



**MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT**
HĪKINA WHAKATUTUKI

**LABOUR, SCIENCE
AND ENTERPRISE**



Trade (Anti-dumping and Countervailing Duties) Act 1988

Initiation Report: Application for Anti-Dumping Duties

Galvanised Wire from China and Indonesia

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Abbreviations and Acronyms

| Acronym | Meaning |
|-------------------|--|
| AANZFTA | ASEAN, Australia, New Zealand Free Trade Agreement |
| Act, the | The <i>Trade (Anti-dumping and Countervailing Duties) Act 1988</i> |
| AD Agreement, the | The WTO Agreement on Implementation of Article VI of the GATT |
| ASEAN | Association of Southeast Asian Nations |
| CFR | Cost and Freight |
| China | People's Republic of China |
| CIF | Cost, Insurance, Freight |
| Customs | New Zealand Customs Service |
| EBIT | Earnings Before Interest and Taxes |
| FIS | Free into Store |
| FOB | Free on Board |
| FTA | Free Trade Agreement |
| FY | Financial Year |
| GDP | Gross Domestic Product |
| IAEE | International Association for Energy Economics |
| IPP | Import Price Parity |
| LME | London Metal Exchange |
| MBIE | Ministry of Business, Innovation and Employment |
| MT | Metric ton (tonne) |
| NZ | New Zealand |
| Pacific Steel | Pacific Steel (NZ) Limited |
| NZD | New Zealand Dollar |
| PBOC | People's Bank of China |
| POI(D) | Period of Investigation (Dumping) |
| POI(I) | Period of Investigation (Injury) |
| PPP | Purchasing Power Parity |
| RMB | Renminbi |
| ROI | Return on investment |
| USD | United States Dollar |
| VFD | Value for Duty |
| WTO | World Trade Organization |

Initiation Report

Galvanised Wire from China and Indonesia

EXECUTIVE SUMMARY

MBIE recommends initiating an investigation into the alleged dumping of galvanised wire from China and Indonesia.

This report recommends that the General Manager of the Science, Innovation and International Branch of the Ministry of Business, Innovation and Employment (MBIE), acting under delegated authority from the chief executive, initiates an investigation of alleged dumping of galvanised wire from the People's Republic of China (China) and Indonesia.

MBIE has assessed the accuracy and adequacy of the evidence provided by Pacific Steel (NZ) Limited (Pacific Steel) in terms of the criteria in sections 10 and 10A of the *Trade (Anti-Dumping and Countervailing Duties) Act 1988* (the Act), and the World Trade Organization (WTO) Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994 (the AD Agreement).

MBIE is satisfied that Pacific Steel has provided sufficient evidence to justify initiating an investigation of claims that imports of allegedly dumped galvanised wire from China and Indonesia are causing material injury to the New Zealand industry. An investigation would establish whether or not allegedly dumped imports are, in fact, dumped; whether such imports are causing material injury to the domestic industry; and whether anti-dumping duties should be imposed to remedy any such injury.

Pacific Steel alleges injurious dumping of galvanised wire from China and Indonesia

On 12 February 2020, MBIE accepted a properly documented application from Pacific Steel for anti-dumping duties on galvanised wire from China and Indonesia. Pacific Steel claimed that imports of Chinese and Indonesian galvanised wire are being dumped and have caused material injury to the New Zealand industry.

The subject goods include certain specifications of galvanised wire

The imported goods covered by the application, the subject goods, are:

Galvanised steel wire of high, medium and low tensile strength between (and including) 2mm and 4.5mm in diameter, excluding armouring wire.

Pacific Steel meets the requirements to be considered as the New Zealand industry

The application was made by Pacific Steel, which is the only producer of galvanised wire in New Zealand, and therefore meets the requirements of section 10A of the Act, which outlines the minimum level of support required from the domestic industry for an application for an investigation.

Applications for anti-dumping duties must

MBIE's chief executive may initiate an investigation to determine the existence and effect of alleged dumping of goods when satisfied that

Initiation Report

Galvanised Wire from China and Indonesia

meet certain criteria for MBIE to initiate an investigation

the application meets the criteria of:

- Sufficient evidence of dumping
- Sufficient evidence of material injury to the domestic industry
- Sufficient evidence of a causal link between the alleged dumping and the injury.

Pacific Steel has provided sufficient evidence of dumping

For the purpose of initiation, MBIE is satisfied that Pacific Steel has provided sufficient evidence of dumping by Chinese and Indonesian galvanised wire producers.

The evidence of dumping submitted by Pacific Steel consisted of information based on import statistics with adjustments to establish an ex-factory export price. In the absence of information on domestic prices, Pacific Steel based normal values on constructed values to the ex-factory level.

