel has declined by approximately █% since 2011-12,³⁷ while the unit price declined by more than █% over the same period. BlueScope contends that it has been unable to raise prices in order to recover lost margins due to price undercutting from dumped imports of galvanised steel (not covered by measures) from India and Vietnam.

The following graph shows the trends in BlueScope’s unit revenue and unit CTMS for galvanised steel from FY2009 to FY2014.

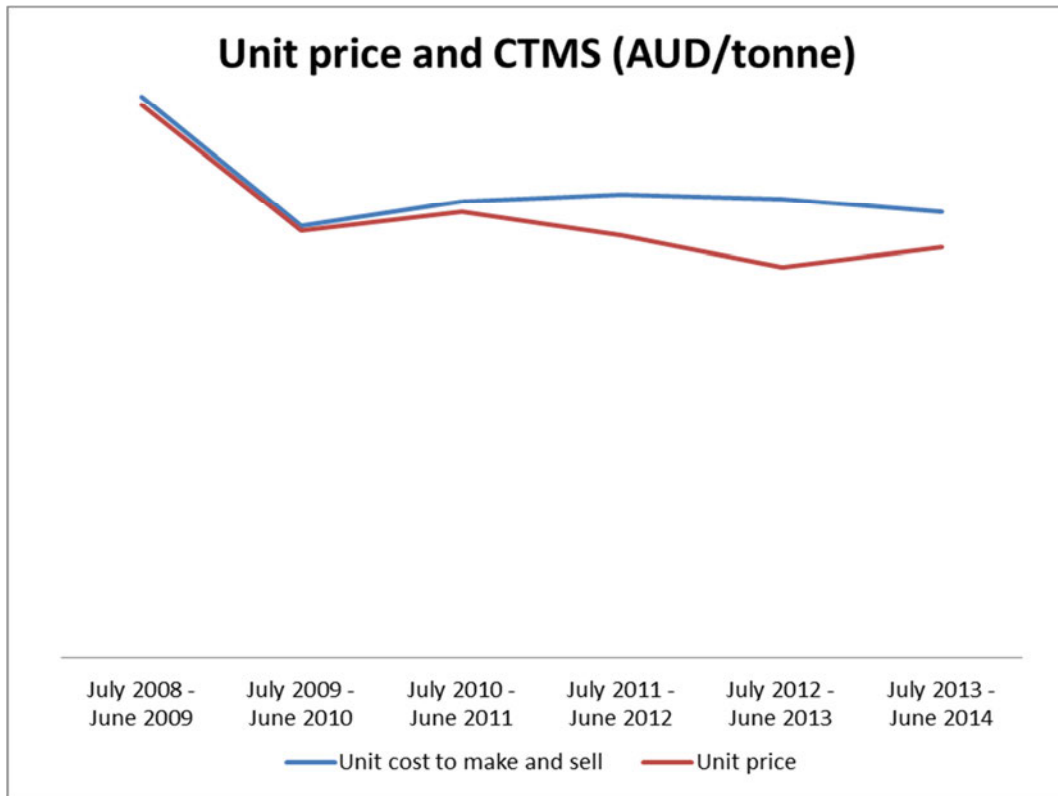


Figure 9 – BlueScope’s galvanised steel unit price and cost

The graph above shows that since FY2011, BlueScope’s unit price has significantly decreased relative to unit cost and there is a notable margin between the two. Although the unit CTMS has decreased slightly in FY2014, while the unit price has increased, unit price still remains below unit cost, indicating price suppression.

The Commission also assessed price suppression by product width (less than 600mm, and equal to or greater than 600mm), and across BlueScope’s products with the highest sales volume,³⁸ including the other category. These graphs form **Confidential Appendix 4**.

³⁷ Based on an April-March year.

³⁸ These products represented approximately two-thirds of all galvanised steel sales.

In summary, the Commission observed that there is a notable margin between unit price and unit cost across most products (by product width and by products with the highest sales volume), except for the [REDACTED] grouping, where the margin between unit price and unit cost has decreased substantially to the point where price suppression is no longer evident.

7.5.1 Conclusion – price effects

Based on this analysis, there appears to be reasonable grounds to support the claim that the Australian industry has experienced injury in the form of price suppression.

7.6 Profit and profitability

In its application BlueScope claimed that, as a consequence of price suppression in 2012-13 and 2013-14, the Australian industry’s profit and profitability declined and in 2013-14 remained below the profit and profitability achieved in 2011-12.³⁹ BlueScope claimed that dumped imports from India and Vietnam have undercut the Australian industry’s selling prices, resulting in price suppression and therefore reduced profit and profitability.

