# New Zealand Steel Limited

## Subsidy Investigation Application

:Dumping and Countervailing Duties Act 1988

August 2016

CONTENTS

## NEW ZEALAND STEEL LIMITED: INVESTIGATION APPLICATION

### 1.1 EXECUTIVE SUMMARY

**New Zealand Steel and its products**

New Zealand Steel Limited (*NZS*) operates a fully integrated steel mill at Glenbrook and is New Zealand's sole producer of selected types of flat rolled steel products, including hollow sections, galvanised pipe, galvanised and painted coils. These products are used in many local industries, including in manufacturing, engineering, and construction. NZS products destined for the domestic market are sold primarily through large distributors (such as NZX-listed Steel & Tube Holdings).

**NZS pricing model**

NZS prices its galvanised steel products for the New Zealand domestic market with reference to the prevailing price of imports of equivalent product. This type of pricing model is commonly adopted by New Zealand producers when competing against substitutable imported products. NZS's domestic selling price is reviewed monthly and adjusted if required, and is derived from USD import prices for comparable products. This means that when import prices decrease, so do NZS prices. In practice, NZS tends to charge a small premium over imported products and offers a slightly different price to each of its distributors and merchants (depending on sales volumes and other commercial factors).

**Allegedly subsidised goods**

NZS' steel products compete with those from overseas producers, and in particular with steel produced in the People's Republic of China (*PRC*). Foreign produced steel is readily available in New Zealand and may be purchased from merchants and distributors, or, for larger volumes, from an overseas trader or direct from a foreign supplier.

For some time now, NZS has observed a material decrease in the New Zealand domestic selling price of certain steel products imported from PRC. In particular, NZS noticed a sharp downward trend in the price of galvanised steel coil.[1]

**Effects of alleged subsidisation on New Zealand prices**

During the application period, NZS experienced a steady decline in profitability as its price for the galvanised steel products fell. In 2013, NZS recorded significant declines in profitability in respect of its sales of the products. Profits for the products were eroded by [redacted] in the year 2013 when compared with the previous year. NZS profits on the products have now fallen a further [redacted] in the application period. (See Appendix 6)

**Same products were subsidised into Australia**

The galvanised steel coil products which NZS considers are likely being subsidised into New Zealand by PRC producers have already been the subject of anti-dumping applications in Australia. Several of those applications have been made by NZS' parent company, BlueScope Steel Limited.

The resulting investigations by the Australian Customs Service during 2012 and 2013 examined steel products under the same tariff codes as the products being imported into New Zealand. The relevant Australian investigations (SEF163) have identified countervailing margins on those products of between 0% and 22.8%. The Australian Customs Service has, in most cases, recommended the imposition of countervailing and dumping duties against galvanised steel from selected producers in PRC.

**What NZS is requesting**

In this application, NZS describes the steel products which it alleges are being subsidised in New Zealand and also sets out the subsidies available to Chinese steel producers exporting to NZ.

[1] The goods which are the subject of this application are comprehensively described in section 4.1 of this application.

NZS requests that the Ministry of Business, Innovation and Employment initiate an investigation under the Dumping and Countervailing Duties Act 1988 (the *Act*) into the alleged subsidisation of those steel products.

**Provisional Measures**

New Zealand Steel seeks a determination of provisional countervailing measures, and the imposition of provisional countervailing measures. New Zealand Steel considers that MBIE will find positive evidence in this application for the existence of conditions meeting the requirements of section 16(1)(a) and section 16(1)(b). Without limitation, New Zealand Steel points to marketplace events originating from subsidized goods which are currently causing it to lower its prices and suffer consequential injury. New Zealand Steel requests that the rate or amount of the provisional countervailing duty be the amount of the subsidy, as provided under section 16(1) of the Act.

## 1.2 LIST OF ABBREVIATIONS

The following abbreviations and acronyms are used in this application:

| | |
|---|---|
| *the Act* | Dumping and Countervailing Duties Act 1988 |
| *application period* | January 2015 to December 2015 |
| *AS* | Australian Standard |
| *ASX* | Australian Stock Exchange |
| *CIF* | Cost, insurance and freight |
| *CPI* | Consumer price index |
| *FIS* | Free in store |
| *FOB* | Free on board |
| *FY* | Financial year |
| *GOC* | Government of China, the government of PRC |
| *HRC* | Hot rolled steel coil, a type of unprocessed steel |
| *IPP* | Import parity pricing |
| *MBIE* | Ministry of Business, Innovation, and Employment |
| *NZD* | New Zealand dollars |
| *NZS* | New Zealand Steel Limited |
| *NZX* | New Zealand Stock Exchange |
| *PRC* | People's Republic of China |
| *ROC* | Republic of China (Taiwan) |
| *SNZ* | Statistics New Zealand |
| *USD* | United States dollars |
| *VFD* | Value for duty |

# 2 THE APPLICANT

## 2.1 APPLICANT'S NAME AND ADDRESS

This application is made by:

*New Zealand Steel Limited*
*Mission Bush Road*
*Private Bag 92121*
*Auckland 1142*

| | |
|---|---|
| *Phone:* | *+64 9 375 8999* |
| *Fax:* | *+64 9 375 8213* |

## 2.2 APPLICANT'S CONTACT PERSON

The NZS contact person for this application is:

| | |
|---|---|
| *Name:* | *Alistair Fleming* |
| *Phone:* | *+64 9 375 8017* |
| *Mobile phone:* | *+64 21 330 429* |
| *Email:* | *alistair.fleming@bluescopesteel.com* |

NZS's legal representatives in respect of this application are:

| | |
|---|---|
| *Name:* | *Nathan Jones* |
| *Phone:* | *+64 9 375 8921* |
| *Mobile phone:* | *+64 21 872 416* |
| *Email:* | *nathan.jones@bluescopesteel.com* |

Please direct all inquiries and correspondence regarding this application jointly to Mr Fleming and Mr Jones.

## 2.3 OWNERSHIP OF APPLICANT

NZS is a wholly owned subsidiary of BlueScope Steel Limited (*BlueScope*). BlueScope is a publicly owned Australian corporation and is listed on the ASX. It has more than 100 facilities in 17 countries, and employs over 16,000 people, of which 1500 are employed at NZS's three sites.

As at 1 September 2015, BlueScope's top 20 largest shareholders were as follows:

| Rank | Name of shareholder | Total Units | % Issued Capital |
|---|---|---|---|
| 1 | NATIONAL NOMINEES LIMITED | 86,846,782 | 15.36% |
| 2 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 83,002,775 | 14.68% |
| 3 | CITICORP NOMINEES PTY LIMITED | 80,322,849 | 14.21% |
| 4 | J P MORGAN NOMINEES AUSTRALIA LIMITED | 72,870,307 | 12.89% |
| 5 | BNP PARIBAS NOMS PTY LTD <DRP> | 30,504,350 | 5.40% |
| 6 | RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PI POOLED A/C> | 28,192,503 | 4.99% |
| 7 | CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C> | 17,353,290 | 3.07% |
| 8 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED A/C 2 | 14,932,573 | 2.64% |
| 9 | UBS NOMINEES PTY LTD | 9,571,161 | 1.69% |
| 10 | RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C> | 3,996,588 | 0.71% |
| 11 | RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PIIC A/C> | 3,708,639 | 0.66% |
| 12 | AMP LIFE LIMITED | 2,789,703 | 0.49% |
| 13 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C> | 2,553,300 | 0.45% |
| 14 | NATIONAL NOMINEES LIMITED <DB A/C> | 2,385,697 | 0.42% |
| 15 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED A/C 3 | 1,933,102 | 0.34% |
| 16 | PAN AUSTRALIAN NOMINEES PTY LIMITED | 1,388,625 | 0.25% |
| 17 | UBS NOMINEES PTY LTD | 1,328,776 | 0.24% |
| 18 | RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PISELECT> | 1,296,369 | 0.23% |
| 19 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA | 1,190,812 | 0.21% |
| 20 | BOND STREET CUSTODIANS LIMITED <MACQ HIGH CONV FUND A/C> | 1,100,797 | 0.19% |

**Table 1 : Extract from "Bluescope Annual Report 2015"**

## 2.4 DETAILS OF COMPANY ACCOUNTING YEAR

BlueScope prepares a summary of company accounts for NZS on a consolidated basis and these are included in BlueScope's annual report and other directors' reports. This is a link to BlueScope's most recent annual report, including a summary of NZS' accounts for FY2015.[2] BlueScope's accounting year is to June 30.

NZS can provide to MBIE, if requested and on a confidential basis, further details of its company accounts and/or its company accounting year, including detailed financial information.

[2] https://s3-ap-southeast-2.amazonaws.com/bluescope-corporate-umbraco-media/media/1905/bluescope-annual-report.pdf

## 2.5 GOODS PRODUCED AND/OR SOLD BY NZS

NZS is New Zealand's sole producer of flat rolled steel products for the building, construction, manufacturing and agricultural industries. NZS operates a fully integrated steel mill at Glenbrook, about 60 kilometres south of the Auckland CBD. Key product lines produced by NZS at this site are:

- Hot Rolled Steel Plate
- Hot Rolled Steel Coil and Sheet
- Cold Rolled Steel Coil and Sheet
- Galvanised Steel Coil and Sheet
- ZINCALUME® Steel Coil and Sheet
- COLORSTEEL® Steel Coil and Sheet
- Cold-formed electric resistance welded Steel Pipe, Rectangular and Square Hollow Sections.

New Zealand Steel's, Pacific Steel plant manufactures reinforcing bar at Otahuhu using steel billet produced at Glenbrook.

## 2.6 CONFIDENTIALITY OF THIS APPLICATION

This application contains commercially sensitive information and therefore we request that this application be kept confidential. NZS emphasises that the financial information in this application (including data about NZS sales volumes, cost structures and margins) are highly commercially sensitive and should be held in strict confidence by MBIE.

NZS requests that if MBIE receives a request under the Official Information Act 1982 for the disclosure of any of the information contained in or relating to this application, that we are first notified of that request.

# 3 SUMMARY OF NEW ZEALAND PRODUCERS

NZS is the sole New Zealand producer of goods in the size and thickness range which are like the goods that are the subject of this application. There is therefore sufficient support for this application from all New Zealand producers of like goods, because each of these products is solely manufactured in New Zealand by NZS.

The total New Zealand production of like goods manufactured by NZS during the application period, for the domestic market, was approximately [redacted] tonnes of carbon/mild steel in galvanised coil form, (Jan-Dec 2015). However, some product is further processed to slit coil (about [redacted]) which is outside the scope of the application.

NZS exported approximately [redacted] tonnes of the products during the year ending December 2015 and approximately [redacted] during the year ending December 2014. NZS did not produce these goods for domestic consumption and so they are not further considered in this application.

The value of domestic sales for calendar years 2011 to 2016 is set out in Appendix 6.

## 4 THE GOODS

### 4.1 DESCRIPTION OF THE ALLEGEDLY SUBSIDISED GOODS

The (allegedly subsidised goods) which are the subject of this application galvanised steel coil. A full description of the products : 0.3mm to 1.9mm thick steel coil (width > 600mm) with a hot dipped galvanised (zinc) coating, manufactured in accordance with the requirements of AS1397.

**Galvanised Coil**

Galvanised coil is a made of carbon steel, with a hot dip galvanised finish, commonly used in building applications, and supplied to distributor merchants and manufacturing customers. The types and sizes of galvanised steel coil covered by this application (the *products* or the *allegedly subsidised goods* as applicable) are broadly as follows:

### 4.2 TARIFF CLASSIFICATION

| Description | New Zealand Steel Limited product name | Tariff classification |
|---|---|---|
| 0.3mm to 1.6mm thick steel coil (width > 600mm) with a hot dipped galvanised (zinc) coating. Produced to AS1397.<br><br>Galvanised coated steel is also produced in accordance with a number of other International Standards<br>• ASTM A653 / A653M<br>• EN10346<br>• JIS 3302<br><br>The amount of zinc coating is described as the coating mass, nominated in grams per square meter; common coatings are Z100, Z200, Z275, Z450 and Z600. | Galvanised steel coil. | 7210.49.31.09<br><br>Iron or non-alloy steel; flat-rolled, width 600mm or more, not worked but coiled, (not further clad, plated, coated or corrugated), 1.6mm or less thick, plated with zinc (not electrolytically) |
| Thickness greater than 1.6mm and less than 1.9mm thick steel coil (width > 600mm) with a hot dipped galvanised (zinc) coating. Produced to AS1397.<br><br>Galvanised coated steel is also produced in accordance with a number of other International Standards<br>• ASTM A653 / A653M<br>• EN10346<br>• JIS 3302<br><br>The amount of zinc coating is described as the coating mass, nominated in grams per square meter; common coatings are Z100, Z200, Z275, Z450 and Z600. | Galvanised steel coil | 7210.49.31.01<br><br>Iron or non-alloy steel; flat-rolled, width 600mm or more, not worked but coiled, (not further clad, plated, coated or corrugated), greater than 1.6mm thick, plated with zinc (not electrolytically) |

GALVANISED COILS

## 4.3 HOW THE GOODS PRODUCED BY THE NEW ZEALAND INDUSTRY ARE LIKE THE ALLEGEDLY SUBSIDISED GOODS

NZS considers that the galvanised coil products manufactured in New Zealand by NZS are "like" the allegedly subsidised goods on the following grounds:

(a) ***Physical characteristics***
Products made locally by NZS have the same physical characteristics as the allegedly subsidised goods from PRC. NZS' locally produced galvanised steel and the allegedly subsidised galvanised steel are manufactured to the same Australian Standard (AS1397).

Production methods for the locally produced products and the allegedly subsidised goods from PRC are substantially similar.

(b) ***Function and usage***
Both the locally produced and allegedly subsidised goods have comparable or identical end uses. Common (but not exclusive) uses of the products include general manufacturing, cladding, structural elements in building and construction, frames, heating and ventilation.

## 4.4 PRICING STRUCTURES

The allegedly subsidised goods have a similar pricing structure (with gauge, width and coating extras) to NZS manufactured products. In order to maintain market share (sales) in New Zealand, NZS is forced to meet prevailing import offers.

NZS pricing to the merchant distributor and end user market is based on import parity pricing and is reviewed monthly to ensure competitiveness. A premium is applied over import pricing to reflect the benefits of local supply and NZS' market offer. Benefits of local supply and the NZS market offer include short lead times, order flexibility, small order item quantities, product quality, technical service, payment terms, customer service, and NZD pricing.

The flow chart below shows the NZS import parity pricing (*IPP*) process (with premium), which is generally undertaken monthly (although NZS prices to a particular distributor may not immediately be adjusted).

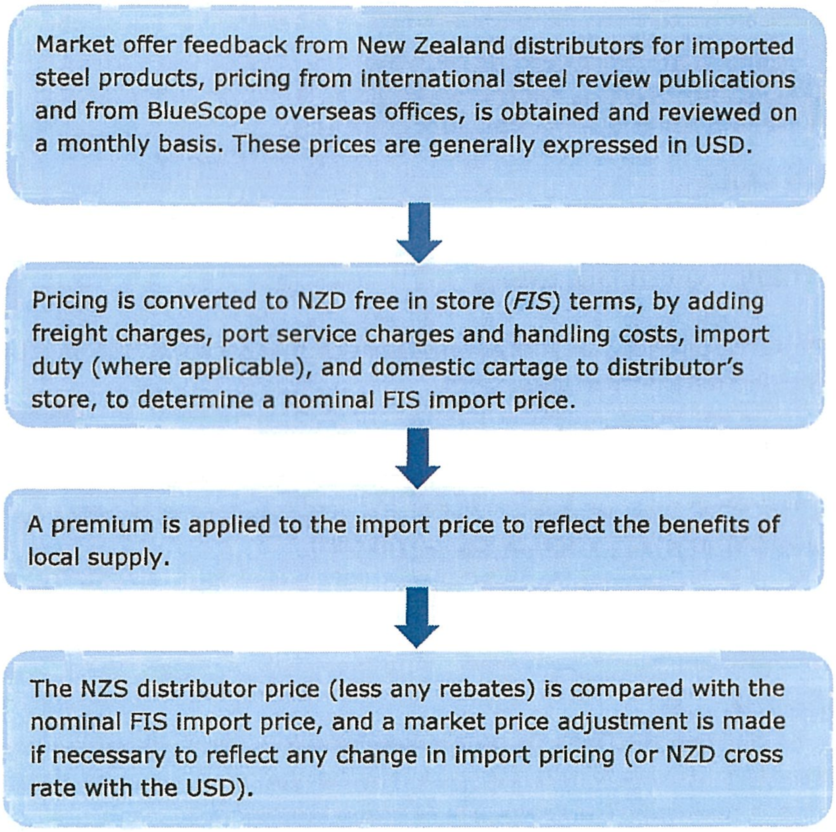


**Figure 1 Pricing Methodology**

***Marketing and distribution***

NZS' locally produced galvanised coil products directly compete with the allegedly subsidised goods in the relevant New Zealand markets.

