



Australian Government
**Department of Industry,
Innovation and Science**

**Anti-Dumping
Commission**

COMMISSIONER'S NOTE

**THE POTENTIAL FOR TRADE DIVERSION IN STEEL AND
ALUMINIUM, AND SUBSEQUENT IMPACTS**

27 JULY 2018

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ABBREVIATIONS

\$	Australian dollars
ABF	Australian Border Force
The Customs Act	<i>Customs Act 1901</i>
ADC	Anti-Dumping Commission
ADIS	Anti-Dumping Information Service
Cadence Report	Cadence Economics, <i>The potential for trade diversion in steel and aluminium</i> , April 2018
Cadence/Cadence Economics	Cadence Economics Pty Limited
CGE	Computable General Equilibrium
The Commissioner	The Anti-Dumping Commissioner
GDP	Gross Domestic Product
Home Affairs	The Department of Home Affairs
HTS	Harmonized Tariff Schedule
ITRF	International Trade Remedies Forum
LME	London Metal Exchange
OECD	Organisation for Economic Development and Co-operation
PAD	Preliminary Affirmative Determination
Section 232 investigation	Investigation under Section 232 of United States Trade Expansion Act 1962
US	United States
WTO	World Trade Organization

1 EXECUTIVE SUMMARY

On 19 April 2017, the United States (US) Department of Commerce initiated an investigation under Section 232 of the *Trade Expansion Act of 1962* into whether steel imports impair US national security. A subsequent investigation into aluminium was initiated on 27 April 2017. The reports were provided to the President in January 2018 and released publicly on 16 February 2018. On 8 March 2018, the US announced tariffs of 25 per cent for steel and 10 per cent for aluminium for all countries except Canada and Mexico, scheduled to come into effect on 22 March 2018.

That day the President signed proclamations providing temporary exemptions from US steel and aluminium tariffs for Australia, Argentina, Brazil, Canada, Mexico, the European Union and South Korea. Between then and now, there have been a range of changes to the application of the tariffs as outlined in chapter 3, and there is a possibility of further changes.

In response to the announcement of these tariffs, the Anti-Dumping Commission (ADC) led an analysis of the potential impacts on Australia. A concern is that there is a potential for steel and aluminium products originally bound for the United States to be diverted to Australia. My concern is if any diverted product arrives in Australia at dumped or subsidised prices.

The ADC engaged Cadence Economics to conduct economic modelling on the likely trade diversion and subsequent impacts. Cadence's modelling suggests that the overall impact on the level of imports of steel and aluminium are essentially immaterial. The analysis also showed minimal economy-wide impacts.

Two scenarios were modelled at both ends of the spectrum of possibilities:

1. exemptions in the 22 March 2018 US tariff declarations¹ remain
2. no exemptions from the US tariffs.

A summary of Cadence's findings of impacts for 2020 off a reference case is contained below.

Scenario	GDP (%)	Steel imports (volume) (%)	Domestic steel price (%)	Aluminium imports (volume) (%)	Domestic Aluminium price (%)
Exemptions	+0.00	+0.4	+0.08	+0.1	+0.01
No exemptions	-0.01	-0.4	-0.10	-0.4	-0.03

Table 1: Summary of findings

As at 30 June 2018, the tariffs apply to imports from all countries except:

- Australia, Argentina, South Korea and Brazil in relation to steel. Argentina, South Korea and Brazil are subject to quota arrangements

¹ Exemptions for Australia, Argentina, Brazil, Canada, Mexico, the European Union and South Korea

- Australia and Argentina in relation to aluminium. Argentina is subject to a quota arrangement.

Given the conclusion reached by Cadence on the two scenarios modelled at both ends of the spectrum, Cadence has no reason to believe that their conclusion would be changed in light of current state of affairs.

I note that, subsequent to Cadence completing its analysis, a range of countries have introduced retaliatory measures against the US tariffs. As a result these have not been included in the analysis.

As Commissioner I am committed to complying with my domestic legislative obligations and acting consistently with Australia's World Trade Organization (WTO) obligations under the global rules-based trading system.

For any product that is imported into Australia that is potentially dumped or subsidised, the ADC stands ready to investigate any allegations under our trade remedies system, which is strong and robust. Steel and aluminium products make up 84 per cent of the ADC's current caseload, and comprise 73 percent of existing anti-dumping or countervailing measures in place. There is also a strong anti-circumvention and compliance regime to deal with matters such as trans-shipment.

Consistent with my responsibilities as Commissioner, the ADC is also actively tracking the trade flows of products subject to anti-dumping or countervailing measures examining shifts in volumes and pricing. As part of this, the ADC tracks a selected group of steel and aluminium products that are of most interest to the ADC and industry, on a monthly basis.

