SANWA PTY LTD. ABN 96 000 904 987 SUITE 201, 2ND FLOOR, 100 NEW SOUTH HEAD ROAD, EDGECLIFF NSW 2027 AUSTRALIA
LOCKED MAIL BAG 362, EDGECLIFF NSW 2027 AUSTRALIA TEL: 61 2 9362 4088 FAX: 61 2 9362 3622 WWW.SANWA.COM.AU

To the Anti-Dumping Commission
Melbourne, Australia

Dear Adam, Andrea,

We understand the Anti-Duming Commission (ADC) are still in the process of preparing your visit report following your visit to Sanwa mid last month.

We would like you to consider the following comments which we believe are relevant for your consideration and should be put to the public record.

Thankyou and we look forward to your draft at the earliest opportunity.

Regards

David

David Roberts
General Manager / Trading Director, Sanwa Pty Ltd
droberts@sanwa.com.au
Tel : 61 2 9362 4088 Fax: 61 2 9362 3622 Mob: 0411 701 616

The Australian market for the Goods Under Consideration(GUC) comprises two distinct sectors, namely:-

- Market for underlying demand driven by engineering construction (mainly Government/Public/Civil works), non -residential construction (commercial construction) and residential construction, which is supplied by the applicant and the imported GUC mostly via the stockist/distribution networks which the applicant dominates via its national footprint.

- Project demand in the resource sector being mainly Mining and associated construction which is being supplied by the GUC but in fabricated form performed offshore in ‘one stop shops’ and shipped to port sites that the applicant ‘cannot access’ due to logistical, cost and infrastructure factors.
  For example the applicant would need to ‘road’ GUC from Whyalla to the remote Australian resource type construction sites for on site fabrication.

The Australian market therefore has to be assessed by capturing the imported fabricated GUC which we believe is in the order of 100’s of thousands of tonnes resulting in the total relevant market size being in excess of 500k .
The fabricated imports would include ‘concessional’ imports ‘entered’ under project by-laws etc.
Underlying demand comprises the applicant’s market supply and imports.
The applicant’s Whyalla operation can nominally ‘roll’ up to 400k tonnes p.a of both the GUC and Rail which we understand is nominally around 360k and 40k respectively but can change such as the applicant’s supply of the Adelaide to Darwin rail project.
Queensland has also been a significant market for rail (coal mines to port) as has Western Australia (iron ore to port) and our understanding from market sources is the applicant has recently lost a major rail contract in Queensland.
In terms of the Import supply, our assessment based on available ABS data is that for year 2012, imports averaged in excess of 35k per quarter being at least 150k for the year.

Imports for the first three quarter of calendar year 2013, based on ABS data, have however declined to around 25k per quarter, or in general terms around 30%.

We note that the Commission's consideration report has depicted the market supply for underlying demand on a financial year basis which 'hides' our quarterly import decline for the first three quarters of 2013.
We claim that the Australian Dollar has depreciated at least 15% from the start of year 2013 and as the applicant states, the first quarter of each Australian year has historically comprised a seasonal close down for the construction sector.
These factors contributed to lower import volumes.
Based on the Commission's market depiction, the market for underlying demand for financial year 2012/13 was around 360k and we estimate that imports had around 33% of this market supply.(120k)
However, as we claimed earlier, the real market was much higher than that depicted and would have been at least 500k.

Our conclusions are:

- The applicant's real problem on market supply is its inability to capture the market sector driven by project demand and even at full capacity the applicant cannot supply the total market requirements or demand-imports are needed.
- As for the underlying demand,non- fabricated imports have declined since the December 2012 quarter and will continue to be less cost competitive.
- The Australian Dollar appreciated 38% against the US$ over the 'injury' period of 2008/09 to 2012/2013, but since January 2013 it has depreciated 15%.
- The imposition of measures has to be prospective action and given the changed currency and market circumstances, measures are not warranted.

- It can also be readily demonstrated that the applicant, in terms of steel making and SGA expenses on the GUC has a natural, comparative advantage based on its 'unique' product specification and dimensional characteristics and a demonstrable cost advantage of at least A$290 per tonne based on its own cash cost of iron ore, the duplicated movement and selling expenses incurred with imported, non - fabricated GUC. (export selling & delivery, ocean freight, import costs, duty , importer SGA , etc)

- The natural, comparative and cost advantages enjoyed by the applicant are enhanced by its ability to command a domestic price premium of between* 5-10% because of its speed of delivery (sprint capacity to match/meet market needs, pricing etc.), product quality, technical support and assistance when compared to imports.(*From Onesteel presentation)
- On 'causation' factors, apart from the more obvious factors of currency, fabricated imports of GUC, the significant feature of the market is the substitution or cannibilisation factor.
- The major sectors of engineering and commercial construction consume 'more' concrete than steel structurals in 'framing' etc., and concrete requires the applicant's volume product, deformed bar which, compared to the market for structurals is at least double being around 1.1 million tonnes.
- OST has estimated that whilst it has been increasing, only around 10% of steel (structural) is used in Australian buildings compared to UK-60%;USA-50%
- Even in the 'minor' consumption sector of residential, (and some* *non-residential) construction, the use of the applicant's thick walled RHS & Pipe is substituted for structurals. Timber 'type'

goods and rolled steel goods from ‘flat’ coated steels produced by Bluescope steel are also substitutes for GUC (structural, angles etc)

- ** Costco buildings imported by Bluescope and rural ‘sheds’ are examples.

Re Comparative , Natural advantage enjoyed by applicant.

- Sanwa’s Taiwan supplier produces steel via the Electric Arc Furnace (EAF) Process which requires SCRAP as its main raw material. Most of the ‘few’ overseas mills supplying the ‘unique’ Australian market use the EAF process dependent on scrap and alloys.
- Onesteel’s Whyalla plant produces steel via the integrated Blast Furnace operation which requires iron ore and coking coal as it’s main raw material inputs.
- Whyalla uses an estimated 15% of scrap in its Blast Furnace and the applicant has its own scrap supplies.
- More importantly, Onesteel/Arrium at Whyalla has it’s own ‘local’ iron ore supplies .

Question for Onesteel/Arrium-the applicant:

1. Transfer pricing-Iron Ore:

- Arrium 2013 AGM included following price & cost data on it’s iron ore operations:-
- Average A$ FOB sell price was A$123dmt
- Average loaded cash cost was A$49/wmt
- What was Arrium’s ‘transfer’ price to Whyalla steel works? Which ‘sector’ takes the ‘profit’ ?
- Whyalla’s blast furnace operation could require 1.7 mt of iron ore to produce one tonne of steel.

- That could mean a ‘price’ difference of around A$125 per tonne of steel make.

2. Exports to New Zealand:

- What has been the export volume to New Zealand ?
- The applicant’s ‘only’ real export market is New Zealand, which ‘enter’ NZ duty free.

3. Domestic Price Premium-Quantify:

- Based on an historical OST presentation the domestic price premium commanded by the applicant was quantified as being between 5-10%.
- ‘Last minute’ flexibility and JIT supply factors assist the local producer as imports can take up to 12 weeks or more for delivery.
- The applicant’s structurals are also produced at 500mpa tensile strength whereas the ‘norm’ for overseas, especially, Asia , is 350mpa.
- Arrium’s presentation to the September 2013 Australian Steel Convention reinforces the values the applicant accrues from being the sole domestic producer.