The NZS sales channel for the products is principally through the significant New Zealand distributors of steel (being Steel and Tube Holdings Ltd, Fletcher Easysteel, and Vulcan Steel Limited.)

## 5 ALLEGEDLY SUBSIDISED GOODS

### 5.1 NAMES OF COUNTRIES OF ORIGIN OR EXPORT OF THE ALLEGEDLY SUBSIDISED GOODS

- Peoples Republic of China

is the origin of the allegedly subsidised goods.

## 5.2 OTHER COUNTRIES EXPORTING LIKE GOODS TO NEW ZEALAND

Other countries known to export goods like the allegedly subsidised goods to New Zealand are:

- Australia
- Japan
- South Korea
- Taiwan
- USA
- India

## 5.3 CALCULATION OF VOLUME OF IMPORTS AND EXPORT PRICE TO ESTABLISH POSSIBLE NEGLIGIBILITY

Based on the information available to it, NZS does not consider the volume of imports of the allegedly subsidised goods is negligible. Nor does NZS consider that the import volumes for a single particular type of galvanised coil are likely to be negligible. In 2015 the subsidized Chinese goods comprised 22% of total imports. The calculation is 2,562 tonnes out of 11,641 tonnes; further detail is in the extended data set in Appendix 6.

The below volume and price information is NZS's best estimate following its review of information from several sources. Those sources are: The import volume monitoring information received from the Ministry (this is the suppressed codes in the subject goods at ten digits); Statistics New Zealand's import data (the unsuppressed codes in the subject goods at ten digits); Data from the International Steel Statistics Bureau (unsuppressed export-side data at the six-digit HS tariff level); TradeMap[3] data (ditto); and NZS New Zealand market intelligence. The estimation also takes cognizance of the change in late 2015, where zinc, aluminium, magnesium alloy coated steel from Japan was included in the import data. This was previously being imported under HS Code 7210.61.3009. This explains the significant increase in imports in 2015. This product is outside the scope of this application. Lastly, NZS notes that in the estimation process, some monthly and quarterly data from the various sources was found to not sufficiently match. For this reason, the data below and the extended data set at Appendix 6 is presented in annual rests, not monthly or quarterly. TradeMap like Global Trade Atlas monitors international commodity movements using the common Harmonised Commodity Description and their respective codes. NZS has used TradeMap. Global Trade Atlas need not be used as it is a provider of mirror information to Trade Map.

Import volumes of the allegedly subsidised goods are sourced from Statistics New Zealand. However, the quantity data at the country of origin level is subject to 24 month suppression. We do receive aggregated data, but not at the country of origin level. From the data supplied, there has been a significant increase (41%) in total imports from (calendar year) 2014 to 2015.

| Galvanised Coil | Volume (tonnes) | Value (NZ$ ,000 FOB) | Unit Value (NZ$ /t FOB) |
|---|---|---|---|
| | (year ended December 2015) | (year ended December 2015) | (year ended December 2015) |
| Goods imported from PRC | 2562 | 2503 | 977 |
| Imports from other countries | 9079 | 9618 | 1059 |
| Total imports from all countries. | 11641 | 12121 | 1041 |
| Allegedly subsidised goods as% of total imports | 22% | | |

[3] Trade Map, International Trade Centre, www.intracen.org/marketanalysis.

Source : Trade & Regulatory Co-operation team, MBIE

### 5.4 NAMES OF OVERSEAS PRODUCERS AND/OR EXPORTERS

Refer to Appendix 3

### 5.5 NAMES AND ADDRESSES OF KNOWN IMPORTERS OF THE ALLEGEDLY SUBSIDISED GOODS

Refer Confidential Appendix 4

### 5.6 COMMENCEMENT OF INJURY

NZS considers that since July 2012 there has been a trend showing a material decrease in the free on board (*FOB*) price for the allegedly subsidised goods. See Appendix 6. NZS has experienced a steady decline in profitability in respect of the products.

## 6 SUBSIDIES

Over the last 3 years a number of countries have conducted research relating to the subsidisation of steel companies in China. There are a number of subsidies that are offered at a national level, provincial level and metropolitan level. In some case steel exporters are able to receive subsidies from all these organisations. There are indirect subsidies through the selected pricing of key steel raw materials, eg coking coal, zinc, electricity, iron ore, steam coal and land use rights.

Some of the subsidies identified and available to Chinese steel producers are listed in Appendices 1 & 2.

The impact of the subsidies has been significant declines in prices, especially in the export markets. At the pricing levels for the 2015 calendar year it has been reported that Chinese steel mills were unable to cover their direct material costs.

New Zealand Steel thus turns to possible precedent in other jurisdictions regarding investigations and findings of countervailable subsidies in the Chinese steel industry.

**Australia:** Australia's Customs and Border Protection (ACBP) received a dumping and subsidizing investigation request relating to China on galvanised and zinc aluminium alloy coated steel. This request was filed by BlueScope steel. A positive subsidy finding was reported on by the ACBP in document "SEF 193 Galvanised steel and Aluminium Zinc Coated Steel, May 2013.

**United States:** On November 04, 2015, the Enforcement and Compliance Agency, International Trade Administration of the US Department of Commerce set preliminary countervailing duties on coated steel. Subsidies are being provided to producers and exporters of galvanised steel from China. The preliminary subsidy rates range from 26.26% to 235.66%. On May 25 2016, the US Department of Commerce announced its affirmative final determination in the antidumping duty and countervailing duty investigations of imports of corrosion resistant steel products from China. Final subsidy rates range from 39.05% to 241.07%.

New Zealand Steel also points to general commentary about the fact of the Chinese steel industry benefitting from various forms of subsidies to a material level. The following excerpt from Reuters is representative, and is aligned with a considerable volume of other mirror assertions and analysis. Under the headline 'Steel industry (China – bracket added) on life-support as China economy slows',[4] Reuters wrote:

*'Subsidies accounted for four-fifths of the profits reported by Chinese steel companies in the first half of this year, a dramatic increase in reliance on state support that illustrates starkly the industrial weakness that is an increasing drag on the economy.*

*The headwinds faced by China's massive steel sector - falling profit margins and growing dependence on handouts - are shared by other key industrial and infrastructure-related sectors, including aluminium, cement and coal.*

*For the first half of 2013, subsidies accounted for 22 percent of total profits posted by China's listed steel mills, and reached 47 percent in the full year. In the first six months of 2014, the figure jumped to 80 percent, and, even then, the sector's profit margin halved to just 0.3 percent.*

*The performance of the steel sector, which has been a major driver of China's growth, underlines the massive challenge facing President Xi Jinping as Beijing tries to wean the economy off its dependence on external demand and investment spending.*

*A total of 2,235 firms, or 88 percent of Chinese listed companies, received government subsidies totalling 32.2 billion yuan ($5.24 billion) in the first half of 2014, according to data from information provider ChinaScope.*

*Most of the subsidies - largely from local governments - were channelled to the steel, cement and property sector in the form of cash, tax rebates or support for loan repayments. The reasons given ranged from research and development to support for government environmental priorities.*

*"There isn't a lot of innovation happening in sectors such as steel or aluminium," said Professor Wen Laicheng at Central University of Finance and Economics in Beijing. "The subsidies are clearly a lifeline to help the companies get through these tough times."*

*Premier Li Keqiang has tried to rally local governments' support to tackle persistent overcapacity, but the continuing subsidies show how Beijing is fighting a losing battle."*

## 6.1 GOVERNMENT SUBSIDIES

*China's central and provincial governments have long fed its state-owned and private firms with a steady dose of subsidies to boost growth, support jobs and create national champions. Dependence on that support has risen sharply in*

[4] http://www.reuters.com/article/us-china-economy-steel-idUSKBN0HD2LC20140919

*the past six months as more industries, now struggling with overcapacity and anaemic growth, are beginning to buckle under heavy debts.*

*A fifth of China's 33 listed steel mills received subsidies accounting for more than half of their profits in the first half, with Chongqing Iron and Steel getting the largest handout of 509 million yuan ($82.89 million).*

*Larger rival Valin Steel Co Ltd, which swung back into profit in the first half, received nearly 80 million yuan in subsidies - four times its earnings. Without the grant, it would have a loss of 61 million yuan.*

*Hefty government subsidies have helped companies such as Chongqing Iron and Steel, as well as Hunan Valin and others, post profits in previous years, without which they would have been delisted from the exchange.*

*"These subsidies are only delaying the inevitable because no matter how much money the government dumps in, many of these companies cannot recover," said Liu Haiming, deputy director of China Steel Development and Research Institute.*' [5]

The above Reuters commentary is consistent with the following reference to a 2007 report by Wiley Rein LLP which was reported by PRNewswire thus:

'*WASHINGTON, July 30 /PRNewswire-USNewswire/ -- An extensive new study released today concludes that the Chinese steel industry has benefited from massive government subsidies, many of which violate China's World Trade Organization obligations. The report, entitled Money for Metal: A Detailed Examination of Chinese Government Subsidies to its Steel Industry, documents more than $50 billion in subsidies granted to Chinese steel producers by the Chinese government. These subsidies have fueled the unprecedented expansion of China's steel industry and the sharp increase in China's steel exports, at the expense of its international competitors.*

The study also found that Chinese government ownership and control of the steel industry is far greater than previously reported.

The study, written by Wiley Rein LLP and sponsored by the American Iron and Steel Institute (AISI), the Steel Manufacturers Association (SMA), the Committee for Pipe and Tube Imports (CPTI), and the Specialty Steel Industry of North America (SSINA), expands earlier research through a detailed review of the financial statements of leading Chinese steel producers, including but not limited to Angang, Baosteel, Laiwu, Maanshan, Shougang, and Wuhan. *The report documents a wide range of government subsidies, including the following:*

*-- US$ 17.3 billion (RMB 130 billion) in preferential loans and directed credit;*

*-- US$ 18.6 billion (RMB 141 billion) in equity infusions and/or debt-to- equity swaps;*

*-- US$ 5 billion (RMB 38.9 billion) in land-use discounts;*

*-- US$ 1.2 billion (RMB 9.47 billion) in government-mandated mergers; and*

*-- US$ 258 million (RMB 2 billion) in direct cash grants.*

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[5] http://www.reuters.com/article/2014/09/19/us-China-economy-steel-idUSKBN0HD2LC20140919
The China Steel Development and Research Institute is a think-tank under the administration of State Asset Supervision and Administration Commission (SASAC) of China and China Iron and Steel Association (CISA). CISA is a national, non-profit organization founded in 1999 on the basis of China Metallurgical Enterprise Management Association. CISA members consist of China's steel enterprises, institutions, societies and individuals in the iron and steel industry, which participate the organization voluntarily according to certain regulations. CISA's responsibility is to link Chinese iron & steel industry with the Chinese government See
http://www.Chinaisa.org.cn/gxportal/DispatchAction.do?efFormEname=ECTM40&key=AGMPMA9kWDlWN1dgBWJXNgxoCGsHYwYxVmUFNgRmVmRWRQpFDxRRYwARBkFWQQRk

*"China's massive subsidies and pervasive government control of its steel industry are unprecedented and violate WTO rules," said Alan Price, partner at Wiley Rein LLP and one of the study's authors. "Eight of the ten largest Chinese steel groups are 100 percent controlled by the Chinese government, and more than 90 percent of the production of China's top 20 steel groups is state-controlled. This report documents the extent to which the Chinese steel industry has been fuelled by subsidies, and remains controlled and directed by the government."*

*The US$ 52 billion in documented subsidies discussed in Money for Metal are only a fraction of the subsidies that actually exist, due to the limited number of Chinese steel companies reviewed and the partial nature of the data that even these companies reported.*

*Government subsidies allowed China's steel production to increase by more than 170 percent between 2000 and 2005 and by another 20 percent in 2006. China's steel capacity and production are now four to five times larger than that of the entire North American steel industry. Subsidies have also helped China become the largest single steel exporting country by volume in 2006.*

*"As China continues to produce steel at breakneck speed, exports will only increase, causing damage to U.S. producers and their workers," said Tom Danjczek, president of SMA. "The subsidies provided by the Chinese government give the Chinese steel industry an artificial advantage over its international competitors. China is not a low-cost producer."*

*"The domestic steel pipe, tube and fittings industry has been on the front lines in its battle to challenge trade distorting steel subsidies from China which are threatening the very existence of this critical steel sector in the U.S.," said Roger B. Schagrin, executive director and general counsel of the CPTI. He added, "pipe and tube producers recently filed the first two steel countervailing duty cases against China on circular welded pipe and rectangular tubing, which have been initiated by the Department of Commerce."*

*"These massive subsidies include stainless steel producers as well," said David A. Hartquist, counsel to the Specialty Steel Industry of North America. "SSINA will shortly publish an updating of our April 2007 report documenting newly discovered Chinese government subsidies to the stainless steel sector."*

## 6.2 SUMMARY

This unparalleled expansion is the direct result of the Chinese government's direction and control of the Chinese steel industry, and its bestowal of an extraordinary range of subsidies to Chinese steel producers. The growth of China's steel industry has been both financed and directed by the Chinese government.

Government ownership of the steel industry is far greater than previously reported. Eight of the ten largest Chinese steel groups are 100 percent owned or controlled by the Chinese government, while 19 of the top 20 groups are majority owned or controlled by the government. In terms of production, 91 percent of the production of the top 20 steel groups is state-owned or controlled. This degree of state ownership allows the government to exert direct control over the steel industry.

*This report identifies more than RMB 393 billion (US$ 52 billion) in subsidies granted to Chinese steel producers. These documented subsidies include:*

- *RMB 130.9 billion (US$ 17.3 billion) in preferential loans and directed credit. The Chinese government uses subsidized loans granted to steel producers to carry out government policy. These policy loans account for the majority of all loans in China, and leading Chinese steel producers have received between 60 percent to nearly 100 percent of their loans from policy banks.*

- *RMB 141 billion (US$ 18.6 billion) in equity infusions and/or debt- to equity swaps -- China regularly injects substantial cash subsidies into steel producers, acquiring additional ownership shares in return. The Chinese government has also made widespread use of debt-to-equity swaps since the mid- to late-1990s. At least 37 different Chinese steel companies have benefited, including all of the major producers.*

- *RMB 38.9 billion (US$ 5.1 billion) in land-use discounts -- The physical purchase of land is nearly impossible in China. Instead, the Chinese government provides lease agreements, and then transfers land-use rights to the companies for little or no cost. Steel producers enjoy these land-use rights for no charge, or for as little as US$ 0.02 per square foot.*

- *RMB 9.5 billion (US$ 1.3 billion) in government-mandated mergers. The Chinese government is directing consolidation of the steel industry in China by permitting acquisitions for little to no cost. For example, in May 2007, Baosteel, China's second largest steel producer, received a 48.5 percent stake in Xinjiang, worth more than RMB 6 million, at no cost.*

- *RMB 2 billion (US$ 258.6 million) in direct cash grants – Chinese steel producers continue to report outright cash grants, as well as grants for specific steel construction projects, on their balance sheets.*

*The actual total subsidy amount is undoubtedly many times larger than this figure, because of the limited number of companies reviewed and the partial nature of the data that even these companies reported.*[6]

The above Wiley Rein report is from 2007 but was updated in October 2010. The latter report concluded as follows:

'... Chinese steel producers continue to benefit from massive direct and indirect subsidies...' [7]

The Reuters commentary above is consistent with the major 2007 study "Chinese Subsidies to the Stainless Steel Industry April 2007. A 26 page summary of this document is at http://www.ssina.com/news/releases/pdf_releases/chinese_govt_subsidies0407.pdf, with the full 104 page document at Non-confidential attachment C-1.2.1 of the Tasman Sinkware Pty Limited application to the Australian Antidumping Commission of January 2014.