Pacific Steel has provided sufficient evidence of material injury

Material injury is not defined in the Act, or the AD Agreement, but is taken to mean injury of a reasonably significant nature. It is the level of injury which can be demonstrated as material by an objective and unbiased investigating authority on the basis of an assessment of the factors set out in the Act, and in the context of the circumstances of the industry concerned. Injury is normally analysed in terms of the factors set out in section 8 of the Act, and looks at how an industry has performed, financially, over time, especially in competition with the allegedly dumped imports.

MBIE has assessed the information provided by Pacific Steel covering the last five financial years to June 2019, and for the purpose of initiation considers that Pacific Steel has provided sufficient evidence that it is incurring material injury from the alleged dumping of galvanised wire by Chinese and Indonesian producers.

There is evidence of volume and price effects and a consequent impact on Pacific Steel

MBIE's assessment shows that for the period examined:

- there is sufficient evidence for the purposes of initiation that there has been an increase in the volume of imports of allegedly dumped goods from China and Indonesia in absolute terms and in relation to production and consumption in New Zealand
- there is evidence for the purpose of initiation, that the allegedly dumped Chinese and Indonesian imports are undercutting prices of the New Zealand industry, and causing price suppression. There is no evidence of price depression.
- there is evidence that Pacific Steel has experienced declines in sales volume and sales revenue, market share and profit, that can be attributed to allegedly dumped imports of galvanised wire from China and Indonesia.

- while there has been some fluctuation in productivity per employee, the overall trend indicates an increase in productivity over the period.
- due to the changes in ownership there is no consistent data that would allow a ready assessment of the economic impact of the alleged dumping on return on investments (ROI).
- there is evidence that there has been a decline in capacity utilisation.
- there is no particular evidence relating to factors affecting domestic prices and the magnitude of the margin of dumping.
- there is evidence that Pacific Steel has experienced a negative effect on cash flow.
- Pacific Steel does not point to an adverse economic impact related to inventories.
- there is evidence of a decline in employment, with possible consequences for wages.
- Pacific Steel did not provide any specific evidence in support of its claims relating to the effect on growth.
- Pacific Steel did not provide any specific evidence in support of its claims relating to the effect on the ability to raise capital and investments

MBIE has examined other factors that may be causing injury

MBIE must also consider factors other than the allegedly dumped goods that may be causing injury to the domestic industry.

MBIE is satisfied that there is sufficient evidence, for the purpose of initiation, of a causal link between the allegedly dumped imports from China and Indonesia and the volume and price effects and consequent impact on the domestic industry, and that injury caused by any other factors has not been attributed to the dumped imports.

Pacific Steel has requested that provisional measures be imposed

Pacific Steel is seeking the imposition of provisional anti-dumping duties. Provisional measures may be applied if certain conditions are met at any time after 60 days from the date on which an investigation has been initiated in order to prevent material injury being caused during the period of investigation. This request will be addressed in any investigation.

MBIE considers that starting an investigation is justified.

MBIE has concluded that there is sufficient evidence of dumping causing injury to justify starting an investigation into the dumping of imports of galvanised wire from China and Indonesia.

Initiation Report

Galvanised Wire from China and Indonesia

1. Proceedings

1.1 Purpose

1. This report assesses, against the requirements in the Act, the application submitted by Pacific Steel for an investigation of alleged dumping of galvanised wire imported from China and Indonesia. The report outlines the basis for determining if the application presents sufficient evidence to justify the initiation of a dumping investigation.

1.2 Legal Requirements

2. Under sections 10 and 10A(1)(a) of the Act, MBIE's chief executive must start (initiate) an investigation to determine the existence and effect of any alleged dumping of any goods on being satisfied from the evidence in the application that there is sufficient evidence to justify investigating whether goods are being dumped and, the alleged dumping is causing or threatens to cause material injury to the industry.
3. Dumping is defined in section 3(1) of the Act as "the situation where the export price of goods imported into New Zealand or intended to be imported into New Zealand is less than the normal value of the goods as determined in accordance with the provisions of this Act." MBIE's consideration is also subject to the AD Agreement, which sets out the rights and obligations of WTO Members when undertaking anti-dumping investigations.
4. Article 5 of the AD Agreement deals with the initiation of an investigation, and requires that any application include sufficient evidence of dumping, and its amount; injury to a domestic industry in competition with the allegedly dumped imports; and a causal link between the allegedly dumped imports and the alleged injury. Article 5 also sets out the kind of evidence, reasonably available to the applicant that is required, and states at Article 5.2 that simple assertion, unsubstantiated by relevant evidence, cannot be considered sufficient to meet the requirements [for an application].
5. On the basis of the requirements of the Act and the AD Agreement, MBIE considers that to be accepted as properly documented, an application should contain such information that is reasonably available to the applicant on the matters set out in section 10(3) of the Act, and should be substantiated by relevant evidence that goes beyond mere assertion.
6. Having accepted an application as properly documented, MBIE goes on to assess whether the application provides sufficient evidence to justify investigating whether, in terms of section 10A of the Act, the subject goods are dumped, and whether the alleged dumping has caused, is causing, or threatens to cause material injury to the New Zealand industry.
7. Article 5.3 requires investigating authorities "to review the accuracy and adequacy of the evidence provided in the application to determine whether the evidence is sufficient to justify the initiation of an investigation."
8. Section 11 of the Act provides for the termination of investigations when there is insufficient evidence of dumping or material injury. Section 11(2)(c) provides that the evidence of dumping shall be insufficient when the volume of imports of dumped goods, expressed as a percentage of total imports is negligible having regard to New Zealand's obligations as a party to the WTO Agreement.