2 BACKGROUND

In April 2017, the United States initiated separate investigations under Section 232 of its *Trade Expansion Act 1962* into steel and aluminium to determine the effect of imported steel and aluminium on its national security. The US Secretary of Commerce made a range of recommendations to the US President, which ultimately led to the imposition of tariffs of 25 per cent on certain steel products and 10 per cent on certain aluminium products from certain countries.

Consistent with Australia's WTO obligations and my statutory obligations and powers as Commissioner, I must take an evidence-based approach to my work. Therefore, in considering the potential impacts of the measures described above, I have taken an evidence- and fact-based approach. I considered there was a need for evidence that examined industry concerns about the potential diversion to Australia of steel and aluminium previously bound for the United States.

Diverted product may be considered dumped or not under the WTO Anti-Dumping Agreement framework.

Steel and aluminium products make up 84 per cent of the ADC's current caseload, and comprise 73 per cent of existing anti-dumping or countervailing measures in place². This Note is intended to:

- bring evidence to the discussion about what we could reasonably expect impacts to be
- outline what existing mechanisms are in place for industry to access
- explain proactive steps the ADC is taking in the wake of the US tariffs.

In consultation with my colleagues from across Australian Government agencies, I instructed the ADC to consider potential impacts on Australia. The analysis which forms the basis of this Note was led by the ADC's Anti-Dumping Information Service (ADIS). The ADIS is tasked with providing targeted economic analysis of trends and trading behaviours across markets to strengthen the evidence base for my decisions and recommendations.

In commissioning the analysis and in preparing this Note, the ADC worked closely with other areas of the Department of Industry, Innovation and Science, including the Office of the Chief Economist, to draw on their economic, market analysis and policy expertise and knowledge of Australian and global steel and aluminium markets. The ADC also worked closely with other government agencies including the Department of the Prime Minister and Cabinet, the Treasury and the Department of Foreign Affairs and Trade.

This Note incorporates the findings of specialist quantitative analysis undertaken by an economic consultant, Cadence Economics. The consultant analysed the potential displacement of steel and aluminium as a result of the tariffs, and the likely impacts of

² As at 30 April 2018

displaced steel and aluminium ending up in Australia on the Australian economy. This analysis was based on a model for which certain assumptions are required.

In preparing this Note, I consulted with members of the International Trade Remedies Forum (ITRF), a consultative body established by legislation to provide advice to the government on the anti-dumping system. Members of the ITRF represent a broad cross section of stakeholders including Australian manufacturers, producers, importers, downstream industry, industry associations and unions. The views of ITRF members are summarised in Chapter 7 of this Note followed by my observations.

3 DETAIL OF ANNOUNCED TARIFFS

3.1 Presidential Proclamations

On 8 March 2018, US President Donald Trump signed separate proclamations imposing tariffs of 25 per cent on imports of steel articles³ and 10 per cent on imports of aluminium articles⁴ into the US.

On 22 March 2018, President Trump issued separate proclamations adjusting the tariffs⁵. As a result, the tariffs on steel and aluminium imports from Australia, along with Argentina, Brazil, Canada, Mexico, the European Union and South Korea were suspended until 1 May 2018. The President was to decide by 1 May 2018 whether to extend the exemptions.

On 30 April 2018 a third set of proclamations were signed⁶. These confirmed the existing tariffs. They noted that arrangements had been made with South Korea, which include quotas, that in-principle agreements had been reached with Argentina, Australia and Brazil and that the exemptions for these countries were extended indefinitely. The exemptions for Canada, Mexico and the European Union were also extended until 1 June 2018.

On 31 May 2018, President Trump signed further proclamations adjusting the tariffs⁷. As a result, the tariffs apply to imports from all countries except as follows:

- Australia, Argentina, South Korea and Brazil in relation to steel. Argentina, South Korea and Brazil are subject to quota arrangements.
- Australia and Argentina in relation to aluminium. Argentina is subject to a quota arrangement.

3.2 Tariff coverage

The tariffs on steel and aluminium cover an extensive range of goods.

For the purposes of the proclamations, 'steel articles' are defined at the Harmonized Tariff Schedule (HTS) 6-digit level as: 7206.10 through 7216.50, 7216.99 through 7301.10, 7302.10, 7302.40 through 7302.90, and 7304.11⁸ through 7306.90, including any subsequent revisions to these HTS classifications.

