



ISSUES PAPER 2016/01

GRINDING BALLS EXPORTED TO AUSTRALIA FROM THE PEOPLE'S REPUBLIC OF CHINA

PURPOSE

On 17 November 2015, the Commissioner of the Anti-Dumping Commission (the Commissioner) initiated an investigation into the alleged dumping and subsidisation of grinding balls (the goods) exported to Australia from the People's Republic of China (China) following an application by Commonwealth Steel Company Pty Ltd (trading as Moly-Cop) and Donhad Pty Ltd (the applicants).

Further details can be found in Anti-Dumping Notice No. 2015/132, available at www.adcommission.gov.au.

The purpose of this issues paper is to seek submissions from interested parties in relation to the most appropriate methodology for determining:

- a benchmark cost that represents adequate remuneration for steel billet used in the production of grinding balls in China, for the purposes of determining whether exporters have received a benefit under subsidy program 31 (steel billet at less than adequate remuneration); and
- a competitive market cost for grinding bar used in the production of grinding balls in the Chinese domestic market, for the purposes of determining the normal value of the goods in accordance with the *Customs Act 1901* (the Act).

ISSUES PAPER

Issues papers afford interested parties an opportunity to comment on significant issues relating to an investigation so that the Anti-dumping Commission (the Commission) may consider those views in the statement of essential facts (SEF).

In formulating the SEF, the Commissioner must have regard to the application, submissions received by 29 December 2015, and any other matters considered relevant, which may include responses to this issues paper that are received no later than **Friday 5 February 2016**. Interested parties should attach relevant evidence to support any views expressed in their submissions. A non-confidential version of submissions must be provided. Submissions should be provided preferably by email to operations3@adcommission.gov.au or by mail to:

Director Operations 3
Anti-Dumping Commission
GPO Box 1632
Melbourne VIC 3001

BACKGROUND TO INVESTIGATION

The Commission has maintained a public record for the investigation, which is available electronically at <http://www.adcommission.gov.au/cases/EPR316.asp>.

APPLICATION AND STATUS OF THE INVESTIGATION

The application alleges that Chinese exporters received countervailable subsidies in respect of grinding balls exported to Australia from China during the investigation period. In particular, the application alleges that Chinese exporters received a benefit through steel billet (whether or not alloyed) being provided by the Government of China (GOC) at an amount reflecting less than adequate remuneration, having regard to prevailing market conditions in China (subsidy program 31).

The application also alleges that there is a situation in the Chinese grinding balls market that renders domestic sales unsuitable for determining normal value under subsection 269TAC(1) of the Act, i.e. that a 'market situation' exists under subsection 269TAC(2)(a)(ii) of the Act.

On 18 January 2016, the Commission published a Day 60 Status Report for the investigation. The Status Report notes that the Commission is yet to fully complete its preliminary consideration of whether exporters were in receipt of countervailable subsidies in respect of grinding balls exported to Australia from China during the investigation period. Furthermore, the Status Report notes that the Commission is continuing to assess the applicants' market situation claims.

DETERMINING ADEQUATE REMUNERATION IN RELATION TO SUBSIDY PROGRAM 31

The application alleges that Chinese exporters of grinding balls have benefited from the provision of steel billet, a feed material used in the manufacture of grinding balls, by the GOC at less than adequate remuneration.

The Commission is seeking to determine a benchmark cost that represents adequate remuneration for steel billet in China using one of three options, in order of preference based on World Trade Organisation (WTO) Appellate Body findings:

- private domestic prices;
- import prices; and
- external benchmarks.

As such, the Commission is seeking submissions to inform the determination of a benchmark steel billet cost in relation to program 31.

In a submission uploaded to the electronic public record on 24 December 2015, Moly-Cop submitted that the most appropriate available benchmark for determining adequate remuneration for steel billet in China is an average of the reported MEPS based Turkish and South African steel billet prices to estimate the quantum of benefits on a per tonne basis.¹

Moly-Cop further submitted that all known suppliers of grinding bar to exporters of grinding balls to Australia are State Invested Enterprises (SIEs), and that roll-formed and upset-forged grinding balls are necessarily produced from grinding bar which in turn is produced from steel billet. As a result, Moly-Cop considers it likely that all non-integrated exporters of grinding balls purchasing grinding bar derived from steel billet from SIEs are therefore receiving a financial contribution in relation to program 31.

¹ No 5 on the public record

DETERMINING COMPETITIVE MARKET COSTS FOR NORMAL VALUE PURPOSES

As noted above, the application also alleges that there is a situation in the Chinese grinding balls market that renders domestic sales unsuitable for determining normal value under subsection 269TAC(1) of the Act, i.e. that a 'market situation' exists under subsection 269TAC(2)(a)(ii) of the Act.

Where normal values cannot be determined under subsection 269TAC(1) due to the operation of either subsection 269TAC(2)(a)(i) or (ii) normal values, if possible, will be determined under subsection 269TAC(2)(c).

Regardless of whether normal value is determined under subsection 269TAC(1) or 269TAC(2)(c), the Commission is required to examine the reasonableness of exporters' recorded costs in accordance with the conditions of the *Customs (International Obligations) Regulation 2015* (the Regulation).

Section 43 of the Regulations requires that if:

1. an exporter keeps records relating to like goods that are in accordance with generally accepted accounting principles (GAAP) in the country of export; and
2. those records reasonably reflect competitive market costs associated with the production or manufacture of like goods,

the Minister must work out the cost of production or manufacture using information set out in the exporter's records.

Neither the Act nor the Regulation prescribes the method that must be used to determine cost of production when these conditions are not fulfilled.

The Commission notes that for particular non-integrated manufacturers of grinding balls, raw material costs will be reported at the grinding bar level and different models of grinding balls will require different grinding bar grades, chemical composition, diameters etc. Those grinding bar costs will therefore include additional elements (such as alloys and conversions costs) in addition to the underlying billet costs.

As such, the Commission is seeking submissions to inform the determination of a competitive market cost for grinding bar used in the production of grinding balls in the Chinese domestic market for use in determining normal values.

The Commission notes that the concept of adequate remuneration for the purposes of its subsidy investigation, and the notion of a competitive market cost for the purposes of determining normal values in line with Regulation 43 are separate concepts. It is considered that these do not necessarily require the same calculation/data base, and there may be circumstances in which it is reasonable to use separate information to establish adequate remuneration and competitive market costs for the same goods in an investigated country.