The following graph shows trends in BlueScope’s profit and profitability⁴⁰ from FY2009 to FY2014.

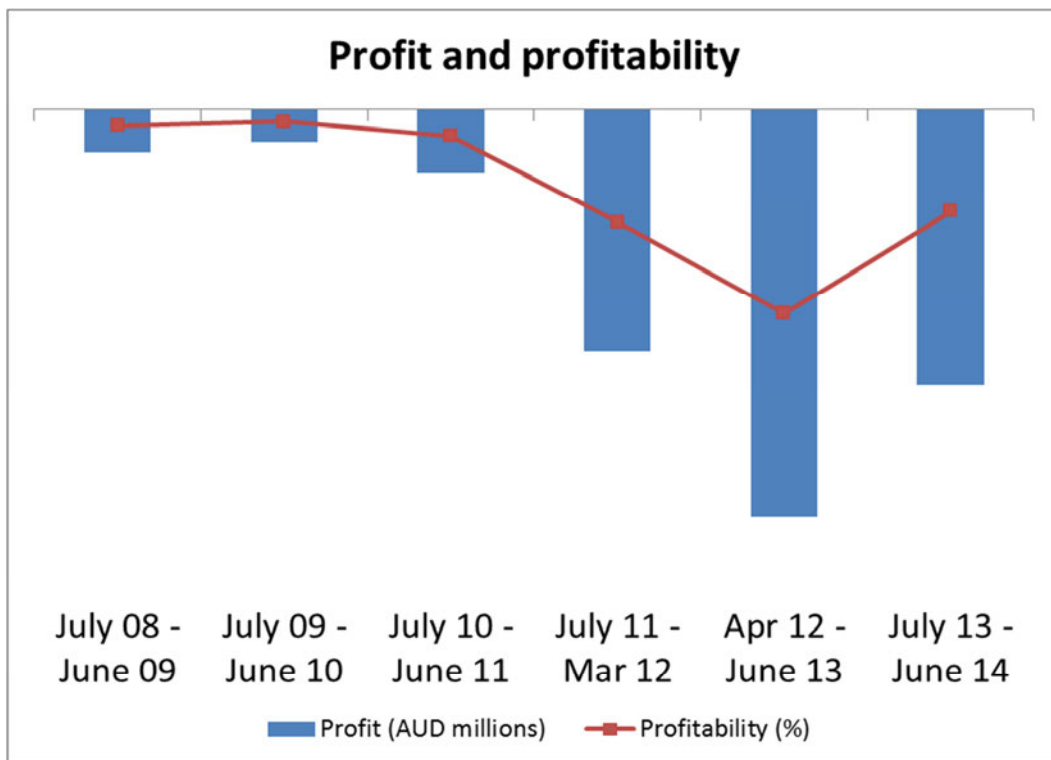


Figure 10 – BlueScope’s total profit and profitability for galvanised steel

³⁹ Assessment based on an April-March year.

⁴⁰ As a percentage of sales revenue.

The graph above shows a continuing (and considerable) decrease in BlueScope's profit and profitability since FY2010, particularly in FY2013. Although profit and profitability noticeably improved in FY2014 (relative to FY2013), BlueScope has still made a considerable loss in that year.

7.6.1 Conclusion – profit and profitability

Based on this analysis, there appears to be reasonable grounds to support the claim that the Australian industry has suffered injury in the form of reduced profit and profitability.

7.7 Other economic factors

BlueScope provided a completed Confidential Appendix A7 (other injury factors) with its application for the period 1 July 2008 to 30 June 2014 (based on its standard July-June financial year). The information was presented at the aggregate (all galvanised steel) level and reflects wages staff on the Springhill and Western Port galvanised steel MCLs.

Based on this, BlueScope claimed that the Australian industry has experienced injury in respect of other economic/injury factors, including reduced return on investment, reduced employment numbers and reduced ability to raise capital for re-investment.

Since initiating the investigation, the Commission has received a revised Confidential Appendix A7 from BlueScope, with updated data covering the entire FY2014 period. Updated data in Confidential Appendix A7 shows:

- return on investment – return on investment in relation to galvanised steel decreased between FY2010 and FY2013. Although there has been an improvement in return on investment in FY2014, it remains a negative return; and
- employment – employment relating to galvanised steel production (measured in number of persons) [REDACTED] between FY2009 and FY2013. There was [REDACTED] in employee numbers in FY2014.