The June 2015 THINK!Desk report observes that scale of Chinese industry subsidization is very extensive, large, and growing. For example, the report identifies that in 2010, Chinese industry subsidies was a little over RMB 60 billion, but by 2014 had grown to over RMB 120 billion[8]. It also refers to the U.S. Department of Commerce being able to locate information on over 300 programmes which had not been disclosed in China's two subsidy notifications[9].

## 6.3 AUSTRALIAN COUNTERVAILING INVESTIGATIONS

### (A) RECENT AUSTRALIAN INVESTIGATIONS INTO LIKE GOODS

Various Australian steel producers (including BlueScope) have recently applied to the Australian Government seeking the imposition of countervailing duties on certain carbon steel goods imported into Australia from PRC.

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[6] http://www.prnewswire.com/news-releases/new-report-details-massive-chinese-government-subsidies-to-its-steel-industry-52782252.html

[7] http://www.steel.org/~/media/Files/AISI/General%20Docs/reform%20myth.pdf

[8] "Assessment of the normative and policy framework governing the Chinese economy and its impact on international competition". THINK!DESK China Research & Consulting, Prof. Dr. Markus Taube & Dr. Christian Schmidkonz GbR, June 2015 at pg 66.

[9] Ibid. p47. SEF 193 Galvanised steel and aluminium zinc coated steel – China May 2013, p45

Those applications resulted in Australian officials investigating goods from PRC which are like the goods that are the subject of this application. In many cases the Australian Customs Service[10] found evidence of subsidies of those goods, and of material injury to the Australian industry. The Minister of Home Affairs has imposed countervailing duties on some types of the goods.

NZS considers certain findings in recent Australian investigations to be relevant to this application. The Australian investigation reports are a source of cogent and reliable information which may properly be taken into account by MBIE in considering this application, because:

- the Australian reports and decisions are about the subsidisation of products which are *exactly the same* as the steel products that are the subject of this application;
- the market descriptions of the products are the same, and in many cases the trade names are the same;
- the tariff classifications are the same; and
- the country of origin of the products are the same;[11]
- the investigations by the Australian Customs Service were exhaustive and are well documented, and included producer visits. NZS in particular draws MBIE's attention to the Australian Customs Service electronic public records for investigations SEF 193, which contains detailed information about the production of goods that are the subject of this application;[12]
- the Australian investigations have each concluded, in large part, with a finding of countervailing margins, and have resulted in the imposition of countervailing duties on the products; and
- such imposts in Australia are likely to have a diversionary effect on imports into New Zealand, because the New Zealand market is geographically proximate and the product types are the same. NZS has anecdotal evidence that import offers of like products into New Zealand have increased subsequent to the Australian imposition of anti-dumping duties. In November and December 2015, there was a significant increase in imports of galvanised steel coil in NZ.

The key Australian findings as to subsidisation of like goods in Australia are summarised in more detail in Appendix 1.

## 6.4 US COUNTERVAILING INVESTIGATIONS

The US Department of Commerce - International Trade Administration recently completed a Countervailing Duty investigation into the Corrosion-resistant steel products from the People's Republic of China. Their Preliminary Affirmative Determination was released in November 2015.

Further details are in Appendix 2.

NZS invites MBIE to take the Australian and US findings of subsidisation into account as contextual evidence in any investigation which is commenced.

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[10] The division of the Australian Customs Service responsible for administering Australian's anti-dumping legislation was recently renamed the *Australian Anti-Dumping Commission*: see http://www.adcommission.gov.au/aboutus/default.asp.

[11] The Australian investigations also included goods from Malaysia, Japan and ROC (Taiwan), none of which is relevant to this application.

[12] Case information (including copies of investigation reports) for these investigations, and the electronic public record for each investigation, are available on the Australian Anti-Dumping Commission website.

## 6.5 SPECIFIC AND COUNTERVAILABLE.

The Australian Anti-dumping Commission[13] and the United States Department of Commerce, - International Trade Administration have both identified a number of specific subsidies for the Chinese steel industry. Both organisations have conducted their investigations in relation to the manufacture of galvanised (zinc coated) steel coil. Their reports have indicated those that are specific and countervailable.

The US DOC-ITC (US Department of Commerce – International Trade Commission) have preliminary determined that:

## 6.6 PROGRAMS PRELIMINARY DETERMINED TO BE COUNTERVAILABLE.[14]

- Policy loans to the Corrosion-Resistant Steel Industry

The USDOC-ITC have identified the China development Bank and the Import–Export bank of China, provide policy loans specific to the steel Industry. The department has also countervailed this program in previous investigations.

*Based on our review of the information and responses of the GOC, we preliminarily determine that loans received by the corrosion-resistant steel industry from SOCBs (State Owned Commercial Banks) were made pursuant to government directives.*

*Record evidence demonstrates that the GOC, through its directives, has highlighted and advocated the development of the corrosion-resistant steel industry. At the national level, in the "Steel and Iron Industry Development Policy, Order No. 35 of the National Reform and Development Commission" (Steel Plan)[15], which was promulgated by the State Council in 2005, the GOC outlined objectives for the steel industry during the period 2006-2010. This plan affirmed the steel industry's strategic importance to the PRC's national economy and stressed the need for "the sound development of the iron and steel industry." Article 25 of the Steel Plan specifically encouraged financial institutions to "comply with development policies for the iron and steel industry," which includes steel smelting and steel rolling (i.e., producers of corrosion resistant steel).*

*More recently, the updated "Iron and Steel Industry 12th Five-Year Plan," which covers 2011 through 2015, designates that "high-strength and high-toughness automobile use steel" (i.e., cold-rolled corrosion-resistant steel) should be given developmental priority in the PRC. This plan requires that government entities "coordinate" policies to this end, "including fiscal policy, taxation policy, finance policy, trade policy, land policy, energy saving policy, {and} environmental protection policy . . . ."*

*The GOC implemented the "Decision of the State Council on Promulgating the Temporary Provisions on Promoting Industrial Structure Adjustment (No. 40 (2005))" (Decision 40) in order to achieve the objectives of the Eleventh Five-Year Plan. Decision 40 references the "Directory Catalogue on Readjustment of Industrial Structure," which outlines the projects which the GOC deems "encouraged," "restricted," and "eliminated," and describes how these projects will be considered under government policies. For the "encouraged" projects, Decision 40 outlines several support options available to the government, including financing. The "Guidance Catalogue for the Industrial Structure Adjustment (Version 2011) (2013 Amendment)" (Guidance Catalogue) identifies corrosion-resistant steel as "encouraged." In addition to establishing eligibility for certain benefits from the central government, the Guidance Catalogue also gives provincial and local authorities the discretion to implement their own policies to promote the development of favoured industries.*

Coated steel manufacturers are eligible for assistance and encouragement by directive by the GOC.

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[13] SEF 193 Galvanised steel and aluminium zinc coated steel – China May 2013, p45

[14] Decision Memorandum for the Preliminary Affirmative determination: Countervailing Duty Investigation of Certain Corrosion resistant steel products from the People's Republic of China. Nov. 2 2015, Page31

[15] https://sites.google.com/site/chinapolicyinfocus/china-s-steel-industry/2005-china-s-steel-and-iron-industry-development-policy

### 6.7 PROVISION OF INPUTS FOR LESS THAN ADEQUATE REMUNERATION

Some subsidies have been identified are specific to the steel industry, e.g. through raw materials being provided to steel manufacturers at less than adequate remuneration.

Programs identified as being Specific Include:

Provision of Hot Rolled Strip (HRS) for Less Than Adequate Remuneration (LTAR)

Provision of Cold Rolled Strip (CRS) for LTAR

Provision of Iron Ore for LTAR

Provision of Steam Coal for LTAR

Provision of Coking Coal for LTAR

The US DOC-ITC have preliminary determined that HRS and CRS were provided for at LTAR and a benefit exists for YPC[16] in the amount of the difference between the benchmark prices and the prices YPC paid.

The provision of these subsidised raw materials directly benefits the steel companies by lowering their costs.

Other subsidies which have been identified by DOC-ITA

1. Export Loans
2. Treasury Bond Loans
3. Preferential Loans for SOEs
4. Preferential Loans for Key Projects and Technologies
5. Preferential Lending to Corrosion-Resistant Steel Producers and Exporters Classified as "Honorable Enterprises"
6. Loans and Interest Subsidies Provided Pursuant to the Northeast Revitalization Program
7. Debt-to-Equity Swaps
8. Equity Infusions
9. Exemptions for SOEs from Distributing Dividends to the State
10. Loans and Interest Forgiveness for SOEs
11. Preferential Income Tax Program for HNTEs
12. Preferential Income Tax Program for HNTEs in Designated Zones
13. Preferential Deduction of R&D Expenses for HNTEs
14. Income Tax Credits for Domestically-Owned Companies Purchasing Domestically Produced Equipment
15. Preferential Income Tax Policy for Enterprises in the Northeast Region
16. Forgiveness of Tax Arrears for Enterprises in the Old Industrial Bases of Northeast China
17. Reduction in or Exception from Fixed Assets Investment Orientation Regulatory Tax
18. Preferential Income Tax Subsidies for FIEs – 'Productive' FIEs
19. Preferential Income Tax Subsidies for FIEs – HNTE FIEs
20. Preferential Income Tax Subsidies for FIEs – Export Oriented FIEs
21. Income Tax Benefits for Domestically-Owned Enterprises Engaged in R&D
22. Stamp Exemption on Share Transfer Under Non-Tradeable Share Reform 39
23. VAT and Tariff Exemptions for Purchases of Fixed Assets Under the Foreign Trade Development Fund
24. Deed Tax Exemption for SOEs Undergoing Mergers or Restructuring
25. Provision of Land to SOEs for LTAR
26. State Key Technology Project Fund
27. Foreign Trade Development Fund Grants
28. Export Assistance Grants
29. Subsidies for Development of Famous Export Brands and China World Top Brands
30. Sub-Central Government Programs to Promote Famous Export Brands and China World Top Brands
31. Grants to Loss-Making SOEs
32. Export Interest Subsidies

[16] YPC Yich Phui (China) Techno Material Co Ltd. A voluntary respondent to the investigation

33. Grants for Energy Conservation and Emission Reduction
34. Grants for the Retirement of Capacity
35. Grants for Relocating Production Facilities
36. Export Buyer's Credits
37. Export Seller's Credits from State-Owned Bank
38. Export Credit Insurance Subsidies
39. Export Credit Guarantees

## 6.8 ESTIMATED SUBSIDY AMOUNT

NZS considers that a reasonable estimate of the amount of subsidy as a percent of the FOB export price of the Chinese goods is 8.1% to 39.05%. In 2015 that equates to between NZ$79.13 and NZ$381.52 per tonne of the FOB export prices shown at section 5.3. The basis for this subsidy estimate is as follows:

1. As can be seen at sections 6 through 6.7, NZS has researched public sources of information on Chinese coated steel subsidies. NZS has no power to inquire, with co-operation, in China, into Chinese private and state-owned companies regarding their level of subsidization. The Ministry's counterparts elsewhere acknowledge the difficulties a subsidy applicant therefore has obtaining detail on Chinese subsidy programs. The Australian Anti-Dumping Commission, for example, recently noted in its Consideration Report 322 that *'The Commission considers that the Australian industry is likely to face challenges in obtaining information regarding subsidy programs in China'*.

2. In that circumstance the most suitable and reasonably available information is that published by the New Zealand Ministry counterparts elsewhere (referred to above) who have effected and concluded a well-resourced inquiry on Chinese steel subsidization, particularly one involving like goods to that in this application. The Ministry Subsidy Investigation Guide offers at page 9 the WTO, United States and European Commission as references. Information from those sources is clearly information reasonably available to NZS.

3. Information from a completed investigation by such credible Members in a mirror circumstance (of goods and country of origin), however, exceeds the specificity and refinement of any information that might otherwise be reasonably available to NZS because it has the benefit of being information published pursuant to a deeply-resourced, contested, Member to Member subsidy inquiry of statutory form. In that sense, information from a mirror completed inquiry is best available information.

4. The coated steel subsidy investigations by the relevant authorities in Australia and the United States is, therefore, information of the type described above. The United States matter was concluded on 2 June 2016 is the most recent information.

5. NZS considers that until those are superseded by a mirror New Zealand Ministry investigation, the post-investigation material published by those two authorities represents credible, best, reasonably available information.

Turning now to the specifics, the Australian investigation found a subsidy range on the goods across the 36 identified programs thus: Two Chinese coated steel exporting companies – ANSTEEL and TAGAL - were found by the Australian Anti-Dumping Commission to have been negligibly subsidized. Wuhan Iron and Steel Company Limited was found to have been subsidized to 12.5%. Yieh Phui Technomaterial Co, Ltd. was found to have been subsidized to 5.2%. All other exporters were found to have been subsidized to 21.7%.

NZS is not aware which Chinese steel company(s) are the source of the goods in New Zealand, and NZS therefore considers that the most reasonable estimate derived from the Australian information on the Chinese-sourced good is the raw average of the five companies or groups. Assuming the two which are identified as being negligibly subsidized (in this regard NZS notes that the subsidy margins on those two companies today may now be found different) are assumed zero, the resulting raw average is a subsidy amount of 8.1%, which is NZ$79.13 of the estimated Chinese goods FOB export price in 2015. That calculation is $977 per tonne FOB times 0.081 equals $79.13.

In an alternative estimate to the above, the United States International Trade Administration final affirmative determination in a like investigation found an amount of subsidy on the Chinese goods of 39.05%. That figure is the lowest rate found in its recently-concluded investigation. See table I-3 in document C–570–027 *'Countervailing Duty Investigation of Certain Corrosion-Resistant Steel Products From the People's Republic of China: Final Affirmative*

*Determination, and Final Affirmative Critical Circumstances Determination, in Part'.* Reference is at https://www.gpo.gov/fdsys/pkg/FR-2016-06-02/pdf/2016-12962.pdf

The finalized 39.05% figure is NZ$381.52 of the estimated Chinese goods FOB export price in 2015. That calculation is $977 per tonne FOB times .3905 equals $381.52.

NZS makes two observations regarding this second estimated figure:

> First, it may be on the conservative side because 39.05% is the bound of the range found by the United States International Trade Administration in this matter.
>
> Second, the United States material may be preferred to the Australian Anti-Dumping Commission information because the United States report is three years more recent.

The amount of the above estimates significantly exceeds the negligible level in the Dumping and Countervailing Duties Act 1988.

Turning to the requirement in the Act to provide such information as is reasonably available to the applicant in relation to the existence, amount, and nature of the subsidy, NZS reiterates its comments above on the availability of Chinese subsidy information, and that the information from other credible regulators is reasonably available information, and is also best information. Appendix 1 of this application contains further analysis of the available Australian information. Appendix 2 similarly extends the analysis of the United States information.