9. Article 5.8 of the AD Agreement provides that an application shall be rejected and an investigation shall be terminated promptly as soon as the authorities concerned are satisfied that there is not sufficient evidence of either dumping or of injury to justify proceeding with the case. There shall be immediate termination in cases where the authorities determine that the margin of dumping is *de minimis*, or that the volume of dumped imports, actual or potential, is negligible. The margin of dumping shall be considered to be *de minimis* if this margin is less than 2 per cent, expressed as a percentage of the export price. The volume of dumped imports shall normally be regarded as negligible if the volume of dumped imports from a particular country is found to account for less than 3 per cent of imports of the like product in the importing Member, unless countries which collectively account for less than 3 per cent of the imports of the like product in the importing Member collectively account for more than 7 per cent of imports of the like product in the importing Member.
10. With regard to the sufficiency of evidence for initiation, MBIE takes guidance from the 1988 judicial review case of *Kerry (New Zealand) Ltd v Taylor* in which Gault J said that in order to initiate a dumping investigation, the authority must be satisfied “that there is evidence beyond a mere assertion and of a nature and extent that indicates a likelihood of dumping and material injury, requiring investigation.” The Court also found that “the evidence should be scrutinised with due scepticism, bearing in mind the commercial context,” but emphasised that the assessment is one of sufficiency of evidence, not of dumping.¹
11. The chief executive must also be satisfied that the application is supported by the New Zealand industry in accordance with the requirements of section 10A(1)(b) of the Act.

1.3 Application

12. On 13 December 2019, MBIE received an initial application for anti-dumping duties to be imposed on galvanised wire from China and Indonesia. The application was submitted by Pacific Steel, the sole producer of galvanised wire in New Zealand.
13. On 27 January 2020 MBIE advised Pacific Steel that the initial application did not meet the requirements for acceptance, and advised Pacific Steel of the areas where it was deficient.
14. On 5 February 2020, Pacific Steel lodged a revised application. On 12 February 2020, MBIE accepted the revised application as properly documented in that it included as much of the information set out in section 10(3) of the Act as was reasonably available to the applicant, and was substantiated by supporting evidence.
15. Pacific Steel claims that the alleged dumping of galvanised wire from China and Indonesia is causing the company material injury principally through:
 - import volume effects
 - price undercutting
 - price depression
 - price suppression

¹ (1988) 3 TCRL 265 at page 17, accessed from www.nzlii.org/nz/cases/NZHC/1988/595.pdf

resulting principally in injury in relation to:

- output and sales
- market share
- profits
- productivity
- return on investments
- use of production capacity
- other adverse effects on cash flow, employment and wages, growth, ability to raise capital and investments
- the impact of the margin of dumping.

1.4 Provisional Measures

16. Pacific Steel requested that provisional anti-dumping duties be imposed to prevent material injury being caused to the domestic industry during the period of investigation. In its application Pacific Steel noted that while provisional measures can be applied 60 days after initiation this does not define when provisional measures ought to be applied, when justified. Pacific Steel considers that it is counter to the purpose of the provisional measures provision for day 60 to be viewed principally, or only, as an enabling date.
17. Section 16 of the Act deals with provisional measures. Section 16(1) provides that if at any time after 60 days from the date on which an investigation has been started, the Minister has reasonable cause to believe that goods are being dumped and by reason thereof material injury to an industry has been or is being caused or threatened, and if the Minister is satisfied that action under this section is necessary to prevent material injury being caused during the period of investigation, the Minister may give a provisional direction that payment of duty in respect of the goods should be secured under the Customs and Excise Act 2018.
18. Article 7.1 of the AD Agreement provides that provisional measures may be applied only if an investigation has been initiated in accordance with the provisions of Article 5 and interested parties have been given the opportunity to submit information and make comments; a preliminary affirmative determination has been made of dumping and consequent injury to a domestic industry; and the authorities judge such measures necessary to prevent injury being cause during the investigation.
19. Article 7.3 provides that provisional measures shall not be applied sooner than 60 days from the date of initiation of the investigation, while Article 7.4 provides that the application of provisional measures shall be limited to as short a period as possible, not exceeding four months, or when the authorities decide upon request by exporters, to a period not exceeding six months. These periods may be six months and nine months respectively if the authorities examine whether a duty lower than the margin of dumping would be sufficient to remove injury. Section 10E(2) of the Act requires that in determining the rate or amount of the duty, the Minister shall have regard to the desirability of ensuring that the rate or amount is not greater than is necessary to prevent the material injury or recurrence of material injury. MBIE considers that this means that New Zealand would meet the requirements for the extension of the periods referred to in Article 7.4 of the AD Agreement.