³ <https://www.whitehouse.gov/presidential-actions/presidential-proclamation-adjusting-imports-steel-united-states/>

⁴ <https://www.whitehouse.gov/presidential-actions/presidential-proclamation-adjusting-imports-aluminum-united-states/>

⁵ <https://www.whitehouse.gov/presidential-actions/presidential-proclamation-adjusting-imports-steel-united-states-2/> and <https://www.whitehouse.gov/presidential-actions/presidential-proclamation-adjusting-imports-aluminum-united-states-2/>

⁶ <https://www.whitehouse.gov/presidential-actions/presidential-proclamation-adjusting-imports-steel-united-states-3/> and <https://www.whitehouse.gov/presidential-actions/presidential-proclamation-adjusting-imports-aluminum-united-states-3/>

⁷ <https://www.whitehouse.gov/presidential-actions/presidential-proclamation-adjusting-imports-steel-united-states-4/> and <https://www.whitehouse.gov/presidential-actions/presidential-proclamation-adjusting-imports-aluminum-united-states-4/>

⁸ The reference to "7304.10" in clause 1 of Proclamation 9705 is amended to read "7304.11". The White House, *Presidential Proclamation Adjusting Imports of Steel into the United States*, 22 March 2018, <<https://www.whitehouse.gov/presidential-actions/presidential-proclamation-adjusting-imports-steel-united-states-2/>>.

'Aluminum articles' are defined in the HTS as:

- (a) unwrought aluminum (HTS 7601);
- (b) aluminum bars, rods, and profiles (HTS 7604)
- (c) aluminum wire (HTS 7605);
- (d) aluminum plate, sheet, strip, and foil (flat rolled products) (HTS 7606 and 7607);
- (e) aluminum tubes and pipes and tube and pipe fitting (HTS 7608 and 7609);
- (f) aluminum castings and forgings (HTS 7616.99.51.60 and 7616.99.51.70),
including any subsequent revisions to these HTS classifications.

Cadence estimates that this covers 57 per cent of steel imports and 84 per cent of aluminium imports in the United States

4 GLOBAL STEEL AND ALUMINIUM INDUSTRIES

One of the most important issues facing the global steel and aluminium industries is continued overcapacity, the impacts of which are far-reaching. Sustained global excess capacity and steel market distortions have adverse social and economic impacts. In response, the OECD and the G20 nations have advocated for government actions to address market distortions that underpin sustained global excess capacity.⁹

The OECD has previously highlighted that 'excess capacity in one region can displace production in other regions'.¹⁰ One way excess capacity may be displaced onto the world market is through unfair trade practices such as dumping.

In August 2016, the ADC completed an analysis of global and Australian markets for primary (crude) steel and aluminium products¹¹ and presented its report to me. I then used the report in advising Ministers about the impact of global excess capacity and market distortions on the growth and viability of the Australian steel and aluminium sector, and implications for the effectiveness of Australia's anti-dumping system.

Building on its 2016 analysis of primary steel markets, in 2017 the ADC prepared a report on Australia's steel manufacturing and fabricating markets¹². The purpose of the 2017 analysis of steel manufacturing and fabricating markets is to increase understanding of the key characteristics of the industry, the factors driving demand for steel fabricated products, and the impacts of developments in global markets on the economic performance of the industry.

The reports discussed a number of key issues facing the global steel and aluminium industries, including:

- the cyclical and capital-intensive nature of the industries
- the challenges of excess capacity and government intervention
- impacts of the increasing use of trade remedies, including production displacement.

While there have been some attempts to address the imbalance between production and demand and signs of improved performance of the global steel industry, questions remain over how quickly this can be resolved¹³.

⁹ Anti-Dumping Commission, *Analysis of Australia's steel manufacturing and fabricating markets report to the Commissioner of the Anti-Dumping Commission*, 2017, p.4, <http://www.adcommission.gov.au/adsystem/referencematerial/Documents/Steel%20Fabrication%20Report%20November%202017.pdf>.

¹⁰ *ibid.*, p.4

¹¹ Anti-Dumping Commission, *Analysis of steel and aluminium markets report to the Commissioner of the Anti-Dumping Commission*, 2016, <http://www.adcommission.gov.au/adsystem/referencematerial/Documents/Steel.Aluminium.Report.31.August.2016.pdf>.

¹² See footnote 9

¹³ *Global Forum on steel excess capacity report 30 November 2017*, pp.3-4, https://www.bmwi.de/Redaktion/EN/Downloads/global-forum-on-steel-excess-capacity-report.pdf?__blob=publicationFile.

Since the 2009 global financial crisis, total trade remedy investigations and measures in force for steel, and to a lesser extent aluminium, products have been rising globally. The majority of investigations and measures have been in respect of Chinese exports. Consistent with global trends, trade-exposed Australian steel and aluminium producers have increasingly sought trade remedies under Australia's anti-dumping system, particularly in relation to primary products.

The increasing use of trade remedies¹⁴ or other actions such as the tariffs imposed by the United States and further retaliatory action, have the potential to further displace production with a potential redirection of steel and aluminium trade flows, including to Australia. A portion of any displaced product may arrive at dumped or subsidised prices. Therefore I am committed to ensuring that Australia's trade remedies system is effective and efficient so that Australian industries can compete with imports on a level playing field.

¹⁴ See footnote 11 at p.5.