To further assist the Ministry, set out below are two tables: First is a schedule of the individual subsidy amounts which sum to (i.e. shows the breakdown) the $381.52 indicated above. This is NZS's reasonable estimate of the amount of subsidy under each program identified (within the 39.05% subsidy suite), calculated as a percentage of the value for duty of the goods at FOB when imported into New Zealand. The right hand column calculation (on the example 0.86% of subsidy number 1 as an Excel cell C2, and $8.40 is cell D2) is '=977*C2'.

Second is a deeper schedule of the same subsidy programs with commentary on nature of subsidy, reference to the basis upon which NZS considers the subsidy to be specific and countervailable, and the matters to do with its calculated amount.

Table 1 – Summary of individual subsidy amounts

| # | Program Name | Lowest Chinese Rate | Value (US$ /t) |
|---|---|---|---|
| 1 | Policy Loans to the Corrosion-Resistant Steel Industry | 0.86% | $8.40 |
| 12 | Provision of Land-Use Rights for LTAR in Jiangsu Province | 0.36% | $3.52 |
| 14*1 | Provision of Hot-Rolled Steel for LTAR | 23.74% | $231.94 |
| 15 | Provision of Cold-Rolled Steel for LTAR | 2.11% | $20.61 |
| 18 | Provision of Zinc for LTAR | 0.22% | $2.15 |
| 19 | Provision of Primary Aluminum for LTAR | 0.06% | $0.59 |
| 21 | Provision of Electricity for LTAR | 0.58% | $5.67 |
| 35 | Import Tariff and VAT Exemptions for FIEs and Certain Domestic Enterprises Using Imported Equipment in Encouraged Industries | 0.56% | $5.47 |
| 48 | Export Buyer's Credits | 10.54% | $102.98 |
| | Reported Grants | 0.02% | $0.20 |
| | Total (as a share of US$977 per tonne) | 39.05% | $381.52 |

Table 2 – Further breakdown and explanation of the same subsidy programs

| Title | Nature (some material sourced from United States Department of Commerce ("USDC") Investigation of Certain Corrosion-Resistant Steel Products from the People's Republic of China, November 2, 2015, and successor document of 24 May 2016) | Specific and Countervailable | Benefit | Eligibility | Subsidized Suppliers | Calculated Amount |
|---|---|---|---|---|---|---|
| Policy Loans to the Corrosion-Resistant Steel Industry | The GOC implemented the "Decision of the State Council on Promulgating the Temporary Provisions on Promoting Industrial Structure Adjustment (No. 40 (2005))" (Decision 40) in order to achieve the objectives of the Eleventh Five-Year Plan. Decision 40 references the "Directory Catalogue on Readjustment of Industrial Structure," which outlines the projects which the GOC deems "encouraged," "restricted," and "eliminated," and describes how these projects will be considered under government policies. For the "encouraged" projects, Decision 40 outlines several support options available to the government, including financing. The "Guidance Catalogue for the Industrial Structure Adjustment (Version 2011) (2013 Amendment)" (Guidance Catalogue) identifies corrosion-resistant steel as "encouraged."177 In addition to establishing eligibility for certain benefits from the central government, the Guidance Catalogue also gives provincial and local authorities the discretion to implement their own policies to promote the development of favored industries. On the basis of this information the USDC determined that the GOC has a policy in place to encourage the development of production of corrosion resistant steel through policy lending. | The USDC found in the document referenced, that loans to corrosion-resistant steel producers from policy banks and SOCBs in the PRC constitute financial contributions from "authorities". The loans are considered specific and countervailable on the basis that the USDC found them to be so in the matter referenced. These loans have also been found specific and countervailable in investigations by the USDC for the manufacture of Carbon Quality Steel Line Pipe, and High Pressure Steel Cylinders | The loans provide a benefit equal to the difference between what the recipients paid on their loans and the amount they would have paid on comparable commercial loans. | The identity of the Chinese mill supplier to New Zealand is not known. Review of the published and unpublished material in the USDC investigation referenced does not suggest information excluding mill suppliers to New Zealand. | The identity of the Chinese mill supplier to New Zealand is not known, which makes it not possible to name any subsidized suppliers thereto. | The USDC investigation concluded on memorandum of 24 May 2016 a subsidy rate of 0.86%. This calculation comprises review of short term Renminbi-denominated loans, external benchmarks, LIBOR rates and inflation. |
| Provision of Land-Use Rights for LTAR | The physical purchase of land is near impossible in China. Instead, the GOC provides lease agreements, and then transfers land-use rights to the companies for little or no cost. Reference to these rights, and amount of benefit, is at http://www.prnewswire.com/news-releases/new-report-details-massive-chinese-government-subsidies-to-its-steel-industry-52782252.html | The USDC investigation referred to above concluded that land-use rights (in that case in Jiangsu province where a supplying mill had been identified to reside) were specific and countervailable. NZs does not know the identity of the Chinese mill supplier to New Zealand, and therefore cannot identify the land-use rights more specifically. That can only be done in a Ministry investigation. | In the reference at left, steel producers are said to enjoy these land-use rights for no charge, or for as little as US$ 0.02 per square foot. | The USDC investigation found that the program is provided to the corrosion-resistant Chinese steel industry. | Ditto | 0.36%. That calculation is based on "Asian Marketview Reports" by CB Richard Ellis, that the USDC relied upon in calculating land benchmarks in the CVD Investigation of Solar Cells from the PRC. It initially selected this information in the Sacks from the PRC investigation after considering a number of factors, including national income levels, population density, and producers' perceptions that Thailand is a reasonable alternative to the PRC as a location for Asian production. The USDC found that these benchmarks, adjusted accordingly for inflation, to account for any countervailable land received by a known Chinese mill. |
| Provision of Hot-Rolled Steel for LTAR | This program relates to the provision of HRS, CRS, zinc, and primary aluminium for less than adequate remuneration. A mill receives a financial contribution from a public | The USDC found that the inputs for LTAR programs are specific, and that the domestic | The USDC found that HRS, CRS, zinc, and primary aluminium | This program is specific because it relates to input | Ditto | In the case of HRS and CRS, the USDC found external benchmarks derived from Steel Benchmarker data. With respect to zinc and primary |

| Title | Nature (some material sourced from United States Department of Commerce ("USDC") Investigation of Certain Corrosion-Resistant Steel Products from the People's Republic of China, November 2, 2015, and successor document of 24 May 2016) | Specific and Countervailable | Benefit | Eligibility | Subsidized Suppliers | Calculated Amount |
|---|---|---|---|---|---|---|
| | body in the form of a provision of a good. More specifically, NZS understands that the HRC used in the manufacture of the goods is predominantly produced and supplied by State-Invested Enterprises ("SIEs") in China. The SIEs are viewed as public bodies and that a financial contribution in the form of the provision of raw material inputs at less adequate remuneration by the SIEs to the galvanized steel producers constitutes a countervailable subsidy. In some instances, the manufacturer of the HRC is an SIE that also further manufactures the HRC into galvanized steel. | markets for these inputs are distorted through the intervention of the GOC and are relying on an external benchmark for determining the benefit from the provision of these inputs at LTAR. Further evidence that this program meets the tests for specificity and being countervailable is found in the fact that it has been determined so in the following investigations: Canada-GSW, Carbon Steel Welded Pipe, Metal Bar Grating, OCTG, Pup Joints, SS Sinks, SPP, US-Austenitic Stainless PP, Carbon and Alloy Steel Standard, Line, and PP, Carbon Quality Steel Line Pipe, CWCQSP, US-Concrete Steel Wire Strand, Drill Pipe, GSW, High Pressure Steel Cylinders, Kitchen Appliance Shelving and Racks, Light-Walled Pipe and Tube, OCTG, SS Sinks, Steel Grating, Steel Wheels, Wind Towers. Australia-HSS. EU-Organic Steel. | were provided for LTAR and that a benefit exists in the amount of the difference between the benchmark prices and the prices the Chinese mill paid. | materials being provided to a limited number of industries or enterprises. | | aluminium, the USDC previously relied on that price data for the zinc and primary aluminium external benchmarks. The USDC adjusted the benchmark price to include delivery charges, import duties, VAT, ocean freight and the inland freight charges that would be incurred to deliver HRS, CRS, zinc and primary aluminium to the Chinese mill production facilities. The USDC added import duties as reported by the GOC, and the VAT applicable to imports of HRS, CRS, zinc, and primary aluminium into the PRC, also as reported by the GOC. In calculating VAT, the USDC applied the applicable VAT rate to the benchmark after first adding in amounts for ocean freight and import duties, then compared these monthly benchmark prices to the Chinese mill's reported purchase prices for individual domestic transactions, including VAT and delivery charges. Based on this comparison, the USDC determined subsidy rates for the Chinese mill of 23.74 percent ad valorem for HRS. |
| Provision of Cold-Rolled Steel for LTAR | Same nature as program above | Ditto | Ditto | Ditto | Ditto | The USDC found a 2.11% subsidy rate under this program |
| Provision of Zinc for LTAR | Ditto | Ditto | Ditto | Ditto | Ditto | The USDC found a 0.22% subsidy rate under this program |
| Provision of Primary Aluminium for LTAR | Ditto | Ditto | Ditto | Ditto | Ditto | The USDC found a 0.06% subsidy rate under this program |
| Provision of Electricity for LTAR | Electricity rates are set differently in different provinces and also that preferential rates were used as an | Petitioners in the USDC matter alleged that the GOC, via the NDRC, used preferential electricity rates as an industrial policy tool to support certain industries over | | | Ditto | The USDC obtained data on a Chinese mill reported consumption volumes and rates |

| Title | Nature (some material sourced from United States Department of Commerce ("USDC") Investigation of Certain Corrosion-Resistant Steel Products from the People's Republic of China, November 2, 2015, and successor document of 24 May 2016) | Specific and Countervailable | Benefit | Eligibility | Subsidized Suppliers | Calculated Amount |
|---|---|---|---|---|---|---|
| | industrial policy tool to encourage high added-value steel products and discourage outdated production capacities. Lower rates are limited to certain enterprises in certain specified sectors. | others and that the USDC has previously found this program to be countervailable. Following the analysis in the investigation, the USDC upheld that position.<br><br>Further support for this program being specific, countervailable and steel companies being eligible is found in the program being accepted as specific and countervailable in the following matters: Canada-GSW, Metal Bar Grating, Pup Joints, SS Sinks, SPP, US- Carbon and Alloy Steel Standard, Line, and PP, US-Concrete Steel Wire Strand, Drill Pipe, GSW, High Pressure Steel Cylinders, Kitchen Appliance Shelving and Racks, OCTG, SS Sinks, Steel Grating, Steel Wheels, Wind Towers. EU-Organic Steel. | | | | paid. It compared the rates paid to the benchmark rates, which, as it discussed in the referred matter, are the highest rates charged in the PRC during the POI. The USDC made separate comparisons by price category (e.g., large industry peak, basic electricity, etc.) and voltage class (e.g., 35kv). It multiplied the difference between the benchmark and the price paid by the consumption amount reported for that month and price category. It then calculated the total benefit during the POI for the Chinese mill by summing the difference between the benchmark prices and the prices paid by Chinese mill. To calculate the electricity benchmark, it selected the highest rates in the PRC for the user category of the respondents (e.g., "large industrial users") for the non-seasonal general, peak, normal, and valley ranges, as provided in the electricity tariff schedules submitted by the GOC. To calculate the subsidy rate, the USDC divided the benefit amount by the appropriate total sales denominator. On that basis, the USDC determined a subsidy rate of 0.58 percent ad valorem subsidy rate. |
| Import Tariff and VAT Exemptions for FIEs and Certain Domestic Enterprises Using Imported Equipment in Encouraged Industries | Circular 37 exempts FIEs and certain domestic enterprises from VAT and tariffs on imported equipment used in their production so long as the equipment does not fall into prescribed lists of non-eligible items, in order to encourage foreign investment and to introduce foreign advanced technology equipment and industry technology upgrades. As of January 1, 2009, the GOC discontinued VAT exemptions under this program, but companies can still receive import duty exemptions. The program is in the nature of government revenue foregone. | Whilst certain domestic enterprises are eligible to receive VAT and tariff exemptions under this program as well as certain FIEs, the reach or the particularity of enterprises is not sufficiently broadened to render the program non- specific. For these reasons the subsidy is specific.<br><br>Further support for this program being specific, countervailable and steel companies being eligible is found in the program being accepted as specific and countervailable in: Canada-Carbon Steel Welded Pipe, Metal Bar Grating, OCTG, Pup Joints, Seamless Casing, SS Sinks, SPP, Canada-GSW | | | Ditto | Since this indirect tax is provided for, or tied to, the capital structure or capital assets of a firm, the USDC treated this tax as a non-recurring benefit and applied standard methodology for non-recurring grants to calculate the subsidy rate. Specifically, where the benefits exceeded 0.5 percent of the relevant sales of that year, the USDC allocated the amount of the VAT and/or tariff exemptions. To calculate the countervailable subsidy, the USDC used standard methodology for non-recurring grants. The USDC used the discount rates to calculate the amount of the benefit allocable in its POI. Those benefits expensed or allocated to the POI were then used as the basis for calculating the net subsidy rate by dividing the total POI benefit by the applicable denominator. On that basis, the USDC determined a subsidy rate of 0.56 percent ad valorem for the Chinese mill. |

| Title | Nature (some material sourced from United States Department of Commerce ("USDC") Investigation of Certain Corrosion-Resistant Steel Products from the People's Republic of China, November 2, 2015, and successor document of 24 May 2016) | Specific and Countervailable | Benefit | Eligibility | Subsidized Suppliers | Calculated Amount |
|---|---|---|---|---|---|---|
| Export Buyer's Credits | Through this program, state-owned banks, such as the China Export Import Bank (Ex-Im Bank), provide loans at preferential rates for the purchase of exported goods from the PRC | In prior proceedings in which USDC have examined this program, the USDC found that the Ex-Im Bank of China is the primary entity that possesses the supporting records for this program. The Ex-Im Bank in this matter did not provide the information requested by the USDC so it corroborated the rate selected to the extent practicable, i.e., by relying on a rate calculated for a similar program in a prior proceeding pertaining to China. | | | Ditto | The USDC determined a subsidy rate of 10.54 percent ad valorem. |
| Reported Grants | In the matter described, the particular mill reported that it received numerous grants from provincial and local governments that were not included in any of the programs under specific investigation. NZS considers it reasonable, from examination of documents in this USDC matter, that the Ministry will similarly find that the Chinese mill supplier(s) to New Zealand will, in the same vein, be in receipt of grants from Chinese provincial and local governments. The USDC first determined whether any benefits exist in the POI from any of these reported grants. The USDC treated these reported grants as non-recurring subsidies, and applied the "0.5 percent test" to each one, individually, to determine whether each grant should be allocated to the POI. None of the grants received prior to the POI passed the "0.5 percent test," and therefore none were allocated to the POI. In addition, none of the grants received during the POI passed the 0.5 percent test and, therefore, all such grants were allocated to the POI. To calculate the POI benefit, the USDC divided the entire amount of each grant by the appropriate sales denominator. If the rate calculated for any grant was less than 0.005 percent ad valorem, it was determined to have no impact on the overall subsidy rate, and was therefore disregarded. Using this methodology, at least one reported grant was more than the 0.005 percent ad valorem threshold, and has an impact on the overall subsidy rate. The USDC determined that the benefits from non-recurring grants that were greater than the 0.005 percent ad valorem threshold confer a countervailable subsidy. The USDC determined that the POI grants received by YPC under this program constitute a financial contribution pursuant and are de facto specific because the actual recipients of the grant are limited in number. The grants also provided a benefit. | | | | Ditto | The USDC determined a subsidy rate of 0.02 percent ad valorem. |
| Sum of the above | | | | | | 39.05% |

## 7 MATERIAL INJURY

### Galvanised Coil Imports

However, from the limited data available, there was a significant increase in the imports of galvanised steel coil from 2014 to 2015. In the first half of 2013, the latest data available, imports from China made up 63% of the imports of the total goods. Data beyond that date remains suppressed. See Appendix 6

Galvanised steel imports have increased from 5,085 in 2013 and 8,247 in 2014, to 11,641 in 2015.