1.5 Notification

20. Section 10A(2) of the Act requires that the chief executive, before starting an investigation, inform the Governments of the countries of export of the goods.
21. Article 5.5 of the AD Agreement provides that after receipt of a properly documented application and before proceeding to initiate an investigation, the authorities shall notify the government of the exporting Member.
22. Article 62.2 of the NZ-China Free Trade Agreement (FTA) provides that as soon as possible following the acceptance of a properly documented application from an industry in one Party for the initiation of an anti-dumping investigation in respect of goods from the other Party, the Party that has accepted the properly documented application shall notify the relevant contact point in the other Party.
23. The ASEAN, Australia, New Zealand FTA (AANZFTA), which covers trade with Indonesia, does not include notification provisions.
24. In accordance with these provisions, MBIE has notified the Governments of the exporting countries of the acceptance of a properly documented application.

1.6 Report Details

25. In this report, unless otherwise stated, financial years (FY) are years ending 30 June and dollar values are New Zealand dollars (NZD). In tables, column totals may differ from the sum of individual figures because of rounding.
26. All volumes are expressed on a metric ton (MT/tonne) basis unless otherwise stated. The exchange rates used are the New Zealand Customs Service (Customs) exchange rates, or the rate provided by the applicant and that MBIE considers most appropriate in the circumstances, as indicated in the text.
27. The investigation will use the calendar year 2019 as the period of investigation of dumping (POI(D)). The period of investigation for injury (POI(I)) will be based on calendar years 2014-2019, but will take account of information relating to financial years (ending June), where necessary and appropriate.
28. Information which is confidential in terms of section 3F(5) of the Act is set out in Confidential Attachments to this Initiation Report.

2. Goods Description

2.1 Imported Goods

29. The subject goods are described as:

Galvanised steel wire of high, medium and low tensile strength between (and including) 2mm and 4.5mm in diameter, excluding armouring wire.

30. Pacific Steel notes that the goods subject to the application are descriptively the same as the goods that were subject to previous investigations of galvanised wire from Malaysia and South Africa.

Figure 2.1: Galvanised wire
Left: Fencing wire; Right: Manufacturing wire²



Tariff Classification

31. The subject goods are currently subject to the following classifications in the New Zealand Customs Tariff (greyed lines are excluded). Note that some statistical keys include goods that are outside the subject goods description (indicated by “Ex” – added by MBIE in the Tariff Item column in Figure 2.2).

Figure 2.2: Tariff Classification³

| Tariff item | Stat Key | Unit | Description | Duty % | Pref. |
|--------------|----------|------|---|--------|---|
| 72.17 | | | Wire of iron or non-alloy steel: | | |
| 7217.10.00 | | | – Not plated or coated, whether or not polished | | |
| | | | – Plated or coated with zinc: | | |
| 7217.20.10 | | | -- Containing by weight less than 0.6 % carbon | 5 | Free *See Below CA Free CPT 4 1/2019 3 1/2020 2 1/2021 1 1/2022 Free |
| | | | . . . Containing by weight less than 0.25 % carbon: | | |
| | | | Fencing wire: | | |
| | | | Less than 1.6mm in diameter: | | |
| | 01H | kg | Coils, not exceeding 50 kg | | |
| | 03D | kg | Other | | |
| | | | 1.6 mm or more, but less than 2.5 mm in diameter: | | |
| Ex | 05L | kg | Coils, not exceeding 50 kg | | |
| Ex | 07G | kg | Other | | |
| | | | 2.5 mm or more, but less than 4 mm in diameter: | | |

² Images from Pacific Steel website, <https://www.pacificsteel.co.nz/products/>.