5 CONSULTANT'S ADVICE – TRADE FLOWS AND IMPACTS

5.1 Background

The ADC engaged an economic consultant, Cadence Economics, to undertake a specialist quantitative analysis of:

- the potential displacement of steel and aluminium as a result of the tariffs
- the likely impacts of displaced steel and aluminium ending up in Australia on the Australian economy and Australian producers.

Cadence utilised their Computable General Equilibrium (CGE) model (CGEM) to analyse impacts throughout the economy. It utilises data from a range of sources including a Global Social Accounting Matrix supplemented by data from the Australian Bureau of Statistics. Further detail is included in chapter two of the Cadence Report.

Cadence conducted its analysis using two scenarios:

1. That exemptions apply to the countries declared in the proclamations of 8 and 22 March 2018
2. That no country is exempted from the tariffs.

These scenarios were selected as they represented scenarios at both ends of the spectrum of possibilities – the exemptions initially announced and no exemptions at all.

Estimated volume impacts off a reference case are shown below.

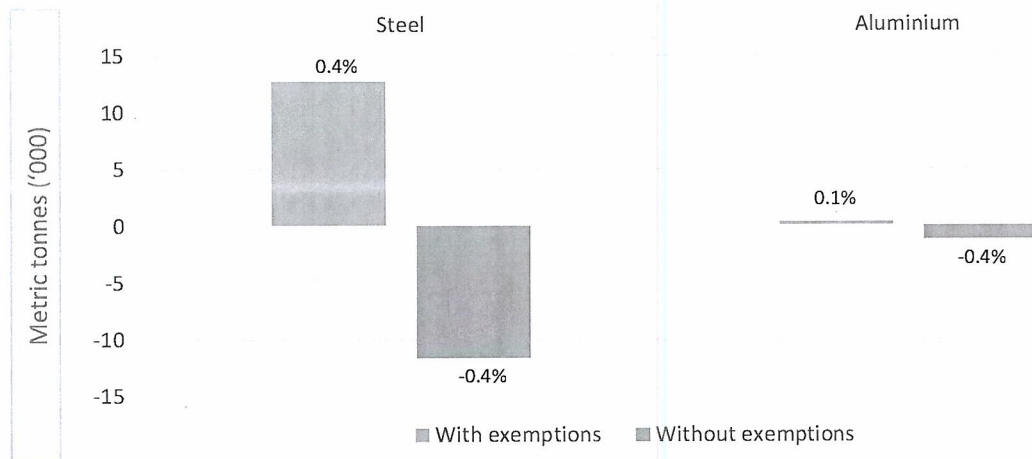


Figure 1: Excerpt from Cadence Report - Projected imports of steel and aluminium into Australia in 2020 under the scenarios considered

Further detail on the assumptions and methodology can be found in the Cadence Report and modelling details, which are attached to this Note.

5.2 Findings

5.2.1 Scenario 1

Under this scenario, Cadence estimated that steel imports into Australia are projected to increase by just under 13 thousand metric tonnes in 2020, representing an increase of 0.4 per cent off a reference case.

Aluminium imports into Australia are projected to increase by just under 300 metric tonnes in 2020. Off base import levels of around 300 thousand metric tonnes, this represents an increase of 0.1 per cent off a reference case.

At a macroeconomic level, Real GDP is estimated to increase by 0.002 per cent and investment by 0.023 per cent off a reference case.

Key findings are summarised below.

<i>Variable</i>	<i>2018</i>	<i>2020</i>
Real GDP	0.000%	0.002%
Real investment	0.008%	0.023%
Steel output	0.262%	0.254%
Aluminium output	0.122%	0.296%
Domestic steel price	0.063%	0.075%
Domestic aluminium price	0.008%	0.014%
Steel import price	-0.050%	-0.050%
Aluminium import price	-0.083%	-0.094%

Table 2: Excerpt from Cadence Report - Projected macroeconomic impacts on Australia under the Proclamations with country exemptions (percentage deviation from reference case)

5.2.2 Scenario 2

Under this scenario, Australian imports of steel are projected to fall by just under 11.7 thousand metric tonnes in 2020 off a reference case.

In the case of aluminium, Australian imports are projected to fall by just under 1,200 metric tonnes in 2020 off a reference case.

At the macroeconomic level Real GDP is projected to fall by around 0.007 per cent and real investment by 0.037 per cent in 2020 off a reference case.

Key findings are summarised below.

Variable	2018	2020
Real GDP	-0.001%	-0.007%
Real investment	-0.011%	-0.037%
Steel output	-0.311%	-0.305%
Aluminium output	-0.018%	-0.052%
Domestic steel price	-0.084%	-0.099%
Domestic aluminium price	-0.024%	-0.029%
Steel import price	-0.000%	-0.002%
Aluminium import price	-0.025%	-0.031%

Table 3: Excerpt from Cadence report - Projected macroeconomic impacts on Australia under the Proclamations without country exemptions (percentage deviation from reference case)

5.2.3 State of affairs as at 31 May 2018

The ADC enquired of Cadence the likely impacts of the state of affairs with the tariffs applying to imports from all countries except:

- Australia, Argentina, South Korea and Brazil in relation to steel. Argentina, South Korea and Brazil are subject to quota arrangements
- Australia and Argentina in relation to aluminium. Argentina is subject to a quota arrangement.