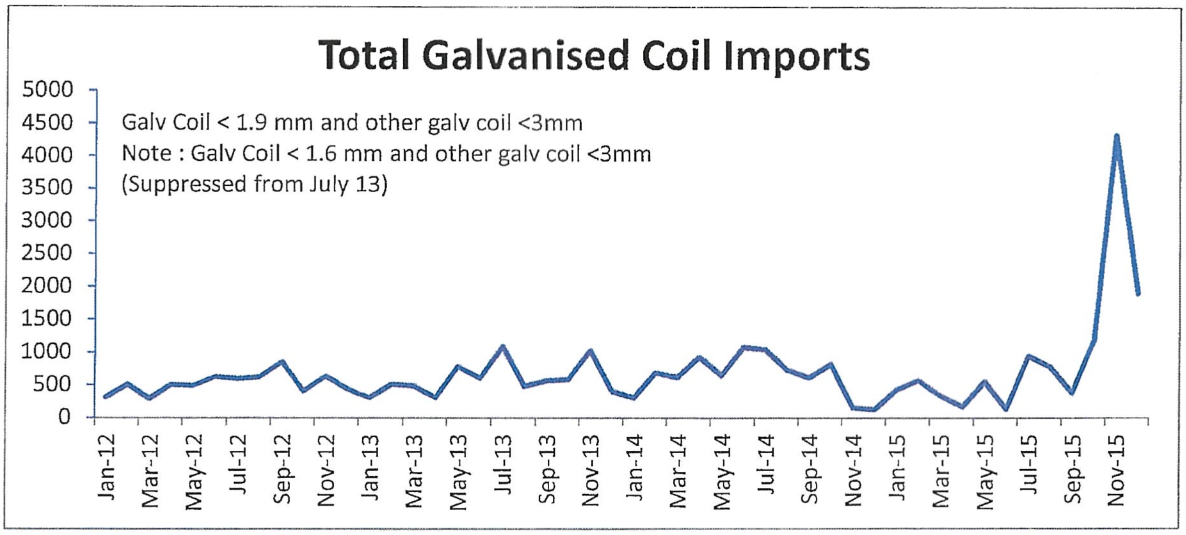


**Figure 2. New Zealand Galvanised Steel Imports**

### Impact On Price

**The graph below covers all galvanised steel coil prices for product >600mm wide and <1.9mm thick and all zinc coating masses.**

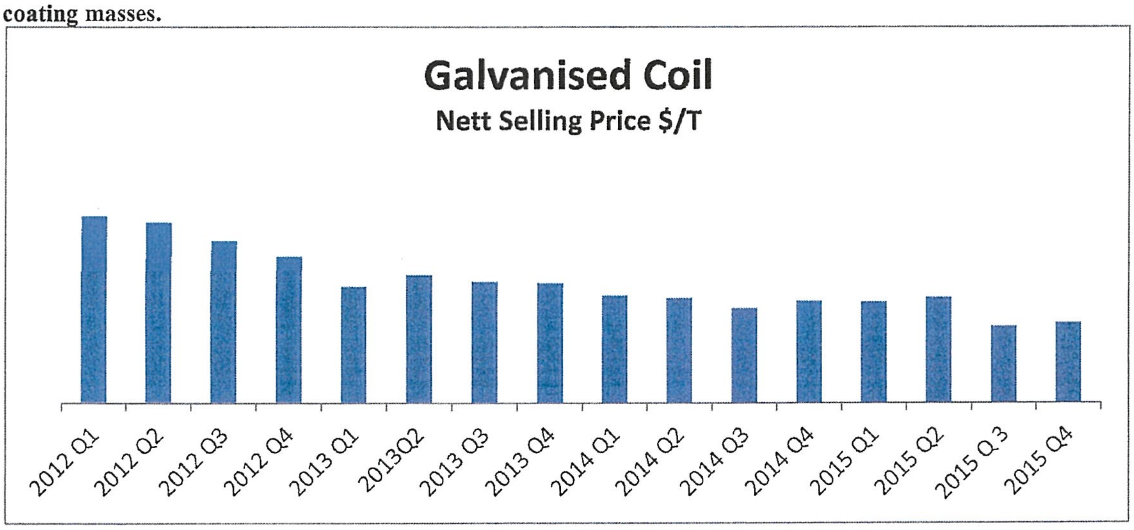


**Figure 3. NZ Steel Net Selling Price**

New Zealand Steel's galvanised steel prices in New Zealand have fallen steadily over the past 3 years. As mentioned earlier this is as a result of the import prices of the same product from China.

# 8 PRICE EFFECTS

## 8.1 INTRODUCTION

In this section, NZS describes:

(a) the effect of the allegedly subsidised goods on its prices, and the material injury that NZS is presently suffering as a result of the price undercutting;

(b) the volume of imports of allegedly subsidised goods, and the steps taken by NZS to maintain market share in the face of an influx of subsidised goods; and

(c) the consequent impact of the subsidised goods on the relevant New Zealand industry.

## 8.2 PRICE DEPRESSION

Galvanised steel coil is manufactured in a range of thicknesses. Widths, grades and coating masses. The product selection is typically determined by the application with product with zinc coating masses less than 300g/m$^2$ used primarily for internal applications, e.g. ducting, purlins, steel framing etc. Galvanised steel for external applications in more corrosive environments typically has more than 450gm/m$^2$.

Galvanised steel pricing is based on the attributes listed above, gauge, width and zinc coating. Import statistics only make the distinction at width, coil must be >600mm, in the case of this application, the thickness is less than1.9 mm.

The drop in the import quotes for deliveries in November and December coincides with the significant increase in the import volumes. A consequence was the drop in NZS sales during this period.. Where we have tried to maintain our prices, imports have significantly increased. See Figs 2 & 4

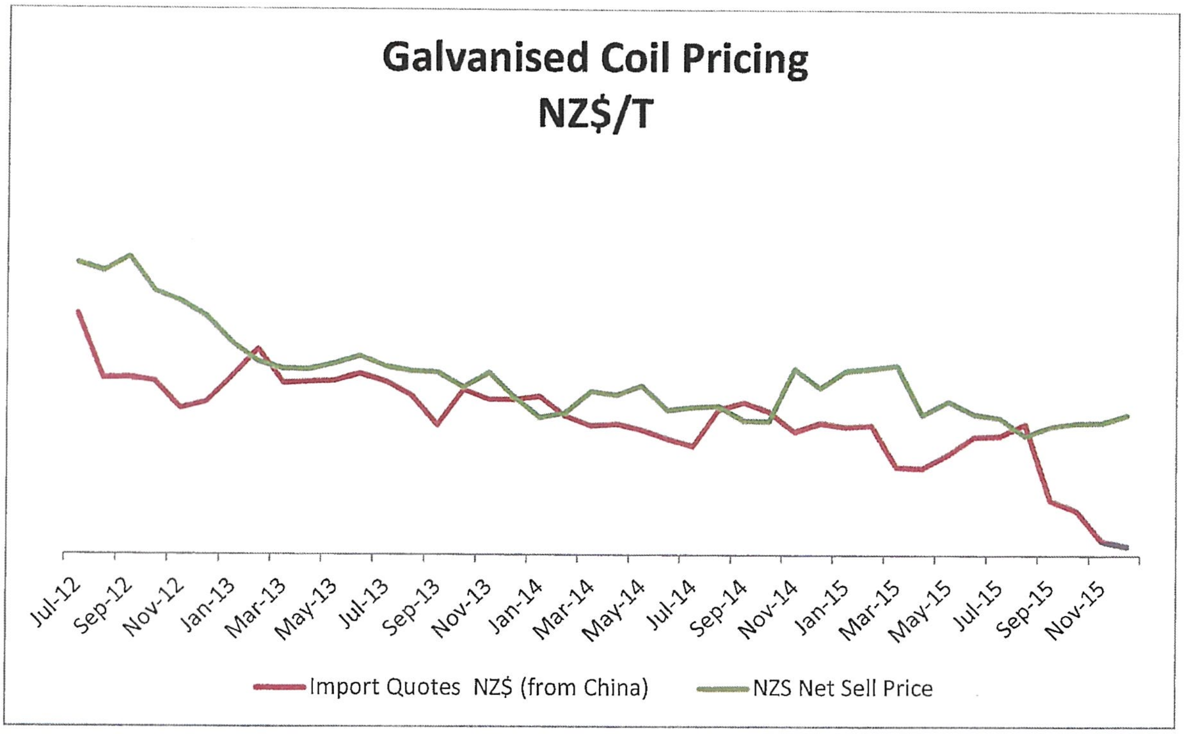


**Figure 4 : Source NZ Steel**

As the graph above indicates there has been on going falls in the quotes for galvanised steel destined for New Zealand. The surge in imports coincides with the fall in price. See Fig 2

## 8.3 INJURY ALREADY SUFFERED BY NZS

As noted in Section 2, NZS is the sole New Zealand producer of the products. The effects and impacts on NZS described below are therefore the impacts on the relevant New Zealand industry.

NZS uses an import parity pricing (*IPP*) model when selling the products to merchants, distributor and end users. As described in section 4.4 (above), NZS' selling price is reviewed monthly to ensure competitiveness. NZS also applies a premium over the price of imported goods to reflect the benefits of local supply and the NZS market offer.

Through the IPP model, the price of the allegedly subsidised goods has directly impacted NZS' selling price of the products. NZS has suffered material injury as a result. In particular:

(a) NZS has experienced a steady decline in its domestic pricing of the products during the application period. This decline was a direct consequence of the allegedly subsidised goods being priced below the usual normal value in PRC.

As described more fully in Section 9.4, NZS has (by decreasing its prices) maintained its market share.. NZS has nevertheless suffered, and will inevitably continue to suffer, material injury as a result of this price undercutting.

8.4 **IMPORT VOLUMES INTO NEW ZEALAND**

Because NZS has responded to competitive market pricing by lowering its market pricing, it has maintained market share. The predominant impact has been price undercutting, resulting in NZS being forced to reduce prices to maintain sales volumes. NZS also considers that, in respect of import volumes:

(a) The imposition of duties in Australia has resulted in PRC steel products being diverted from Australia and subsidised in New Zealand. In the absence of anti-dumping duties in New Zealand, this trade diversion will continue to occur.

The volume of each type allegedly subsidised goods imported into New Zealand is shown in Figure 2.

9 **ECONOMIC IMPACT**

9.1 **INJURY SUMMARY**

A summary is provided in Part A of Confidential Appendix 8. The information in that appendix shows that, during the application period:

(a) NZS' gross profit in respect of the products decreased by 60%; and

(b) NZS was unable to recover its increases in fixed costs of production during the application period.

9.2 **DOMESTIC OUTPUT**

Domestic output increased during the period. However, with the lower prices, the revenue remained unchanged

9.3 **SALES**

**DOMESTIC SALES**

No other information is available in addition to that provided in 9.1

**EXPORT SALES**

| | Nett Tonnes | Invoiced Amount |
|---|---|---|
| 2013 Q1 | [redacted] | [redacted] |
| 2013 Q2 | [redacted] | [redacted] |
| 2013 Q3 | [redacted] | [redacted] |
| 2013 Q4 | [redacted] | [redacted] |
| 2014 Q1 | [redacted] | [redacted] |
| 2014 Q2 | [redacted] | [redacted] |
| 2014 Q3 | [redacted] | [redacted] |
| 2014 Q4 | [redacted] | [redacted] |
| 2015 Q1 | [redacted] | [redacted] |
| 2015 Q2 | [redacted] | [redacted] |
| 2015 Q3 | [redacted] | [redacted] |
| 2015 Q4 | [redacted] | [redacted] |

Source : NZ Steel Sales data

9.4 **MARKET SHARE**

As a result of NZS' pricing strategy, market share has been largely unaffected. In order to maintain its market share, NZS has lowered its market price. The material injury to NZS has therefore been through downward pressure on market prices, and the resulting reduction in margin. The graph in Appendix 5 shows NZS' market share for the products.

### 9.5 PROFITS

Refer to Confidential Appendix 8.

### 9.6 PRODUCTIVITY

No change in productivity.

### 9.7 RETURN ON INVESTMENTED CAPITAL

Price suppression of the subsidised goods relative to CY 2013 is estimated at $[redacted]/t or $[redacted] in EBIT and cash per annum (based on CY 2015)

NZ Steels metal coated line (MCL) has an estimated ROIC of [redacted]% in CY2015 including the effect of the subsidised goods. The MCL ROIC without the price effect of the subsidised goods is estimated at [redacted]% for CY2015 (adverse movement of [redacted]%)

The subsidised goods represent only [redacted]% of the total MCL production in CY 2015.

BlueScope corporate, (NZ Steel's parent) conducts carrying value tests for assets (discounted future cash flows compared to the asset carrying values. The MCL carrying value shortfall has increased from [redacted] to [redacted] based solely on the $[redacted] price impact from the subsidised goods (BlueScope pre tax WACC [redacted]%). In the below table figures for the first year have been redacted because they are confidential and the subsequent years' figures in the table are year-to-year percentage changes from the previous year's figure.

| Total MCL | | NZ$M | |
|---|---|---|---|
| P&L | 2013 | 2014 | 2015 |
| Revenue | [redacted] | 105% | 99% |
| Freight | [redacted] | 89% | 113% |
| Cost | [redacted] | 102% | 101% |
| S&A | [redacted] | 117% | 93% |
| EBIT | [redacted] | 400% | 38% |
| Investment $m | 2013 | 2014 | 2015 |
| Fixed Assets | [redacted] | 92% | 95% |
| Receivables * | | | |
| Inventory | [redacted] | 108% | 115% |
| Creditors * | | | |
| | [redacted] | 97% | 103% |
| ROI% | [redacted] | 478% | 40% |

*NZ Steel is an integrated Steel works; the MCL has both internal suppliers and internal customers for which there are no receivables or creditors entries. Implicit assumption is that they net off.

### 9.8 USE OF PRODUCTION CAPACITY

New Zealand Steel's metal coating line also manufactures zinc-aluminium alloy coated steel products (no part of this application). Plant capacity is shared between these two products.

### 9.9 OTHER ADVERSE EFFECTS

#### 9.9.6 Ability to raise Capital

NZ Steel raises finance for expansion via its parent BlueScope Steel Ltd. The metal coating line product range was to have been expanded through a major capital program (a new metal coating system) but this project has been cancelled. The price effect of the subsidised goods contributed to the lower profitability of the MCL which was a contributing factor in cancelling this project.

## 10 OTHER CAUSES OF INJURY

### 10.1 IMPORTS BY THE INDUSTRY

New Zealand Steel does import galvanised steel products from Australia. However, the specifications are for gauges outside our plant capability.

## 11 CONCLUDING REMARKS

NZS has intentionally kept this application relatively succinct. NZS would be happy to provide additional information if that would be helpful to MBIE. If MBIE would like further information, or to discuss any aspect of this application, please contact the persons listed at section 1.2 above.

## APPENDIX 1: KEY AUSTRALIAN FINDINGS

**Conclusion on whether dumped and subsidised imports caused material injury to the Australian industry**[17]

(i) Galvanised steel

ACBPS is satisfied that, based on the information submitted in the application and verified data collection in respect of galvanised steel, BlueScope has demonstrated that it has suffered injury in respect of galvanised steel and that there are reasonable grounds for concluding that the dumping and/or subsidisation of galvanised steel exported to Australia from China, Korea and Taiwan has caused material injury to the Australian industry producing like goods.