As part of the verification visit, the Commission sought to test the validity of BlueScope's employment number claims, and sought evidence to support its claim of reduced ability to raise capital for re-investment.

7.7.1 Employment numbers

Prior to the verification, the Commission observed from updated Confidential Appendix A7 data that the number of employees relating to galvanised steel production [REDACTED] in FY2014, but [REDACTED] than the reported level in FY2012 (the investigation period for the previous investigation).

The Commission discussed this [REDACTED] in employment numbers with BlueScope during the verification visit. BlueScope stated that the number of employees in Confidential Appendix A7 is an accurate representation of the number of employees employed in the production of galvanised steel. BlueScope argued that while the number of employees [REDACTED] in FY2014, due to [REDACTED],

productivity, which is measured in tonnes per employee, [REDACTED] (Section 7.7.3 refers) in line with production.

7.7.2 Ability to raise capital for re-investment

The Commission requested that BlueScope provide evidence to support its claim of reduced ability to raise capital for re-investment.

In response, BlueScope explained that [REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] [confidential capital re-investment injury details].

Following the visit, BlueScope provided documentation [REDACTED] [REDACTED] (Confidential Attachment INJ/CN 1 refers). The documentation outlined [REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] [confidential capital re-investment injury details].

7.7.3 Additional observations

In addition to the observations outlined above, the Commission has noted the following trends in Confidential Appendix A7 during the period FY2009 to FY2014:

- capacity utilisation increased (from [REDACTED]% to [REDACTED]%);
- productivity (measured in tonnes per employee) increased by [REDACTED]%;
- revenue for galvanised steel (including domestic and export) decreased by [REDACTED]%;
- capital investment increased by [REDACTED]%;
- the value of production assets used in the manufacture of galvanised steel decreased by [REDACTED]%; and
- total wages paid to employees involved in the production of galvanised steel increased by [REDACTED]%, and the average wage per employee increased by [REDACTED]%.

7.8 Conclusion

Based on an analysis of the information contained in the application and obtained and verified during the verification visit, the Commission considers that the Australian industry has experienced injury in the form of:

- price suppression;
- reduced profit and profitability; and
- reduced return on investment.

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At this time, the Commission is unable to find any evidence to suggest that the Australian industry has experienced injury in the form of reduced employment numbers and reduced ability to raise capital for re-investment.

8 CAUSAL LINK

In its application, BlueScope claimed that exports of galvanised steel from India and Vietnam had emerged above negligible levels in 2013-14⁴¹ and had undercut the Australian industry's selling prices, resulting in price suppression and reduced profit and profitability.

As part of the verification, the Commission requested that BlueScope further demonstrate that the alleged dumping of galvanised steel from India and Vietnam is causing material injury to the Australian industry.

8.1 Pricing

8.1.1 IPP

As discussed in Section 5.3.1 of this report, BlueScope's pricing is based on IPP. As a result, the price of imports is a key determinant of its selling price and directly causes price injury resulting in lost revenue and profits.

BlueScope explained that the price of imported galvanised steel is generally released into the market three to four months before the date by which the purchased goods will be imported into Australia. At this time BlueScope uses market intelligence to gather information regarding the current price offers. It consolidates these offers (including offers for allegedly dumped galvanised steel from India and Vietnam) and determines a benchmark IPP. It then bases its net selling price on the benchmark, [REDACTED] (Section 5.3.2 refers).

In determining a benchmark IPP, BlueScope uses import equivalents for its base product [REDACTED], with a [REDACTED] mm BMT, noting that most mills will price based on thickness, as opposed to width, and that BlueScope considers [REDACTED] mm BMT to be a good representation of imports. BlueScope also determines benchmark IPPs for [REDACTED], with a [REDACTED] mm BMT, and [REDACTED], with a [REDACTED] mm BMT. The Commission observed that this is consistent with the pricing structure in BlueScope's price schedule (Section 5.3.1 refers).

BlueScope does not always [REDACTED] but takes into consideration [REDACTED]

[REDACTED] [confidential benchmark pricing details].

BlueScope explained that while it seeks to get [REDACTED]. In these cases, BlueScope advised that it ensures [REDACTED]. BlueScope also advised that it does not [REDACTED]

⁴¹ Based on an April-March year.

[redacted]
[redacted] [confidential benchmark pricing details].

BlueScope provided the Commission with copies of four IPP workings spreadsheets (for [redacted]), where it collected market intelligence and calculated monthly benchmark prices for galvanised steel (**Confidential Attachment INJ/CN 2** refers).