Cadence advised:

Given our conclusion was that the impacts of the proposed increases in steel and aluminium tariffs were ‘immaterial’ from an Australian perspective under both scenarios, we have no reason to believe that this conclusion would be changed in light of the 31 May proclamation. This is because the outcome of this proclamation lies within the range of our existing results.

5.3 Limitations

I recognise that the figures above can only be estimates from an economic model. What also matters is the impact on the ground and what mechanisms are in place to deal with any increased level of imports arriving in Australia at injurious dumped or subsidised prices. These are discussed in the following chapters.

6 EXISTING MECHANISMS

Australia has a robust anti-dumping and countervailing system in place managed by the Anti-Dumping Commission (ADC) to deal with any concerns arising from potential increased levels of imports at dumped or subsidised prices.

6.1 Anti-dumping and countervailing

Where dumped or subsidised goods have been found to be causing material injury to domestic manufacturers or producers, remedies in the form of dumping or countervailing duties can be imposed.

Dumping occurs when goods exported to Australia are priced lower than their 'normal value'¹⁵ which is usually the comparable price in the ordinary course of trade in the exporter's domestic market¹⁶. A reduction for any reason in the price of goods exported to Australia below the 'normal value' may result in the product being considered dumped.

A subsidy is any financial assistance (or income or price support) by a government that benefits, either directly or indirectly, an exporter of the goods to Australia¹⁷. For a subsidy to be considered 'countervailable', it needs to meet certain criteria.

The anti-dumping and countervailing system is demand-driven. The ADC responds to requests from applicants for the imposition of duties where applicants believe the products are being dumped or subsidised and is causing or threatening to cause them material injury. It is a robust and effective system and is an essential part of the Government's commitment to free and fair trade.

Investigations, and any resulting measures, are in response to applications from industry and reflect market conditions. Any measures imposed reflect the outcome of an independent, rigorous and transparent investigation conducted by the ADC.

As part of the investigation process, I can impose interim dumping duties as early as 60 days after an investigation commences if there are good reasons for believing at that stage that measures are necessary to prevent injury during the investigation. These interim measures provide relief to the local industry while the investigation continues. I am committed to making a Preliminary Affirmative Determination (PAD) as soon as I believe there are sufficient grounds to do so.

There are a significant number of dumping duties applying to steel and aluminium products imported into Australia. It may be possible that overseas exporters that become uncompetitive in the US market may seek to redirect exports to Australia. However, they would be required to meet the duties already in place in the Australian market for these products.

¹⁵ 'Normal value' may also be determined using either comparable prices to a third country or the cost of production plus selling, general and administrative expenses and profit

¹⁶ <http://www.adcommission.gov.au/adssystem/Pages/Explaining-the-System.aspx>

¹⁷ *ibid.*

As at 30 April 2018, 73% of all anti-dumping or countervailing measures in place in Australia apply to steel and aluminium products. In many case those duties are significant – ranging up to more than 100%. The steel and aluminium products and countries covered by measures (and range of duties) are outlined in Appendix 1.

6.1.1 Trade-flow tracking

I consider it important that consistent with my responsibilities as Commissioner, the ADC tracks trade flows of products that are subject to anti-dumping or countervailing measures and that are a significant proportion of the ADC's caseload.

The ADC works with the Department of Home Affairs (Home Affairs), to obtain evidence on the effectiveness of anti-dumping or countervailing measures and identify potential evidence of non-compliance with anti-dumping or countervailing measures and possible circumvention. To this end, the ADC is also working closely with Home Affairs to enhance its monitoring activities, including through building capability in applying advanced statistical techniques to analyse import data.

The ADC is now tracking volumes and pricing of a range of steel and aluminium products on a monthly basis to identify and bring to my attention any developments that may be of concern. This is discussed further in chapter 8.

6.1.2 Anti-circumvention and compliance

Exporters and importers that circumvent anti-dumping or countervailing measures undermine these measures' effectiveness in addressing material injury caused by dumping and subsidisation. It is imperative that trade remedy investigating authorities have in place a strong and effective anti-circumvention regime.

Trans-shipment may involve the export of goods through one or more countries for the purpose of avoiding anti-dumping or countervailing duties.