**RECOMMENDATIONS**[18]

The Delegate of the CEO is satisfied that:

- the dumped and subsidised galvanised steel exported to Australia from China has caused material injury to the Australian industry producing like goods;

**The Delegate of the CEO recommends that the Minister impose:**

- countervailing measures on galvanised steel exported to Australia from China (except for galvanised steel exported by ANSTEEL and TAGAL);

**The Delegate of the CEO recommends the Minister be satisfied:**

- in accordance with s.269TACC(7) that subsections 269TACC(2), (3), (4) and (5) are inappropriate for determining whether a benefit has been conferred, or subsection 269TACC(6) is inappropriate for determining the total amount of subsidy attributable to a conferred benefit;
- in accordance with s.269TJ(2) a countervailable subsidy has been received in respect of galvanised steel that has been already exported to Australia from China and that may be exported to Australia from China in the future and because of that, material injury to the Australian industry producing like goods has been, or is being caused;
- in accordance with s.269TJ(2) a countervailable subsidy has been received in respect of aluminium zinc coated steel that has been already exported to Australia from China and that may be exported to Australia from China in the future and because of that, material injury to the Australian industry producing like goods has been, or is being caused;
- in accordance with s.269TJA(1), that as to galvanised steel that has been exported to Australia from China:
- the amount of the export price of the goods is less than the amount of the normal value of the goods; and
- a countervailable subsidy has been received in respect of the goods; and o because of the combined effect of the two, material injury to the Australian industry producing like goods has been and is being caused
- in accordance with s.269TJA(2), that as to galvanised steel that has already been exported to Australia from China:
- the amount of the export price of the goods is less than the amount of the normal value of the goods and the amount of the export price if the goods exported to Australia in the future may be less than the normal value of the goods; and
- a countervailable subsidy has been received in respect of the goods and may be received in respect of like goods that may be exported to Australia in the future; and
- because of the combined effect of the two, material injury to the Australian industry producing like goods has been and is being caused;

## The delegate of the CEO recommends the Minister determine:

- in accordance with s.269 TAAC(4), the subsidy Program 1 (Hot rolled steel provided by government at less than adequate remuneration) is specific;[19]
- in accordance with s.269 TAAC(4), the subsidy Program 2 (Coking coal provided by government at less than adequate remuneration) is specific;[20]

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[17] Report 193 Galvanised steel and aluminium zinc coated steel - China– June 2013 Page 142
[18] Report 193 Galvanised steel and aluminium zinc coated steel - China– June 2013 Page 147

[19] Report 193 Galvanised steel and aluminium zinc coated steel - China– June 2013 Page 152

[20] Report 193 Galvanised steel and aluminium zinc coated steel - China– June 2013 Page 155

• in accordance with s.269 TAAC(4), the subsidy Program 3 (Coke provided by government at less than adequate remuneration) is specific;[21]
• in accordance with s.269TACC(3), the financial contribution received in respect of galvanised steel, of a kind that is other than that referred to in s.269TACC(2), has conferred a benefit;

In report 193 from which the above material is sourced, the Australian Customs and Border Protection Service indicated at page 41 that it found that countervailable subsidies have been received in respect of galvanized steel and aluminium zinc coated steel exported to Australia from China under the following 36 individual subsidy programs:

| # | **Australian Investigated Program Title** |
|---|---|
| 1 | Hot rolled steel provided by government at less than adequate remuneration |
| 2 | Coking coal provided by government at less than adequate remuneration |
| 3 | Coke provided by government at less than adequate remuneration |
| 4 | Preferential Tax Policies for Enterprises with Foreign Investment Established in the Coastal Economic Open Areas and Economic and Technological Development Zones |
| 5 | Preferential Tax Policies for Foreign Invested Enterprises– Reduced Tax Rate for Productive Foreign Invested Enterprises scheduled to operate for a period of not less than 10 years |
| 6 | Preferential Tax Policies for Enterprises with Foreign Investment Established in Special Economic Zones (excluding Shanghai Pudong area) |
| 7 | Preferential Tax Policies for Enterprises with Foreign Investment Established in Pudong area of Shanghai |
| 8 | Preferential Tax Policies in the Western Regions |
| 9 | Land Use Tax Deduction |
| 10 | Preferential Tax Policies for High and New Technology Enterprises |
| 11 | Tariff and value-added tax (VAT) Exemptions on Imported Materials and Equipment |
| 12 | One-time Awards to Enterprises Whose Products Qualify for 'Well- Known Trademarks of China' and 'Famous Brands of China' |
| 13 | Matching Funds for International Market Development for Small and Medium Enterprises |
| 14 | Superstar Enterprise Grant |
| 15 | Research & Development (R&D) Assistance Grant |
| 16 | Patent Award of Guangdong Province |
| 17 | Innovative Experimental Enterprise Grant |
| 18 | Special Support Fund for Non State-Owned Enterprises |
| 19 | Venture Investment Fund of Hi-Tech Industry |
| 20 | Grants for Encouraging the Establishment of Headquarters and Regional Headquarters with Foreign Investment. |
| 21 | Grant for key enterprises in equipment manufacturing industry of Zhongshan |
| 22 | Water Conservancy Fund Deduction |
| 23 | Wuxing District Freight Assistance |
| 24 | Huzhou City Public Listing Grant |
| 25 | Huzhou City Quality Award |
| 26 | Huzhou Industry Enterprise Transformation & Upgrade Development Fund |
| 27 | Wuxing District Public List Grant |
| 28 | Anti-dumping Respondent Assistance |
| 29 | Technology Project Assistance |
| 30 | Capital injections |
| 31 | Environmental protection grant |
| 32 | High and New Technology Enterprise Grant |
| 33 | Independent Innovation and High-Tech Industrialization Program |
| 34 | VAT refund on domestic sales by local tax authority |
| 35 | Environmental Prize |
| 36 | Jinzhou District Research and Development Assistance Program |

After considering all relevant information, the Australian Commission calculated subsidy margins for each cooperating exporter individually and for non-cooperating exporters collectively. The analysis material is summarized between pages 41 and 165 of the Final Report at http://www.adcommission.gov.au/cases/Documents/064-REP193.pdf . These 124 pages provided to the Ministry under separate cover as it is too large to include in this application.

[21] Report 193 Galvanised steel and aluminium zinc coated steel - China– June 2013 Page 164

Details of those calculations arising from the analysis at pages 41 to 165 are confidential to the Australian Customs and Border Protection Service because they contain information from questionnaires and supplementary questionnaires to Chinese parties where the Chinese supplier of the information sought confidentiality.

The outcome however, is the following schedule of subsidy margins to four named Chinese suppliers of the goods, and a margin for all other, un-named suppliers.

| **Manufacturer / Exporter** | **Subsidy Margin** |
|---|---|
| ANSTEEL | Negligible |
| TAGAL | Negligible |
| Wuhan Iron and Steel Company Limited | 12.5% |
| Yieh Phui Technomaterial Co., Ltd | 5.2% |
| All other exporters | 22.5% |

NZS acknowledges that where the information is reasonably available it needs to make a reasonable attempt to estimate a subsidy margin by program. The information needed to do that on the above schedule is not available to NZS.

An additional difficulty arises because the manufacturer of the Chinese goods in New Zealand is not known to NZS, nor will be known until an investigation by the Ministry takes place.[22] That is a material hindrance to NZS being able to estimate the subsidy margin on eleven programs (numbers 6, 7, 8, 26, 21, 23, 24, 25, 26, 27 and 36) because those are geography-specific. It is also a hindrance because NZS is thus prevented from evaluating what subsidy programs available to companies other than ANSTEEL, TAGAL, Wuhan Iron and Steel Company Limited and Yieh Phui Technomaterial Co., Ltd.

In light of the above, the average subsidy margin 8.1% derived from the above is one alternative of best information available to NZS and the Ministry, and it is also one alternative of the information most reasonably available to NZS.

[22] It may be that the number of subsidies received by the Chinese manufacturer(s) is greater than 36. Depending upon where they are located, it may be up to 176 – being the number of steel reinforcing bar subsidies investigated by the Canada Border Services Agency in its subsidy investigation questionnaire in matter number 4218-39.

## APPENDIX 2: COUNTERVAILING PROGRAMS IDENTIFIED BY THE US DEPARTMENT OF COMMERCE- INTERNATIONAL TRADE COMMISSION[23]

Set out below is the final subsidy determination as reported in the United States Department of Commerce Memo dated 24 May 2016. 24 An editing difference here (i.e. an addition made to the original) is the addition of an asterisk and a number to some of these 51 programs (for example #14) in the first column to indicate those where the Australian Commission investigation found the same subsidy program as the United States. The number after the asterisk is the Australian identifier in the Australian list.

This schedule sums to 241.06% and is from the final report in that matter. The earlier schedule which summed to 235.66% was from the interim report.

| # | Program Name | AFA Rate |
|---|---|---|
| 1 | Policy Loans to the Corrosion-Resistant Steel Industry | 0.86% |
| 2 | Preferential Loans for SOEs | |
| 3 | Export Loans | 4.25% |
| 4 | Treasury Bond Loans | 10.54% |
| 5 | Preferential Loans for Key Projects and Technologies | 10.54% |
| 6 | Preferential Lending to Corrosion-Resistant Steel Producers and Exporters Classified as "Honorable Enterprises" | 10.54% |
| 7 | Loans and Interest Subsidies Provided Pursuant to Northeast Revitalization Program | 10.54% |
| 8 | Debt-to-Equity Swaps | 0.58% |
| 9 | Equity Infusions | 0.58% |
| 10 | Exemptions for SOEs from Distributing Dividends to the State | 0.58% |
| 11 | Loans and Interest Forgiveness for SOEs | 2.32% |
| 12 | Provision of Land-Use Rights for LTAR in Jiangsu Province | 0.36% |
| 13 | Provision of Land-Use Rights to SOEs for LTAR | 13.36% |
| 14*1 | Provision of Hot-Rolled Steel for LTAR | 23.74% |
| 15 | Provision of Cold-Rolled Steel for LTAR | 2.11% |
| 16 | Provision of Iron Ore for LTAR | 22.32% |
| 17 | Provision of Steam Coal for LTAR | 3.17% |
| 18 | Provision of Zinc for LTAR | 0.22% |
| 19 | Provision of Primary Aluminum for LTAR | 0.06% |
| 20*2 | Provision of Coking Coal for LTAR | 5.51% |
| 21 | Provision of Electricity for LTAR | 0.58% |
| 22 | Preferential Income Tax Program for HNTEs | 25.00% |
| 23*7 | Preferential Income Tax Program for HNTEs in Designated Zones | |
| 24 | Preferential Deduction of R&D Expenses for HNTEs | |
| 25*6 | Preferential Income Tax Subsidies for FIEs – "Productive" FIEs | |
| 26*10 | Preferential Income Tax Subsidies for FIEs – High or New Technology FIEs | |
| 27 | Preferential Income Tax Subsidies for FIEs – Export Oriented FIEs | |
| 28 | Income Tax Credits for Domestically-Owned Companies Purchasing Domestically Produced Equipment | 1.68% |
| 29 | Preferential Income Tax Policy for Enterprises in the Northeast Region | 9.71% |
| 30 | Forgiveness of Tax Arrears for Enterprises in the Old Industrial Bases of Northeast China | 0.51% |
| 31 | Reduction in or Exemption from Fixed Assets Investment Orientation Regulatory Tax | 9.71% |
| 32 | Income Tax Benefits for Domestically-Owned Enterprises Engaging in R&D | 9.71% |
| 33 | Stamp Exemption on Share Transfer Under Non-Tradable Share Reform | 9.71% |
| 34 | VAT and Tariff Exemptions for Purchases of Fixed Assets Under the Foreign Trade Development Fund | 9.71% |

[23] United States Department of Commerce Memo dated 24 May 2016 C-570-027 at http://enforcement.trade.gov/frn/summary/prc/2016-12962-1.pdf

[24] At http://enforcement.trade.gov/frn/summary/prc/2016-12962-1.pdf

| | | |
|---|---|---|
| 35 | Import Tariff and VAT Exemptions for FIEs and Certain Domestic Enterprises Using Imported Equipment in Encouraged Industries | 0.56% |
| 36 | Deed Tax Exemption for SOEs Undergoing Mergers or Restructuring | 9.71% |
| 37 | State Key Technology Renovation Project Fund | 0.58% |
| 38 | Foreign Trade Development Fund Grants | 0.58% |
| 39 | Export Assistance Grants | 0.58% |
| 40*28 | Programs to Rebate AD Legal Fees | 0.58% |
| 41 | Subsidies for Development of Famous Export Brands and China World Top Brands | 0.58% |
| 42*12 | Sub-Central Government Programs to Promote Famous Export Brands and China World Top Brands | 0.58% |
| 43 | Grants to Loss Making SOEs | 0.58% |
| 44 | Export Interest Subsidies | 0.58% |
| 45 | Grants for Energy Conservation and Emission Reduction | 0.58% |
| 46 | Grants for Retirement of Capacity | 0.58% |
| 47 | Grants for Relocating Production Facilities | 0.58% |
| 48 | Export Buyer's Credits | 10.54% |
| 49 | Export Seller's Credits from State-Owned Bank | 4.25% |
| 50 | Export Credit Insurance Subsidies | 0.58% |
| 51 | Export Credit Guarantees | 10.54% |
| | Total AFA Rate: | 241.06% |

## NON CONFIDENTIAL APPENDIX 3 OVERSEAS PRODUCERS AND EXPORTERS OF ALLEGEDLY SUBSIDISED GOODS

### Part A: Producers of allegedly subsidised goods

| | Name(s) of known overseas producers | Address (if known) | Remarks |
|---|---|---|---|
| | *Galvanised coil* | | |
| 1 | Jiangyin Zong cheng Steel | | |
| 2 | Ansteel | | |
| 3 | Shandong Iron & Steel | | |

### Part B: Exporters of allegedly subsidised goods

| | Name(s) of known overseas exporter | Address (if known) | Remarks |
|---|---|---|---|
| | *Galvanised coil* | | |
| 1 | Jiangyin Zong cheng Steel | | |
| 2 | Ansteel | | |
| 3 | Shandong Iron & Steel | | |

## NON CONFIDENTIAL APPENDIX 4: IMPORTERS OF THE ALLEGEDLY SUBSIDISED GOODS

| | Name(s) of importer | Address (if known) | Remarks |
|---|---|---|---|
| | Galvanised Coil (PRC) | | |
| 1 | [redacted] | [redacted] | |
| 2 | [redacted] | [redacted] | |
| 3 | [redacted] | [redacted] | |
| 4 | [redacted] | [redacted] | |

**NON CONFIDENTIAL APPENDIX 5: COPIES OF INVOICES AND PRICE LISTS**

None available.

**NON CONFIDENTIAL APPENDIX 6 : MATERIAL INJURY**

The only import data available to us is at the six-digit HS Code. The data below has been derived from the high level totals and known domestic imports from Statistics New Zealand.

| Period<br>Year end Dec | **2011** | | **2012** | | **2013 Import Data only available to June 13*** | | **2014 Import Data Suppressed (EST)** | | **2015 Import Data Suppressed (EST)** | |
|---|---|---|---|---|---|---|---|---|---|---|
| | QTY tonnes | Value $'000 | QTY tonnes | Value $'000 | QTY tonnes | Value $'000 | QTY tonnes | Value $'000 | QTY tonnes | Value $'000 |
| Imports of the alleged subsidised goods – China* | 832 | 1120 | 1583 | 1876 | 2402 | 2011 | 2686 | 2577 | 2562 | 2503 |
| Imports from other countries** | 3887 | 6023 | 3493 | 4612 | 2683 | 2878 | 5561 | 5199 | 9079 | 9618 |
| Total Imports* | 4719 | 7143 | 5076 | 6488 | 5085 | 4889 | 8247 | 7776 | 11641 | 12121 |
| NZ industry's production of like goods for domestic sale*** | [redacted] | [redacted] | 91% | 86% | 112% | 102% | 108% | 103% | 116% | 107% |
| Total NZ market*** | [redacted] | [redacted] | 93% | 87% | 110% | 99% | 115% | 109% | 121% | 114% |
| Imports of alleged subsidised goods as a % of total NZ market*** | [redacted] | [redacted] | 210% | 195% | 136% | 108% | 98% | 118% | 78% | 85% |
| Imports of the alleged subsidised goods as a % of NZ industry's production*** | [redacted] | [redacted] | 213% | 191% | 135% | 105% | 103% | 125% | 83% | 91% |
| Imports of the alleged subsidised goods as a % of total imports | 17.6 | | 31.2 | | 47.2 | | 32.6 | | 22 | |

** In late 2015, zinc, aluminium, magnesium alloy coated steel from Japan was included in the import date. This was previously being imported under the HS Code 7210.61.3009. This explains the significant increase in imports in 2015. This product is outside the `scope of this application.