Once the benchmark IPP is established, the pricing team will consult the 'sales and marketing' finance team to consider other factors, such as [redacted], to help determine a [redacted]. However, BlueScope noted that [redacted].

In addition to collecting market intelligence and calculating monthly benchmark prices, the Commission observed that BlueScope's IPP workings spreadsheets also show calculations of the [redacted] for [redacted]. As stated previously, [redacted] are based on the monthly benchmark IPP, plus a premium (which the Commission observed ranged between [redacted] % and [redacted] %, depending on the product and distributor). Prices are based on the [redacted], plus any [redacted] that are relevant.

BlueScope explained that it circulates its price offers [redacted] after the price of imports has been released [redacted]. This might be followed by a period of negotiation between BlueScope's sales team and its customers (Section 5.3.1 refers). Orders are subsequently placed [redacted] prior to delivery.

8.1.2 Evidence of price undercutting

Following the visit, BlueScope provided two further examples of price undercutting, in addition to the six submitted with its application. The examples were supported by additional documentation, including [redacted]

[redacted] [price undercutting evidence]. These documents form **Confidential Attachment INJ/CN 3**.

The first example indicates that BlueScope was required to adjust its pricing offer [redacted] to ensure [redacted]. Overall, this equated to a reduction of AUD [redacted] per tonne (on average) from its initial offer to the customer. It is noted that the customer [redacted]

The second example shows that BlueScope was unsuccessful in winning supply for a particular [redacted] on [redacted] occasions during [redacted]. The [redacted] was seeking to meet a [redacted] expected price and advised BlueScope of the rates it could purchase at to meet this expected price; however, BlueScope was AUD [redacted] per tonne above the relevant import product offers from [redacted] on [redacted] occasions.

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BlueScope also provided an updated import offer summary for the period [REDACTED] [REDACTED].⁴² The summary was revised to specifically highlight certain import offers from India and Vietnam that BlueScope believed were being made by traders that previously sourced galvanised steel products from China, Korea and Taiwan. This import offer summary forms **Confidential Attachment INJ/CN 4**. In reviewing this document, the Commission observed that the number of highlighted offers increased considerably over time, particularly from [REDACTED] and into [REDACTED].

BlueScope has submitted that this updated summary of import offers clearly demonstrates a shift from imports from China, Korea and Taiwan, to imports from India and Vietnam as a result of importers seeking alternative sources of supply. It also claims that it supports the position that allegedly dumped galvanised steel from India and Vietnam has displaced the injurious dumped galvanised steel from China, Korea and Taiwan, resulting in a continuation of material injury to the Australian industry in FY2014.

The following graph compares the average monthly import offers for India and Vietnam in **Confidential Attachment INJ/CN 4**⁴³ with BlueScope's benchmark IPP prices from its workings spreadsheets in **Confidential Attachment INJ/CN 2** between [REDACTED] and [REDACTED]:



Figure 11 – comparison between import offers and BlueScope's monthly benchmark IPP prices

⁴² Dates are based on arrival of imports into Australia.

⁴³ NB average calculated for those offers highlighted by BlueScope in the revised import offer summary.

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The graph above shows that import offers from India and Vietnam sat above BlueScope's benchmark IPP prices between [REDACTED] and [REDACTED]. However, a shift appears to have occurred in [REDACTED], with offers from India moving to around AUD [REDACTED] to AUD [REDACTED] (per tonne) less than BlueScope's benchmark. Over this same period, offers from Vietnam generally remained above BlueScope's benchmark (noting that the import offer summary did not identify offers for Vietnam in every month of the period). From [REDACTED], import offers from India and Vietnam have been more consistent with BlueScope's IPP benchmark, although India was again lower in [REDACTED]. This indicates that in the last several months there has been a significant degree of correlation between BlueScope's IPP benchmark prices and the import offers from India and Vietnam.

Data supporting this comparison is provided at **Confidential Appendix 5**.

Further assessment of price undercutting will be undertaken throughout the investigation as further pricing evidence becomes available.

8.1.3 Price sensitivity

As outlined above, BlueScope has provided the Commission with evidence of its IPP pricing at work, as well as documentation that appears to establish price undercutting (Sections 8.1.1 and 8.1.2 refer). This supports BlueScope's claim that the Australian market for galvanised steel is characterised by sales of largely homogenous products that have a high degree of price sensitivity.

Given BlueScope is better able to negotiate on larger volume orders, it advised that any reduction in the agreed supply for a particular customer will require it to increase its price to offset that loss (although in doing so the company will risk further erosion to the agreed supply).