The Australian anti-circumvention framework is sufficiently mature and robust to deal with such concerns. The existing anti-dumping and countervailing measures Australia has in place mitigate against Australia being used as a trans-shipment point. Australia's anti-circumvention framework was established in June 2013 and expanded in April 2015. In addition to trans-shipment which is intended to avoid anti-dumping or countervailing duties, the framework also includes prescribed circumvention activities covering:

- assembly of parts in Australia – parts of goods subject to measures are imported to Australia and assembled domestically
- assembly of parts in third country – parts of goods subject to measures are exported to a third country for assembly prior to export to Australia
- arrangements between exporters – goods are exported under an arrangement between exporters whereby the exported goods improperly attract the more favourable rate of measures applicable to an exporter than the rate applicable to the actual exporter of the goods
- avoidance of the intended effect of duty – the price of the goods does not increase commensurate with the anti-dumping or countervailing duties payable. This is an expedited inquiry and is subject to a 100 day legislative timeframe

- slight modification of goods regulation – circumstances where exporters slightly modify their goods in order to circumvent duties that apply to the original (or unmodified) goods
- any additional circumstances prescribed by regulation.

Australia's strong anti-circumvention framework has been established to enable quick and decisive action to be taken when allegations of anti-circumvention arise.

To 20 June 2018, the ADC has concluded nine anti-circumvention inquiries. I was satisfied that circumvention had occurred in six of those inquiries, covering imports of zinc coated (galvanised) steel, hollow structural sections and aluminium extrusions. As a result of these inquiries, the notices were amended to ensure that appropriate duties were paid on imports on these goods. The other three inquiries resulted in no change to the measures or other action, as no circumvention activity was found. Three inquiries are in progress covering aluminium extrusions, clear float glass and wire rope.¹⁸

Home Affairs through its operational arm, the Australian Border Force (ABF), is responsible for collecting dumping and countervailing duties and for enforcing compliance with measures. The ABF's activities are focused on ensuring a high level of voluntary compliance while dealing effectively with those who do not comply with customs-related law including anti-dumping or countervailing measures. It achieves this by:

- providing timely information, guidance and advice
- working collaboratively with industry and, where appropriate, advising industry in advance of its areas of focus
- being open, fair, transparent and nationally consistent with its compliance activities
- ensuring its compliance is intelligence-informed and risk based, and responds proportionately to non-compliance
- working with external regulatory, intelligence and enforcement bodies, including the ADC, through information sharing and joint activities.

The ABF's compliance framework ensures that work is done ahead of, at, and after the border to facilitate legitimate trade and to deter and prevent non-compliance.

Evasion of anti-dumping or countervailing measures, which could include trans-shipment, may also breach other Customs laws which are administered by the ABF. For example, the ABF may issue a demand for unpaid customs, dumping or countervailing duties under s. 165 of the *Customs Act 1901* for debts payable to the Commonwealth. Persons who trans-ship goods to circumvent anti-dumping or countervailing measures may also be subject to other penalties under that Act.

The ADC and Home Affairs work collaboratively to ensure that importers and exporters are complying with their obligations, including behaviours to avoid the payment of anti-dumping and countervailing duties.

¹⁸ WTO count.

7 CONSULTATION

I invited members of the International Trade Remedies Forum to comment on the analysis conducted by Cadence and provide any further information or evidence to inform my consideration. Below is a summary of comments received.

7.1 Query on employment impacts at the ITRF meeting

At the April ITRF, one member queried whether employment impacts could be examined.

7.2 Submission by Australian Steel Association

Acknowledges the quality of the analysis and does not consider that further analysis needs to be undertaken.

7.3 Submission by BlueScope Steel

Considers that steel markets do not follow micro economic theory and that there are incorrect assumptions in the model in relation to the flat steel market. The market is price sensitive.

Would like to have seen the actual modelling and assumptions. Considers that there are some inconsistencies with some of the data used and ABS data in relation to imports into Australia.

BlueScope only produces a limited category of goods and many of the categories analysed are not produced in Australia.

The environment has changed since the analysis was done rendering the modelling obsolete. Safeguards and retaliatory actions have not been modelled.

Attaches importance to the ADC's commitment to tracking of trade flows.

BlueScope's export performance will be impacted by other factors and BlueScope is at capacity. Australian export prices are unrelated to the Australian domestic price.

Countries that have sold minor quantities into Australia, but retain trade links could increase volumes, and other countries may also divert volumes to Australia. The modelling underestimates South Korea.

The 35 per cent of the steel imports in the 'rest of world' classification would include existing and long term key steel exporting countries to Australia.

The assumption in the report that increases in domestic pricing as a result of exempted country exports to the US will flow on to other markets. Considers that this is incorrect given the finite sales of commodity product volumes in Australia. Prices will be driven down to secure volume.

Considers that an incorrect assumption is made that countries without exemptions will reduce output. Such behaviour has not been witnessed over the recent history of global steel oversupply (or since global financial crisis).