³ Extract from the NZ Customs Working Tariff Document, Section XV: Base metals and articles of base metals <https://www.customs.govt.nz/globalassets/documents/tariff-documents/working-tariff-document-2018/section-xv-1-july-2019.pdf>

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| | | | | | | | |
|------------|------|----|---|--|------------------------|---|---|
| | 08E | kg | Coils, not exceeding 50 kg | | KR 1 1/2019 Free | | |
| | 09C | kg | Other | | | | |
| | | | 4 mm or more in diameter: | | | | |
| Ex | 11E | kg | Coils, not exceeding 50 kg | | | | |
| Ex | 13A | kg | Other | | | | |
| | | | Other: | | | | |
| | 14K | kg | Less than 1.6 mm in diameter | | | | |
| Ex | 15H | kg | 1.6 mm or more, but less than 2.5 mm in diameter | | | | |
| | 16F | kg | 2.5 mm or more, but less than 3.55 mm in diameter | | | | |
| | 17D | kg | 3.55 mm or more, but less than 4.5 mm in diameter | | | | |
| Ex | 18B | kg | 4.5 mm or more, but less than 5.5 mm in diameter | | | | |
| | 19L | kg | 5.5 mm or more in diameter | | | | |
| | | | ... Other: | | | | |
| | | | Fencing wire: | | | | |
| | | | Less than 1.6 mm in diameter: | | | | |
| | 21B | kg | Coils, not exceeding 50 kg | | | | |
| | 23J | kg | Other | | | | |
| | | | 1.6 mm or more, but less than 2.5 mm in diameter: | | | | |
| Ex | 25E | kg | Coils, not exceeding 50 kg | | | | |
| Ex | 27A. | kg | Other | | | | |
| | | | 2.5 mm or more, but less than 4 mm in diameter: | | | | |
| | 28K | kg | Coils, not exceeding 50 kg | | | | |
| | 29H | kg | Other | | | | |
| | | | 4 mm or more in diameter: | | | | |
| Ex | 31K | kg | Coils, not exceeding 50 kg | | | | |
| Ex | 33F | kg | Other | | | | |
| | | | Other: | | | | |
| | 34D | kg | Less than 1.6 mm in diameter | | | | |
| Ex | 35B | kg | 1.6 mm or more, but less than 2.5 mm in diameter | | | | |
| | 36L | kg | 2.5 mm or more, but less than 3.55 mm in diameter | | | | |
| | 37J | kg | 3.55 mm or more, but less than 4.5 mm in diameter | | | | |
| Ex | 39E | kg | 4.5 mm or more in diameter | | | | |
| 7217.20.90 | | | -- Other | | | 5 | Free *See Below CA Free CPT 4 1/2019 3 1/2020 2 1/2021 1 1/2022 Free KR 1 1/2019 Free |
| | | | ... Fencing wire: | | | | |
| | | | Less than 1.6 mm in diameter: | | | | |
| | 01A | kg | Coils, not exceeding 50 kg | | | | |
| | 03H | kg | Other | | | | |
| | | | 1.6 mm or more, but less than 2.5 mm in diameter: | | | | |
| Ex | 05D | kg | Coils, not exceeding 50 kg | | | | |
| Ex | 07L | kg | Other | | | | |
| | | | 2.5 mm or more, but less than 4 mm in diameter: | | | | |
| | 08J | kg | Coils, not exceeding 50 kg | | | | |
| | 09G | kg | Other | | | | |
| | | | 4 mm or more in diameter: | | | | |
| Ex | 11J | kg | Coils, not exceeding 50 kg | | | | |
| Ex | 13E | kg | Other | | | | |
| | | | ... Other: | | | | |
| | 14C | kg | Less than 1.6 mm in diameter | | | | |
| Ex | 15A | kg | 1.6 mm or more, but less than 2.5 mm in diameter | | | | |
| | 16K | kg | 2.5 mm or more, but less than 3.55 mm in diameter | | | | |
| | 17H | kg | 3.55 mm or more, but less than 4.5 mm in diameter | | | | |
| Ex | 18F | kg | 4.5 mm or more in diameter | | | | |

*Unless otherwise indicated, AAN, AU, CN, CPT, HK, KR, LLDC, MY, Pac, SG, TH, TPA and TW rates in the Preferential Tariff are Free.

Imports

32. In its application, Pacific Steel provided galvanised wire import data for FY2019 and for the calendar years 2009-2018, derived from TradeMap⁴ import statistics for Harmonized System sub-heading 7217.20. This data covered a wider range of imports than the subject goods.
33. In commenting on the FY2019 data, Pacific Steel noted that confidentiality orders from Statistics NZ cover several of the statistical keys, which means that the import data available to Pacific Steel is incomplete. Pacific Steel used TradeMap data for FY2019 to establish that the import shares held by China and Indonesia were above negligibility levels.
34. Statistics NZ operates the International Merchandise Trade Statistics confidentiality policy, which sets out the policy for preventing disclosure of confidential information in published international trade statistics. Detailed international trade statistics are normally published without prior checking for disclosure. If an exporter and/or importer requests suppression, aggregated data that identifies individual trade transactions, can, at the discretion of the Government Statistician, be suppressed in future publicly available tables. When such a request is received, Statistics New Zealand will verify the alleged identification risk. If Statistics New Zealand concludes that a risk of identification exists, either directly or by deduction, then it will amalgamate the relevant items with other trade transactions to prevent disclosure. Figure 2.3 shows the tariff items and statistical keys covered by the subject goods which are currently subject to data suppression.