8.2 Factors other than dumping

In its application BlueScope claimed that depreciation of the Australian dollar during 2013-14⁴⁴ should have resulted in a shift away from imported goods. During the visit, BlueScope further claimed that for every [REDACTED] change in the currency, there should (notionally) be a corresponding [REDACTED]% change in the price of the imported good; however, an improvement in price has not been realised due to the emergence of dumped galvanised steel exported from India and Vietnam.

Further, BlueScope claimed that the imposition of provisional dumping measures on imported galvanised steel in February 2013 should have resulted in an improvement to its prices. BlueScope noted that while it had experienced an increase in sales volume and market share since FY2012, this had not translated into improved prices and margins due to increasing competition from imported galvanised steel from India and Vietnam.

⁴⁴ Based on an April-March year.

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BlueScope stated that it remains ready to supply increased demand in Australia and considers that the only material factor adversely impacting the Australian industry is the dumped exports of galvanised steel from India and Vietnam.

9 UNSUPPRESSED SELLING PRICE

BlueScope advised that it would provide a detailed submission at a later date with regard to the most appropriate method to calculate the unsuppressed selling price.

10 APPENDICES AND ATTACHMENTS

ATTACHMENTS	
Attachment GEN 1	Table of TCOs applicable to tariff subheadings
Attachment GEN 2	Examples of product parameter and dimensional requirements
Attachment GEN 3	Comparison of AS1397 to the Japanese equivalent standard JIS3302
Confidential Attachment GEN 4	BlueScope corporate structure
Confidential Attachment GEN 5	CIPA (1310) financial system and reporting database
Confidential Attachment GEN 6	Two copies of BlueScope's 'zinc and zinc alloys supply agreement', dated [REDACTED] and [REDACTED] between BlueScope and [REDACTED]
Confidential Attachment GEN 7	BlueScope's MCL capabilities and capacities
Confidential Attachment GEN 8	BlueScope's annual capacities
Confidential Attachment SALES 1	Distributor price schedule (for delivery in January 2014)
Confidential Attachment SALES 2	1310 rebate summary schedule – FY2014
Confidential Attachment SALES 3	BlueScope 'statement of comprehensive income' for year ending 30 June 2013 and 1310 dataset reconciliation for FY2013
Confidential Attachment SALES 4	COGNOS to TB reconciliation for FY2013
Confidential Attachment SALES 5	COGNOS to TB reconciliation for quarter ending March 2014
Confidential Attachment SALES 6	Photograph of excel filter, demonstrating the selection of data for <i>Galvanised</i> and <i>Special Zinc Finishes</i> product groups for quarter ending March 2014

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Confidential Attachment SALES 7	BlueScope 'statement of comprehensive income' for year ending 30 June 2014 and 1310 dataset reconciliation for FY2014
Confidential Attachment SALES 8	Copies of source documents to support verification of sales data
Confidential Attachment CTMS 1	Photograph of excel pivot table, showing the full galvanised steel manufacturing cost for quarter ending March 2014
Confidential Attachment CTMS 2	Photograph of excel filter table, showing the galvanised steel feed cost for quarter ending March 2014
Confidential Attachment CTMS 3	Photograph of excel pivot table, showing the full manufacturing cost for the 1310 business unit in quarter ending March 2014
Confidential Attachment CTMS 4	Photograph of COGNOS system, showing individual HRC costs (by invoice)
Confidential Attachment CTMS 5	Copies of source documents to support the HRC feed costs
Confidential Attachment CTMS 6	████████████████████ invoice for zinc ingot, dated 28 February 2014
Confidential Attachment CTMS 7	Copies of the MAS breakdowns for three GALVABOND® products, an aluminium zinc coated product and a galvanised painted product
Confidential Attachment INJ/CN 1	Documentation to support ██████████
Confidential Attachment INJ/CN 2	IPP workings spreadsheets for ██████████
Confidential Attachment INJ/CN 3	Two examples of price undercutting
Confidential Attachment INJ/CN 4	Updated import offer summary for the period ██████████
APPENDICIES	
Confidential Appendix 1	Market size and share
Confidential Appendix 2	Revised Confidential Appendix A6.1

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Confidential Appendix 3	BlueScope's sales volume for galvanised steel, by product grouping
Confidential Appendix 4	BlueScope's unit price and cost for galvanised steel, by width and product grouping
Confidential Appendix 5	Comparison between the highlighted import offers for India and Vietnam and BlueScope's IPP benchmark prices