Provides an example of pricing being reduced by a Chinese exporter after their anti-dumping margins were adjusted to zero and increase market share being obtained by China. Increased volumes cannot be reconciled with the estimate in the report.

7.4 Submission by Capral Limited

Notes that anti-dumping in Australia applies to a small portion of the aluminium categories examined and that the modelling doesn't include fabricated goods such as windows which were imported at significant levels to Australia.

The report does not take into account other developments such as the US Section 301 investigations involving intellectual property and sanctions on Russia. London Metal Exchange (LME) aluminium prices have moved in April and May 2018 as a result of this speculation.

Concerned about the removal or reduction by the Government of China of export tariffs on certain aluminium alloys, which will increase Chinese exports.

Agrees that import prices in aggregate will decline as non-exempt countries seek out new export destinations. The Australian industry is therefore vulnerable. Volumes will exceed estimated increases of 240 tonnes as categories mentioned above weren't included in the analysis.

Supportive of ongoing vigilance of the ADC, expanded trade flow tracking and remaining alert to circumvention practices.

7.5 Submission by the Constructions, Forestry, Maritime, Mining and Energy Union (CFMEU), the Australian Manufacturing Workers' Union (AMWU) and the Australian Workers Union

Notes:

- the difficulty in modelling in a changing environment
- that the current state of affairs as at the 31 May 2018 proclamations and the impact of quotas were not specifically modelled.

Considers this would result in a larger drop in imports than envisaged in the report, which would be significant in the context of the Australian market.

The expectation of a general reduction in output is unduly optimistic given recent manufacturer behaviour. Global overcapacity has resulted in an increase in dumping activity.

Notes that the report does not factor in retaliation and other developments, such as the EU safeguards investigation. Australia is the one exempt country without quotas for steel and aluminium which may result in Australia becoming a target for trans-shipment.

What is more important than modelling is monitoring what is happening with imports, including ongoing analysis.

The submission also covers a range of matters outside of the scope of this note including: access to import data, administration of safeguards, funding for the ADC and reforms of the anti-dumping and countervailing system. These have been passed on for appropriate consideration by other agencies.

7.6 Submission by Liberty Onesteel

The changing nature of the Trump Administration's actions impact the reliability of the analysis.

The report does not consider subsequent retaliatory actions such as the EU safeguards inquiry, and Cadence's analysis includes products not manufactured in Australia.

Considers that the basis for the scenarios modelled is difficult to comprehend. The predictions are lower and counter-intuitive to what would be expected. Increases in imports are already being seen in the Australian market.

The model considers bilateral rather than multilateral trade. Exporting producers may vary volumes between export markets on a month-by-month basis.

Considers that the assumption that Australian domestic prices will increase as a result of increased exports to the US, irrespective of import prices into Australia is flawed. Australian manufactures price relative to import prices entering the Australian market. To maintain market share, Australian manufacturers will need to reduce prices to compete with imports at lower prices.

Supports a greater focus on tracking volumes of key steel and aluminium product groups.

7.7 Commissioner's observations

This Note brings evidence into a space in which there were many reasonably held fears that deserve proper consideration. I find the expert analysis prepared by Cadence at my request to be the best source of evidence at present. There is no evidence before me that the economy-wide impacts as a result of the US tariffs will be significant. However, limitations on time and data meant that the analysis was not conducted at product level, where impacts could be somewhat different.

Equally, I recognise that there are inherent limitations to modelling, and the changing application of the tariffs has compounded this. Real-world market dynamics and results may differ from the projected modelled assumptions and outcomes.

In response to the query on employment impacts, the ADC asked Cadence to interrogate the model to examine these impacts. On an economy-wide basis, the model estimated increases in full-time equivalent employees of 49 in 2018 and 90 in 2020 under scenario 1 (with exemptions) and reductions of 46 in 2018 and 65 in 2020 under scenario 2 (without exemptions).

The products examined are those covered by proclamations and do include products that are not manufactured in Australia. In relation to Capral's comments on the inclusion of fabricated aluminium products, I note that these are not included in the US proclamations and therefore were not modelled.

I consciously did not include existing or potential retaliatory measures in this analysis. It would go beyond my remit to examine practices not directly relating to dumping and subsidisation. Further, it would be difficult to craft a static retaliation scenario to model in the current dynamic circumstances.

7.8 Consultation draft

On 19 July 2018, I published a consultation draft of this Note on the ADC website and circulated it to ITRF members to enable any final comments to be made before the Note is finalised. The submissions received provided commentary on:

- the nature of the Note and the modelling, specifically regarding safeguards action taken by the European Union and potential trade diversion
- trade flow tacking.

I have considered the comments made in the submissions. I have outlined in paragraph 7.7 why potential retaliatory measures were not modelled. The comments received were supportive of the tracking of trade flows discussed at paragraphs 6.1.1 and 8.2. I have therefore decided that adjustments to the Note are not required.

