RECEIVED 16 MAY 2013

Exporter Visit – Shandong Iron and Steel Company Limited (Jigang)

Background

It is evident from the Exporter Questionnaire Response of the Shandong Iron and Steel Company Limited that Jigang Steel International Trade Co., Ltd ("JSIT") and Jigang Hong Kong Holding Co., Ltd ("Jigang HK") are involved with the export sales of steel plate to Australia. The companies would appear to export steel plate produced by Shandong Iron and Steel Company, Jinan Company ("Jigang").

It is further referenced that the parent company of Jigang is Shandong Iron and Steel Company Limited.

The Shandong Iron and Steel Company is part of the Shandong Iron and Steel Group Co Ltd that was formed in 2008 when the provincial government of Shandong merged two state-owned steel producers, namely Jinan Iron and Steel Group Co and Laiwu Steel Group Corp – the sixth and seventh largest steel makers in China[1].

Shandong Iron and Steel is a full state-owned enterprise.

The Shandong Iron and Steel Group is a fully integrated steel producing entity, purchasing raw material iron ore and coking coal to manufacture liquid steel.

Export Sales to Australia

Jigang exports to Australia via the Hong Kong based Jigang HK, with the latter arranging the final contract with its Australian customers. It is considered that the export price to Australia includes a margin for Jigang HK, and hence Jigang's normal value requires an upward adjustment to take account of the sales intermediary.

Jigang is specific in stating that it is JSIT and Jigang HK that negotiate prices with the Australian importers.

BlueScope does not consider that Jigang and its subsidiary export companies can be treated as a single entity.

Like goods

Section C of Jigang's Public File Exporter Questionnaire response provides no detail as to any claims as to whether Jigang's domestic sales of plate steel are 'identical' or 'similar' to the goods exported to Australia.

However, at Section E of the response, Jigang does indicate that physical characteristics between goods is evident on the basis of grade, thickness and specification., with grade being the most significant influencing factor.

Jigang recommends a grade-by-grade comparison of domestic sales with export sales.

BlueScope concurs with Jigang's assessment. There may be certain circumstances where an adjustment to reflect some specification differences may be required.

It is further noted that Jigang has indicated that selling prices on the domestic market do not vary according to the level of trade into which the goods are sold. No adjustment for level of trade pricing differences will therefore be required.

[1] SD steel.

Costs verification

Jigang's accounting system reflects standard costs. For the purposes of the exporter questionnaire response, Jigang has used standard costs, adjusted on a monthly basis to reflect actual costs.

Jigang operates three production lines for plate steel, with steel slab (rather than HRC) being the primary raw material. Jigang records costs by production line and product codes, including product specifications. Jigang therefore does not need to average costs for the production of the GUC, as standard costs by line and product (with subsequent monthly adjustment for actual costs) are available from Jigang for the goods under consideration.

Jigang has confirmed that there are no cost differences between the goods sold domestically and those exported to Australia (refer Section G-5).

Countervailing

In the recently published Statement of Essential Facts ("SEF") No. 193, Customs and Border Protection has preliminarily determined that the supply of coking coal and coke by State Invested Enterprises ("SIEs") to manufacturers of coated steel products were sold at less than adequate remuneration.

Jigang produces its own coke, so its purchases of coking coal from SIEs will require investigation. Whilst Jigang argues that it purchased the raw material coking coal "under free market conditions" Customs and Border Protection's assessment will examine purchases from SIEs.

Jigang states that it has not received any benefits under the nominated programs identified by Customs and Border Protection. BlueScope does not dispute Jigang's statement. However, its should be considered that the Government of China's ("GOC") official industry policy stated that by 2010[2] "*the crude steel output of the top 10 producers should account for 50 per cent of the total, and by 2020, 70 per cent*".

To deliver on this objective, the GOC encouraged and supported mergers and acquisitions in the steel industry. Jigang has been involved in the rationalization of the Chinese steel industry and is an entity resulting from the merger of Jinan and Laiwu. BlueScope understands that the GOC provided incentives to the merged entities in order to fulfill its stated objectives. BlueScope requests Customs and Border Protection to examine with Jigang the extent of financial incentives provided by the GOC to effect the merger (including whether payments were received subsequent to the merger of 2008).

2012 Losses and borrowings

In 2008 it was proposed that the Shandong Iron and Steel Group would take a majority shareholding in Rizhao Iron and Steel, a privately-owned steel manufacturer. This investment would raise the Shandong Iron and Steel Group to the second largest steel manufacturer in China. In 2012 was reported in *ChinaScope Financial* that the Shandong province's proposed Rishao steel hub would have an annual production capacity of 20.9 million metric tonnes of iron, 21.4 million tonnes of steel, and 20.6 million tonnes of steel product, and would account for approximately 70 per cent of steel production from the province.

ChinaScope Financial also reported that the listing unit of Shandong Iron and Steel group – Jinan Iron and Steel – was expecting a loss of CNY 3.57 billion in 2012. It further stated that the debt ratio of Jinan Iron and Steel Group was greater than 70 per cent, with further credit obtained up to CNY 50 billion from the Bank of China.

The losses and loans to Jigang highlight two matters requiring investigation by Customs and Border Protection. The losses would indicate that Jigang's sales of the GUC may not be in

[2] China Daily, 27 March 2008.

the ordinary course of trade. Recourse to the determination of normal values under s.269TAC(2)(c) is required (and likely also on the basis of a particular market situation finding). It is important that the full cost of loans provided by the Bank of China are accurately allocated to the CTM&S value for plate steel manufactured by Jigang.

The second issue relates to whether the loans provided by the Bank of China are at a concessional interest rate. It is understood that preferential loans have historically been provided to beneficiary entities in “encouraged” industries in China (of which the iron and steel industry is a ‘strategic’ industry). BlueScope requests that Customs and Border Protection fully evaluate whether the loan(s) provided by the Bank of China to Jigang are at full market rates.