*** figures for the first year have been redacted because they are confidential and the subsequent years' figures in the table are year-to-year percentage changes from the previous year's figure.

## NON CONFIDENTIAL APPENDIX 7 : IMPACT ON DOMESTIC PRICES

**Impact On Price**

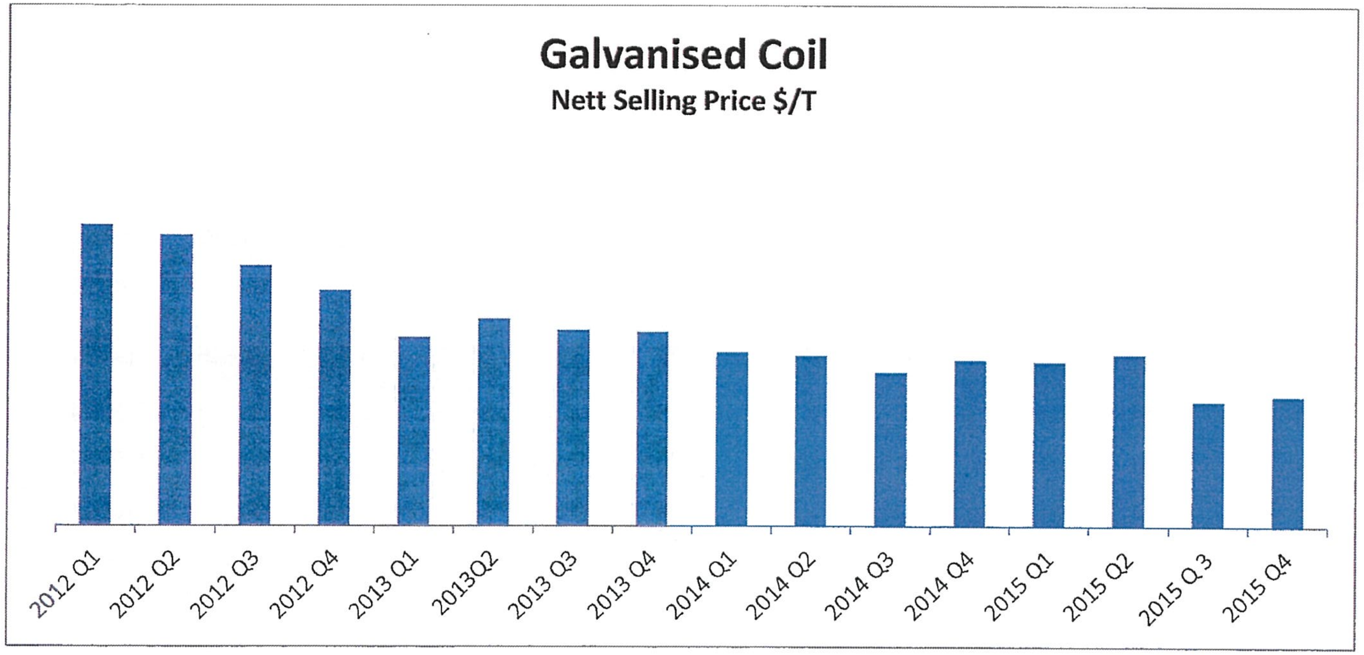



**Figure 5. NZ Steel Net Selling Price**

## NON CONFIDENTIAL APPENDIX 8: MATERIAL INJURY ANALYSIS

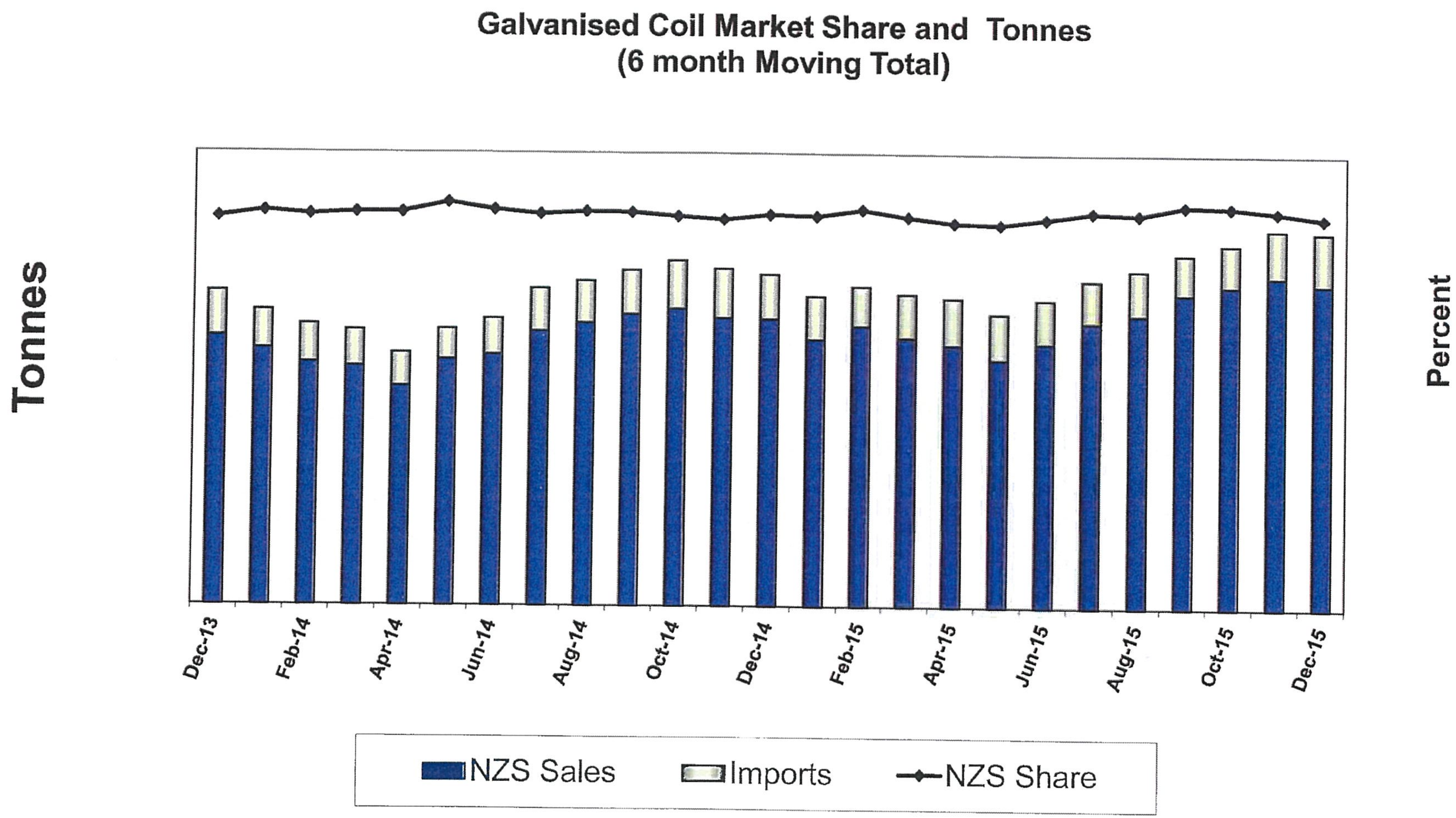
### Part A: Injury Summary

| | 2012 Q1 | 2012 Q2 | 2012 Q3 | 2012 Q4 | 2013 Q1 | 2013Q2 | 2013 Q3 | 2013 Q4 | 2014 Q1 | 2014 Q2 | 2014 Q3 | 2014 Q4 | 2015 Q1 | 2015 Q2 | 2015 Q 3 | 2015 Q4 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales Vol (Nett Tonnes) | [redacted] | 111% | 112% | 77% | 121% | 98% | 122% | 81% | 99% | 114% | 119% | 80% | 108% | 88% | 157% | 71% |
| Nett Amount | [redacted] | 110% | 109% | 74% | 114% | 100% | 121% | 81% | 96% | 113% | 116% | 81% | 108% | 88% | 148% | 71% |
| Freight | [redacted] | 113% | 103% | 76% | 125% | 87% | 112% | 80% | 85% | 119% | 126% | 70% | 112% | 99% | 118% | 71% |
| Variable cost of Production | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| Variable Profit | [redacted] | 109% | 104% | 73% | 109% | 102% | 119% | 81% | 96% | 116% | 107% | 83% | 107% | 89% | 142% | 72% |
| Fixed Costs (incl S&A) | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| Gross Profit | [redacted] | 106% | 100% | 65% | 84% | 111% | 79% | 114% | 90% | 130% | 78% | 89% | 109% | 93% | 76% | 70% |
| Per Unit | | | | | | | | | | | | | | | | |
| Nett Selling Price $/T | [redacted] | 99% | 97% | 97% | 95% | 102% | 99% | 100% | 98% | 100% | 98% | 102% | 100% | 101% | 94% | 101% |
| Nett Dist $/T Weighted | [redacted] | 102% | 92% | 99% | 103% | 89% | 92% | 99% | 86% | 105% | 106% | 88% | 104% | 113% | 75% | 101% |
| Ex-works $/T | [redacted] | 99% | 97% | 97% | 94% | 103% | 99% | 100% | 98% | 99% | 98% | 102% | 100% | 100% | 95% | 101% |
| COS Variable $/T | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| Variable Profit | [redacted] | 98% | 93% | 95% | 89% | 105% | 98% | 101% | 98% | 102% | 89% | 104% | 99% | 100% | 91% | 101% |
| COS Fixed $/T | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| Ebit Margin $/T | [redacted] | 94% | 88% | 81% | 58% | 127% | 53% | 171% | 94% | 118% | 52% | 128% | 100% | 103% | 34% | 96% |

*Sales included: Product=Galvanised coil, Quality=Prime, Customer Type=Domestic*

Figures for the first quarter of 2012 have been redacted because they are confidential and the subsequent years' figures in the table are year-to-year percentage changes from the previous year's figure.

NON CONFIDENTIAL APPENDIX 9 : MARKET SHARE



## Mike Andrews

**Subject:** FW: Trade Remedies Application [UNCLASSIFIED]

**From:** Blenkiron, Chris CB [mailto:Chris.Blenkiron@bluescopesteel.com]
**Sent:** Wednesday, 2 November 2016 6:04 p.m.
**To:** Mike Andrews
**Cc:** Jones, Nathan
**Subject:** RE: Trade Remedies Application [UNCLASSIFIED]

Good Afternoon Mike,

I trust you're well.

As requested, please find attached a *[non]-confidential* marked up reply to the questions submitted in addition to supporting source data found in an excel file attached.

If you do have any questions or queries on the attached please don't hesitate to contact Nathan or myself for further discussion.

Thanks Mike.

Regards,

NEW ZEALAND STEEL
**Chris Blenkiron**
Manager Marketing, Sales & Business Development
**P** +64 9 375 8952 I **M** +64 21 819 925
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*The Imported or Subject Goods*

1. The Subsidy Application form (Q4.1) asks the applicant to describe the allegedly subsidised goods.

The applicant has used the two tariff items the goods enter under as a starting point for establishing a description of the subject goods. The subject goods are described as:

"Galvanised steel coil with a thickness equal to or greater than 0.3mm and less than or equal to 1.9mm and a width greater than 600mm, with a hot dipped galvanised (zinc) coating, manufactured in accordance with the requirements of AS1397".

It's important to get this description correct especially as it will be these goods which any countervailing duties will be imposed. The description should be sufficiently wide to ensure that it covers those imports of galvanised steel coil which are causing material injury to the domestic industry's production of *like goods* but not too wide that it covers goods which are not causing injury to the industry' production of *like goods* or possibly goods that the company doesn't produce.

This description above seems adequate however we seek NZ Steel's clarification on the following:

(i) Should reference to the AS1397 standard be included in the subject goods description? No, reference to the AS1397 standard can be omitted. Goods need not be made to that standard in order to be sold in NZ. Other steel products trade remedy-related descriptions into NZ (for example reinforcing bar) have not needed a standard reference.

(ii) Is it necessary or will it make the subject goods description unduly restrictive. For instance, how likely is it that this standard will change, or become redundant, in the future so that it renders the subject goods description obsolete? Yes, reference to that standard could make the subject goods description unduly restrictive - see comment in paragraph 1(i) above.

(iii) Also, do all imports currently entering the two tariff items listed need to be manufactured in accordance with AS1397? No. If not, such goods would be excluded from any goods description which specifically references AS1397. Correct, which is not the intended purpose. As such, reference to the standard can be omitted as suggested above.

(iv) Could a zinc coating be applied by other processes than "hot dipped" galvanising to give a similar outcome, e.g. electro-plating, that may produce a similar product? No If so, it would seem that such imports would be excluded from the current subject goods description because the description excludes steel coils that have been galvanised through any means other than a hot-dipped process. Have these goods been excluded on purpose because there are no current imports of these goods or, if there are such imports, are they not competing directly with the zinc-coated galvanised steel coil produced by NZ Steel? The latter is correct (i.e. electro-galvinsed steel does not compete directly with the zinc-coated galvanised steel coil produced by NZ Steel). To expand, electro galvanised coil is referenced in the Harmonised Tariff Schedule in section 7210.30. There is no production of electro-galvanised coil in NZ. Hot dipped galvanised and electro galvanised product do not typically compete, as electro-galv coated steel products are not suitable for external applications. Electro-galvanised steel has a very smooth surface where a high quality finish is required and is typically used for internal applications.

(v) Do the subject goods include aluminium in the coating process?[1] No. The application notes that NZ Steel's metal coating line also manufactures zinc-aluminium alloy coated steel products but that this product is not part of the application. Similar to (ii) above, have these goods been specifically excluded by the applicant on purpose because there are no current imports of these goods or, if there are such imports, are they not competing directly with the zinc-coated galvanised steel coil produced by NZ Steel?

It is the latter reason is correct (i.e. aluminium-zinc alloy coated steel does not compete directly with the zinc-coated galvanised steel coil produced by NZ Steel). As such, New Zealand Steel has not included aluminium –zinc alloy coated steel in this application. Aluminium-zinc alloy coated steel has replaced galvanised steel in a number of building applications. However, there are some applications where aluminium zinc alloy coated steel is not suitable, e.g. constantly wet or contact with soil (i.e. the fact that these two product types don't compete is largely because they are have different end uses/markets)

Galvanised steel is available in thicknesses up to 1.85mm (base metal thickness) from NZ Steel, whereas NZ Steel's aluminium –zinc alloy coated is only available to 1.15mm.

When New Zealand Steel commenced production aluminium-zinc alloy coated steel in the mid-1990's, conversion from galvanised steel to the new product started. Within five years, appropriate applications and end uses had converted to the new product.