Figure 2.3: Data Suppression⁵

| Tariff Item and Statistical Key | Description |
|---------------------------------|---|
| 7217.20.10.16 | Iron or non-alloy steel; wire, plated or coated with zinc, containing by weight less than 0.25% of carbon, (not fencing wire), 2.5mm or more but less than 3.55mm in diameter |
| 7217.20.10.17 | Iron or non-alloy steel; wire, plated or coated with zinc, containing by weight less than 0.25% of carbon, (not fencing wire), 3.55mm or more but less than 4.5mm in diameter |
| 7217.20.10.35 | Wire of iron or non-alloy steel, plated or coated with zinc 1.6-2.5mm diameter |
| 7217.20.10.36 | Wire of iron or non-alloy steel, plated or coated with zinc 2.5-3.55mm diameter |
| 7217.20.10.37 | Wire of iron or non-alloy steel, plated or coated with zinc 3.55-4.5mm diameter |

⁴ TradeMap is a proprietary database of trade statistics, originally developed by the International Trade Centre UNCTAD/WTO (ITC). Data is sourced from national statistics organisations and other international sources.

⁵ Extracted from http://archive.stats.govt.nz/about_us/legisln-policies-protocols/trade-confidentiality/confidential-items-imports.aspx

35. In addition to data suppression, the TradeMap data from Pacific Steel is at the six-digit level of a tariff sub-heading, whereas the Customs data is provided at 10-digit level of a statistical key. An analysis of the descriptions for each import entry in the Customs data can help establish if the goods are subject goods or not.
36. With regard to trends in import volumes, Pacific Steel notes that imports from Indonesia grew in volume some years ago but the volume then fell away but has grown again since 2013, to be New Zealand's main source of galvanised wire. The growth in imports from China was a little different with an increase in 2014, followed by a decline then a further increase.
37. MBIE has obtained data from Customs for 2013-2019, covering FY2014 to FY2019, including details of the goods subject to suppression orders, for the tariff items and statistical keys for the subject goods, with adjustments made to exclude goods whose entry line description clearly puts them outside the subject goods description. This is the data used as "Customs data" in this report, unless otherwise noted. The import levels and trends from Indonesia shown in the Customs data are similar to those shown by the Pacific Steel data, and while the trends are similar for imports from China the actual volumes of imports of the subject goods are lower than those identified by Pacific Steel. MBIE also notes that Indonesia is not the main source of New Zealand's imports of galvanised wire - that has been Australia which has contributed around half of the annual volume of imports since FY2014 (with most imports under suppressed items).
38. Imports from China and Indonesia are well above the negligibility levels noted in Article 5.8 of the AD Agreement.
39. Confidential Attachment 1 includes tables and charts to illustrate the points made above. The information is confidential because it includes data subject to data suppression by Statistics NZ, and confidential Pacific Steel sales and production data.

2.2 Like Goods

40. In order to establish the existence and extent of the New Zealand industry for the purposes of an investigation into injury, and having identified the subject goods, it is necessary to determine whether there are New Zealand producers of goods which are like those goods in all respects or have characteristics which closely resemble the subject goods.
41. Section 3(1) of the Act defines **like goods**, in relation to any goods, as:
 - a. Other goods that are like those goods in all respects; or
 - b. In the absence of goods referred to in paragraph (a), goods which have characteristics closely resembling those goods.
42. The scope of the subject goods is defined in section 2.1 above.
43. Pacific Steel considers that the galvanised wire that it produces are "like goods" to the subject goods, as required under section 3(1) of the Act. Pacific Steel noted that the goods subject to the application are the same as the goods in previous MBIE investigations into galvanised wire from South Africa and Malaysia in respect of method of manufacture, physical characteristics, end use and marketing and distribution channels.
44. In the 2014 *Review of Galvanised Wire from Malaysia*, it was noted that:

- Pacific Steel produces galvanised wire in diameters of 1.60mm to 5.00mm. All wires are produced in a range of tensile strengths and coatweight, with the majority of Pacific Steel's sales being of 2.50mm high tensile galvanised wire.⁶
 - The difference in wire diameters is not necessarily the main determinant of its tensile strength, as different wire diameters can have the same breaking strain due to different carbon composition. The percentage of carbon contained in the steel is the main contributor to the tensile strength of the galvanised wire. Other factors which affect the strength of the wire are its diameter and whether the rod from which it has been drawn contains alloying elements such as vanadium.
 - All galvanised wire currently produced by Pacific Steel is coated with a mix of 95 percent zinc and 5 percent aluminium.⁷ Galvanised wire is principally used for agricultural fencing, vineyard trellises or is manufactured into woven fence products. Zinc-aluminium coated galvanised wire is used primarily for fencing. The added aluminium in the zinc coating provides extra protection from corrosion.
45. On the basis of the information available in the 2014 Review, MBIE considered that the galvanised wire produced by Pacific Steel was like the subject goods.
46. In its application, Pacific Steel noted that its marketing strategy is centred on the Wiremark brand, product assurance and attributes. The Wiremark brand denotes galvanised wire made in New Zealand for its unique local conditions. The wire is performance tested for strength and ductility and is coated to standard AS/NZS 4534.
47. The Wiremark product includes manufacturing wire and fencing wire. Manufacturing wire customers typically convert galvanised wire into finished woven products such as deer, general farm, security, tennis court, pool and other types of fabricated fence. Some manufacturing product is sold to industrial re-manufacturers to make fastenings, shelves, staples, coat hangers, display stands and chains. Fencing wire is coiled and packaged by Pacific Steel and distributed to re-manufacturers or direct to their customers on their behalf.
48. In the application, Pacific Steel included an illustration of the industry's distribution channels, indicating that both the domestic product and imports are sold through industrial and wholesale distribution to rural merchants and other customers for sale to horticultural, agricultural and other consumption.
49. Pacific Steel noted that there are no material differences since MBIE's previous examination in respect to method of manufacture, physical characteristics, end use, and marketing and distribution channels.

MBIE Consideration

50. To determine whether the goods produced in New Zealand are like goods to the subject goods, MBIE normally considers physical characteristics, function and usage, pricing structures, marketing and any other relevant considerations, with no one of these factors being necessarily determinative.

⁶ Noted in Final Report of the 2014 Review of Galvanised Wire from Malaysia, paragraph 50.

⁷ Ibid, paragraph 52.

51. On the basis of these considerations, and in particular the physical characteristics and function and usage of the goods, MBIE concludes that, for initiation purposes, Pacific Steel produces like goods to the goods imported from China and Indonesia.

3. Interested Parties

3.1 Applicant

52. Pacific Steel submitted the application. Pacific Steel is a wholly owned subsidiary of New Zealand Steel Holdings Limited whose ultimate parent company is BlueScope Steel Limited, an Australian-based company listed on the Australian Stock Exchange.

3.2 New Zealand Industry

53. Section 3A of the Act defines the term **industry** as:

- a. the New Zealand producers of like goods; or
- b. such New Zealand producers of like goods whose collective output constitutes a major proportion of the New Zealand production of like goods.

54. MBIE is satisfied that Pacific Steel is the only New Zealand producer of galvanised wire, and in accordance with section 10A(1)(b) of the Act, the collective output of those New Zealand producers who have, in writing, expressed support for the application constitutes 25 per cent or more of the total New Zealand production of like goods and more than 50 per cent of the total production of the goods by those New Zealand producers who have, in writing, expressed support for or opposition to the application.

55. Accordingly, the requirements for industry support for the application have been met.

3.3 Exporters

56. Pacific Steel was not aware of the names and addresses of the Chinese origin goods manufacturers.

57. The information provided by Pacific Steel relating to galvanised wire suppliers from Indonesia was limited to PT Bekaert Indonesia, for which Pacific Steel provided contact details.

58. MBIE can identify suppliers from Customs data for the purposes of an investigation. Where intermediary traders are involved, MBIE will need to establish which Chinese or Indonesian manufacturers are supplying the subject goods concerned.

59. Details of Chinese and Indonesian exporters, derived from Customs data, are listed in Confidential Attachment 2.

3.4 Importers

60. Pacific Steel indicated that it understood that an importer of Chinese galvanised wire was Paul Industries, a Tauranga-based building materials supplier, and provided contact details.

61. Pacific Steel believes that the importer of Indonesian galvanised wire is the Fletcher Wire Products company, which is part of Fletcher Steel Limited. Fletcher Wire Products is a wholesaler and manufacturer located at Beach Road, Otahuhu, Auckland.

62. MBIE can identify importers from Customs data for the purposes of an investigation. Details of importers of galvanised wire from China and Indonesia, derived from Customs data, are listed in Confidential Attachment 2.

3.5 Foreign Governments

63. The Governments of China and Indonesia are considered “notified parties” under the Act, and “interested parties” under the AD Agreement.