8 FUTURE ACTIONS PROPOSED

8.1 Reflections on modelled impacts

As Commissioner of the Anti-Dumping Commission, I am committed to maintaining a strong and robust anti-dumping and countervailing trade remedies system.

Based on the evidence provided to me through this matter, it is clear that the economy-wide impacts of certain trade actions taken by the Trump administration which have been analysed in this exercise are considered immaterial. There remains, however, in my view some concern at a product-specific level, that there may be a more significant impact on Australian manufacturers as firms seek to redistribute their products globally.

I agree with these concerns. Should there be actions taken by exporters, include dumping or subsidisation, the ADC will act appropriately in response.

In order to do this effectively, the ADC will continue to monitor and track trade flows, using a risk-based approach, of those products subject to trade remedy measures, and collaborate with other government agencies more broadly as required.

8.2 Trade Remedy Index

I have determined that the best and most effective way to properly track and monitor existing trade remedy measures is to establish statistically based and data-driven indices that would:

- be compiled by the ADC for volumes and pricing using 2017 as a base year
- separately identify and track import sources greater than 3 per cent of 2017 volumes and emerging significant new sources
- cover a range of goods which are subject to anti-dumping/countervailing measures
- be used to provide updates to me on movements in volumes and pricing on a monthly basis.

In addition I will increase my efforts taken on anti-circumvention matters and will work with other government agencies to ensure that the powers available to me under the Customs Act are applied effectively to ensure that circumvention practices, such as trans-shipment aimed at avoiding duties, are properly acted against in order to provide for an effective Australian trade remedy system.

9 APPENDICES AND ATTACHMENTS

Appendix 1 - Steel and aluminium products and countries covered by measures with rates of duties (as at 30 April 2018)

Product	Date imposed	Date expire	Countries covered ¹⁹	Effective rates (%)
Aluminium extrusions	28/10/2010	28/10/2020	China (D) China (C)	0.1 to 64.4
Aluminium extrusions	27/06/2017	27/06/2022	Malaysia (D), Malaysia (C) Vietnam (D)	7.7 to 34.9
Aluminium road wheels	05/07/2017	04/07/2022	China (D) China (C)	0.8 to 111.8
Aluminium zinc coated steel	05/08/2013	05/08/2018	China (D) China (C) South Korea (D)	0 to 29.6
Chrome-plated steel bars	07/09/2016	07/09/2021	Romania (D)	22.4 to 66.9
Deep drawn stainless steel sinks	26/03/2015	26/03/2020	China (D) China (C)	5.0 to 46.2
Grinding balls	09/09/2016	09/09/2021	China (D) China (C)	3.0 to 103.6
Hollow structural sections	03/07/2017	02/07/2022	China (D) China (C) South Korea (D) Malaysia (D) Taiwan (D)	3.0 to 143.7
Hollow structural sections	20/08/2015	20/08/2020	Thailand (D)	5.7 to 29.7
Hot rolled coil steel	20/12/2017	20/12/2022	Taiwan (D)	Confidential
Hot rolled plate steel	19/12/2013	19/12/2018	China (D) China (C) Japan (D) Indonesia (D) South Korea (D)	8.6 to 54.9
Hot rolled structural steel sections	20/11/2014	20/11/2019	Taiwan (D) South Korea (D) Thailand (D) Japan (D)	2.5 to 19.5
Quenched and tempered steel plate	05/11/2014	05/11/2019	Finland (D) Japan (D) Sweden (D)	9.6 to 26.1
Resealable can end closures	24/03/2017	24/03/2022	Malaysia (D) the Philippines (D) Singapore (D)	Confidential
Rod in coils	17/06/2015	17/06/2020	Taiwan (D)	2.7
Rod in coils	22/04/2016	22/04/2021	China (D)	24.2 to 49.0
Steel reinforcing bar	19/11/2015	19/11/2020	South Korea (D) Singapore (D) Spain (D) Taiwan (D)	2.8 to 14.3
Steel reinforcing bar	13/04/2016	13/04/2021	China (D)	6.1 to 30.0
Steel reinforcing bar	07/03/18	07/03/23	Greece (D), Indonesia (D), Thailand (D)	9.3 to 42.1
Wind towers	16/04/2014	16/04/2019	China (D) South Korea(D)	15.0 to 18.8
Wire rope	18/12/2017	18/12/2022	South Africa (D)	Confidential
Zinc coated (galvanised) steel	05/08/2013	05/08/2018	China (D) China (C) South Korea (D) Taiwan (D)	0 to 69.9
Zinc coated (galvanised) steel	16/08/2017	16/08/2022	India (D) India (C) Malaysia (D) Vietnam (D)	7.6 to 16.5

¹⁹ (D) Dumping duties, (C) Countervailing duties (P) Provisional measures

Attachment 1 – Cadence Report

Attachment 2 – Expanded description of CGEM model