2. The Subsidy Application form (Q 4.3) requests the applicant to describe the *like goods* produced by NZ producers.

| |
|---|
| *Like goods* are products which are identical i.e. alike in all respects to the product under consideration, or in the absence of such a product, another product which, although not alike in all respects, has characteristics closely resembling those of the product under consideration |

The application includes some generic information on galvanised steel coil (under sect. 4.1) but it seems that this relates to the imported product. Under sect 4.2 (Tariff Classification) the company has provided a description of the goods but is not clear if this is a description of the goods entering under the two tariff items or if it is a description of the NZ product.

Strictly speaking, sect 4.2 is not a complete description of the NZ product, rather it is simply a description of the goods entering under the following tariff classifications:

The two tariff headings covered in this application:

- 7210.49.31.09 Iron or non-alloy steel; flat-rolled, width 600mm or more, not worked but coiled, (not further clad, plated, coated or corrugated), 1.6mm or less thick, plated with zinc (not electrolytically)

7210.49.31.01 Iron or non-alloy steel; flat-rolled, width 600mm or more, (not coiled, worked, corrugated or further clad, plated or coated), exceeding 1.6mm but 1.9mm or less thick, plated with zinc (not electrolytically)However, the NZ product does essentially fall within the physical parameters specified in sect 4.2 – see our response below for further information on the NZ product.

[1] This would also justify the inclusion of primary aluminium at less than adequate remuneration as one of the subsidy programmes identified by NZ Steel.

The application should contain an answer to Qn. 4.3 of the Subsidy Application form (description of the like goods). Currently, it doesn't contain a specific answer to this question. More specifically, the application should include a detailed description of the galvanised steel coil produced by NZ Steel (the like good) including details of the specific types and sizes (e.g. measurements), and specific applications. (Please see paragraph below) If available, brochures and catalogues should be included or, at a minimum, reference made to the applicant's website for a more detailed description of the like goods. This would provide us with a better understanding of any differences between the imported goods and the domestically-produced goods.

New Zealand Steel manufacturers galvanised steel, with dimensions, thickness 0.32 to 1.85mm, widths from 600mm to 1230mm, grades G250, G300, G450, G500 and G550, with zinc coating masses (gm/m2) 100, 275, 350, 450 and 600. (Note these grades are as per AS 1397, there are equivalents in other standards.) We refer the Ministry to website http://www.nzsteel.co.nz/products/galvsteel/ Comprehensive information can be found there.

*Import data*

What was the basis, in NZ Steel's understanding, for the change to include imports of zinc, aluminium, magnesium alloy-coated steel under HS 7210.49 heading instead of HS 7210.61? And does NZ Steel have any reason to believe that this change does not account for all of the increased imports under the HS 7210.49 heading?

Zinc-aluminium-magnesium alloy coated steel is currently only available from a Japanese steel maker. NZ Steel observed that there were significant volumes originating from Japan up until October 2015. These were reflected in the imports, under 7210.61.30.09. From November 2015, import volumes from Japan in this category dropped to zero. This coincided with a significant increase in the total imports of galvanised coil (as reflected in the consolidated suppressed import data supplied), with Japan ranked as number one. NZ Steel has no other reason to believe that there is any other substantial cause for the increased imports under the HS 7210.49 heading.

Apart from the imports from Australia made by NZ Steel, are other imports from Australia (supplied by BlueScope) also of goods that are outside the scope of the application?

Yes. Imports of galvanised coil from Australia (which are outside NZ Steel's operational capability) fall into categories, those with a thickness greater than 2.00mm, and those where the width is greater than 1230mm.

*Price Effects*

For price undercutting, we need to compare the NZ manufactured goods at the same level of trade as the imported goods. We normally compare this price at the first point in the New Zealand market at which goods compete with each other. The application contains information suggesting that the appropriate point of comparison for imported and domestic pricing is at the free-into-store (FIS) price. More specifically, the imported FOB price plus amounts for overseas freight and insurance, NZ port service charges and handling costs, import duty (where applicable) and domestic cartage to distributor's store should be compared with NZ Steel's FIS (delivered) price (exclusive of discounts and rebates).

Could you please confirm that that the prices you have plotted in figure 4 (Galvanised coil pricing NZ$/T) are being compared at the level of trade referred to above. Yes, NZ Steel can confirm this. Also, we will need the source data used to create the chart at Figure 4 on page 27 The source data used to create the chart at Figure 4 accompanies this note, as the data enabled chart.
, including the basic USD quotes and exchange rates used to convert them to NZD, and the freight charges, port service charges and handling costs, import duty (where applicable) and domestic cartage to distributor's store, used to establish nominal FIS prices for imports. We refer the Ministry to the imported goods-local goods undercutting table at the same level of trade, including references, below.

| | |
|---|---|
| China Undercutting | Cal Yr 2015 |
| Annual Average (on G250 Z275) | |
| Export Price (CFR average) (US$/t) | [redacted] |
| | |
| Average Exchange rate | $ 0.70 |
| Chinese goods at ex-wharf in NZ (NZ$/t) | [redacted] |
| New Zealand-side destination costs (NZ$/t)** | [redacted] |
| Chinese goods at FIS (NZ$/t) | [redacted] |
| New Zealand Steel Price FIS (NZ$/t) | [redacted] |
| Undercutting amount (NZ$/t) | [redacted] |
| Undercutting % | [redacted] |

[NZS does not agree with release of the undercutting percentage (it appears in two places). That the information is commercially sensitive because its release would provide a competitor with a competitive advantage.]

[With respect to the source document for the Chinese Goods ex-wharf price (in the table above), this document is attached in the form of an Excel worksheet). NZS does not agree with release of this information. The information is commercially sensitive because its release would provide a competitor with a competitive advantage. A non-confidential summary description of this document is as follows: "The document contains a summary of import quotes (Ex-China) compared with NZ Steel's prices from July 2012 – Dec 2015"]

The above table shows that NZ Steel's selling price has been significantly undercut at the primary distributor and processor level of trade over the last year by an estimated [redacted] percent by the Chinese goods. The undercutting margins are consistent and of material scale.

| | |
|---|---|
| **The $55 is made up of the following: | |
| Warehousing | [redacted] |
| Local handling, (doc, customs, etc) | [redacted] |
| Duty* | $ - |
| Local transport, unpacking etc | [redacted] |

[redacted]

[NZS does not agree with release of the destination costs. Those information CATEGORIES are public, but those values are not. The information is commercially sensitive because its release would provide a competitor with a competitive advantage]

Source for the New Zealand-side destination costs: [redacted] (a large NZ/AUS freight forwarding services provider).

[NZS does not agree with the public release of this information source (the name of the freight forwarding service provider) in its countervailing application etc. That information is commercially sensitive because its release would provide a competitor with a competitive advantage. It is also confidential information that belongs to an independent third party]

Note : Import duties for product originating from China dropped to 0% in in 2012

The applicant contains an Appendix 5 (Copies of Invoices and Price Lists) but this appendix is empty and you have noted that none are available. Could you please clarify what this appendix relates to and why no invoices or price lists have been included.

The inclusion of Appendix 5 "(Copies of Invoices and Price Lists)" in the application was an oversight.

While customer price lists may be publically available or directly available from customers in some industries and business it is not the case with NZ Steel. The nature of NZ Steel's business is that prices are typically negotiated on a contract-by-contract basis (i.e. the price is negotiated with the steel mill representative for each order, for a delivery in a particular month). Customer published pricelists don't exist, the closest is an "extras" table which may or may not be added to the agreed base price.

Supplier invoices are not easily acquired as they are confidential and internal documents that relate to the supplier and the local customer.

New Zealand Steel is in regular communication with our local steel distributor customers. Phone, and to a lesser extent meetings. These customer businesses purchase steel products from both NZ Steel and foreign steel manufacturers. They have regular contact with overseas mills either directly or through their agents. The New Zealand steel distributors receive as part of their verbal negotiation process with overseas mills, prices for all the products they supply. This information is subsequently referred to when negotiating prices with New Zealand Steel.

*Economic Impact*

The application contains information on sales volume and revenue, output, market share, profit, productivity, return on investment capital, production capacity, and ability to raise capital.

We would like some elaboration of the information provided on page 29 regarding ROIC and an explanation of the relevance of the figures provided. The ROIC table is provided to give context to the galv coil product group. That group is manufactured in the business referred to as "MCL Total" for which some ROI data is provided. The galv coil group comprises [redacted] of MCL throughput in 2015. [The information is commercially sensitive because its release would provide a competitor with a competitive advantage and so as to avoid advantaging potential competitors, the % share of throughput remains confidential and is not released (this occurs in 2 places in this application]

To expand, the subsidized goods are impacting upon the NZS price (which is always measured per unit[2], by NZS and others in world steel), and upon NZS unit profitability measures. This impact originates during the price discussions NZS has with customers, within which the alternative, lower and undercutting price of subsidized goods is brought to bear. The undercutting has a once-removed downstream effect (by once-removed, we mean by the mathematics of volumes sold at the suppressed price, and other effects), upon absolute profitability.

The last four calendar years of the economic consequence of the price effects is shown in the table below.

| Metric (years are calendar) * | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|
| Net Revenue | 1000 | 916 | 807 | 693 |
| Gross Profit | 1000 | 539 | 263 | 88 |
| EBIT Margin | 1000 | 453 | 195 | 48 |

Index : 2012 =1000

NZS considers it has suffered an economic impact as diminished return on investments proportional with the injury to price and EBIT margin. That proportionality is estimated in the table below. As there is no precise definition of material injury, there can be no precise date at which injury can be considered commenced. That said, in the context of the circumstances observed by NZS, the year 2012 may best be seen as a time pre-injury, against which post injury effects can be estimated. If not for the subsidized goods deep undercutting NZS prices, the 2012 EBIT margin (in the absence of other evidence reasonably overturning that assumption), may be assumed to have prevailed. The effect of that can be seen in the table below. It illustrates the delta between estimated actual ROI and re-stated ROI of [redacted] points in 2013, [redacted] points in 2014 and [redacted] points in 2015.

[2] Positive evidence of price (or prices) being measured in a currency per a unit of mass (usually tonne) can be found at http://www.worldsteelprices.com/ and http://www.aksteel.com/pdf/markets_products/carbon/AK_Carbon_Steel_PB_201503.pdf and http://usa.arcelormittal.com/what-we-do/steel-products/price-lists and http://steelbenchmarker.com/files/history.pdf

[the three ROI figures are not released as that the information is commercially sensitive because its release would provide a competitor with a competitive advantage.]

| Metric (years are calendar) * , (2012=1000) | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|
| Galv Volume (t) | 1000 | 1111 | 1168 | 1259 |
| MCL Investment (100% thereof in $m) | 1000 | 1105 | 1080 | 1102 |
| Galv EBIT Margin ($/t) | 1000 | 453 | 431 | 246 |
| Galv EBIT ($) | 1000 | 502 | 502 | 312 |
| Estimated Galv ROI (%, off 100% of MCL) | 1000 | 458 | 466 | 288 |
| Galv EBIT Margin ($/t, flat at the 2012 return) | 1000 | 1000 | 1000 | 1000 |
| Implied Galv EBIT ($) | 1000 | 1111 | 1168 | 1259 |
| Implied Galv ROI (%, off 100% of MCL, with EBIT set flat at the 2012 $/t return) | 1000 | 1008 | 1085 | 1144 |
| Implied ROI Differential (whole points) | - | 1000 | 1091 | 1545 |

* Please note the data in the above two tables (other than the data in the "MCL Investment ($m)" row in the table immediately above) relates to the galv coil group portion of the MCL business unit (as stated above, the galv coil group comprises [redacted] of MCL throughput in 2015).

We will need to have evidence to support the claim relating to ability to raise capital on page 30, that a project to expand the metal coating line was cancelled.

There are a number of other economic impact measures which can be assessed when considering an application. These are referred to the Subsidy Application form (Sect 9.9) and include:

- Cash flow
- Inventories
- Employment
- Wages
- Growth
- Investments; and
- Factors affecting domestic prices.

As stated in NZ Steel's application (page 30), Project Edge (the project relating to further capital investment in the MCL business) was placed on hold. This was a decision made by BlueScope's head office in Melbourne together with NZ Steel's then General Manager. Project Edge has since been indefinitely placed on hold. NZ Steel will aim to procure a written statement by Mr Garey (who is still employed by BlueScope) confirming the above.

You have made no reference to these other possible adverse effects in your application. Is there a reason for this? For instance, are you are not experiencing material injury in respect of these factors or have you simply decided not to include them in your application? NZ Steel's strong view is that the primary measure of material injury is the effect of the subsidised goods on NZ Steel's product price (i.e. degree of price undercutting). Any other metric assessing injury (e.g. profitability metrics, cash flow, employment levels etc. are 'a step removed' in that they each have multiple functions of which product price is but one). In saying that, NZ Steel understands that consideration of the consequent impact of subsidised goods is also required. We do note, however, that the "other possible adverse effects" MBIE list below are discretionary in that they may be considered but do not have to be – in NZ Steel's application some of these "other possible adverse effects" are simply irrelevant due to the nature of NZ Steel's business and/or the current particular application. With that in mind, we comment as follows:

Cashflow: Cashflow-measure effects specific to the subsidized goods are difficult to isolate out of the MCL business unit. The effects can, however, be estimated in a similar manner as return on investment. This is shown below, and estimates that the cashflow economic impact is [redacted] in 2015.

| Metric (years are calendar) (2012=1000) | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|
| Estimated Galv Depreciation ($m, 19% of MCL) | 1000 | 1009 | 1022 | 1087 |
| Estimated Galv Depreciation ($/t) | 1000 | 920 | 880 | 880 |
| Est. Galv Cashflow (EBIT + depn.) ($/t) | 1000 | 498 | 475 | 307 |
| Est. Galv Cashflow ($/t, flat at 2012's $/t) | 1000 | 1000 | 1000 | 1000 |
| Implied Galv Cashflow Differential to F12 ($/t) | 1000 | 502 | 525 | 693 |
| Implied Galv Cashflow Differential to F12 ($) | 1000 | 560 | 615 | 872 |

Inventory: NZS does not point to an inventory-related injury from the subsidized goods.

Employment and Wages: We note that downwards/negative employment and wages effects from subsidised imported goods are perhaps not as pronounced in the steel industry compared to other industries. It is very difficult to substantially reduce or increase volume/throughput in the Glenbrook Steel Mill as the entire plant is mechanically calibrated to an approximate annual volume. The inability or impracticality to substantially alter throughput means that employment will likewise not materially change (throughput largely determines employment levels) irrespective of the amount of injury being caused by subsidised imported goods. In saying that, it is still likely that there has been an employment or wages effect from the subsidized goods relative to a situation absent the subsidized goods, because at the lower bound, plant expansions have a positive employment effect not less than that in the project phase.

Growth: The decision to not proceed with the MCL expansion is contributed to by the injurious effects of the subsidized goods in the New Zealand market.

Factors Affecting Domestic Prices: NZS does not point to experiencing material injury in respect of price other than from the subsidized goods.

*Other Causes of Injury*

The application notes that NZ Steel does import galvanised steel products from Australia, however, the specifications are for gauges outside your plant capability.

Are you aware of any other factors, other than subsidised goods, that have injured, or are injuring, the industry, including:

- The volume and prices of imported goods from countries other than China (not including Australian imports by NZ Steel). No. To our knowledge, the import volume of goods from other origins have been limited.

- Contraction in demand or changes in patterns of consumption. NZ Steel is not aware of a contraction in demand or changes in patterns of consumption causing it injury.

- Restrictive trade practices of, and competition between overseas and New Zealand producers. NZS does not point to these matters as a cause of injury. There are no other New Zealand producers of the goods.

- Developments in technology. NZS is not aware of developments in technology causing it injury.

- Export performance and productivity of the New Zealand producer. NZS does not consider that it is injured by its export performance or its productivity. We would note, in passing, that NZ Steel has conducted an extensive cost reduction programme over the past 18 months and has taken out tens of millions of dollars of costs out of its business (including substantial costs taken out of the MCL business unit).

If so, you are requested to provide information on these 'other causes of injury'.