4. Evidence of Dumping

4.1 Legal Requirements

64. Section 10 of the Act outlines the evidence of dumping that is required in a properly documented application. Under section 10A(1)(a) the chief executive must start an investigation if there is sufficient evidence to justify investigating whether goods imported into New Zealand are being dumped, and the dumping has caused or is causing or threatens to cause material injury to the industry.
65. The basis of considering the sufficiency of evidence is set out in section 1.1 above. The information from the application to be considered in order to warrant initiation of a dumping investigation and which is reasonably available to the applicant, includes:
- evidence of the normal values of the allegedly dumped goods
 - evidence of the export prices of the allegedly dumped goods.
66. The Act defines 'dumping' in section 3(1), which reflects the definition set out in the AD Agreement. In particular, 'dumping', in relation to goods, means the situation where the export price of goods imported into New Zealand or intended to be imported into New Zealand is less than the normal value of the goods as determined in accordance with the provisions of the Act, and 'dumped' has a corresponding meaning.
67. In considering the sufficiency of the evidence provided in the context of information reasonably available to the applicant, MBIE has assessed the accuracy and adequacy of the evidence, including any supporting information. In particular, in order to ensure that the application is not based on simple assertion, unsubstantiated by relevant evidence, MBIE has examined whether there is supporting evidence for the information provided and whether that evidence does, in fact, support the information.

4.2 Export Prices

68. Section 10(3)(j) of the Act requires that an application include such information as is reasonably available to the applicant to determine the export price of the allegedly dumped goods.
69. In its application, Pacific Steel noted that it did not have the commercial information suggested by MBIE in its Dumping Investigation Application Form, such as invoices or quotes, because it is not an importer. However, Pacific Steel considers that TradeMap free on board (FOB) trade data information on product group 7217.20 is the most relevant source of data for a construction of export prices.

4.2.1 China

Base Prices

70. Pacific Steel estimated export prices based on TradeMap data for the total USD FOB value of exports from China to New Zealand divided by the total volume, to give a unit value in USD/tonne FOB.
71. In establishing export prices, MBIE accepts average per unit prices from import data if the subject goods are closely aligned with the trade data from which the average FOB has been calculated. The TradeMap data used by Pacific Steel excludes goods subject to data

suppression, and includes goods other than the subject goods. In the case of China although there is a relatively significant difference in the volumes involved compared with Customs data, the average values per tonne are less affected.

72. MBIE is satisfied that subject to ensuring that any investigation uses data relating to actual shipments of the subject goods, the information in the application is information that is reasonably available to the applicant and is sufficient to provide evidence for the base prices proposed.

Adjustments

73. To calculate an ex-factory export price, Pacific Steel deducted estimated costs between FOB and ex-factory in China.

Cost of Credit

74. Pacific Steel estimated cost of credit based on an estimate of the period provided in days, with the interest rate being 4.31 per cent, which was Pacific Steel's estimate of the average for the China Prime Loan rate in FY2019, as shown at tradingeconomics.com.⁸
75. MBIE notes that according to tradingeconomics.com, the People's Bank of China (PBOC) Prime Lending Rate has remained unchanged at 4.35 per cent for some time, including the POI(D). However, the PBOC's 1-year Loan Prime Rate was at 4.15 per cent in November 2019, and appears to have been at 4.31 per cent from April 2018 to August 2019.
76. MBIE is satisfied that subject to an investigation clarifying the interest rate and credit periods that might apply to actual shipments, the information in the application is information that is reasonably available to the applicant and is sufficient to provide evidence for the adjustment proposed.

Export packaging

77. Pacific Steel noted that most of the packaging cost used in the 2014 *Galvanised Coil from Malaysia* Review was the cost of plastic wrap, which Pacific Steel indicates has not changed since then. Pacific Steel has therefore used the same USD/tonne amount as in the 2014 Review.
78. MBIE is satisfied that subject to an investigation clarifying the export packaging costs that might apply to actual shipments, the information in the application is information that is reasonably available to the applicant and is sufficient to provide evidence for the adjustment proposed.

Inland freight

79. Pacific Steel has no information on the distances involved in China between factory and ports of export since the plant locations are unknown. The rate used is that assessed for Indonesia, which is based on an estimate from a New Zealand commercial source.
80. MBIE has checked the information provided, and is satisfied that subject to an investigation clarifying the inland freight costs that might apply to actual shipments, the information in

⁸ <https://tradingeconomics.com/china/lending-rate>, accessed on 18 December 2019.

the application is information that is reasonably available to the applicant and is sufficient to provide evidence for the adjustment proposed.

Export documentation and shipping charges

81. The information provided by Pacific Steel was obtained from a commercial source and reflects November 2019 costings for Xinjiang, China, excluding the local freight and packaging amounts already provided for.
82. MBIE has checked the information provided, and is satisfied that subject to an investigation clarifying the export documentation and shipping charges that might apply to actual shipments, the information in the application is information that is reasonably available to the applicant and is sufficient to provide evidence for the adjustment proposed.

Ex-factory Export Price

83. Pacific Steel has calculated an ex-factory export price of USD967/tonne by deducting the adjustments it has proposed from the base price.
84. MBIE notes that based on Customs data and the average USD-NZD Customs exchange rate for FY2019, the export price would be around 6 per cent higher than the Pacific Steel estimate.
85. MBIE's analysis is included in Confidential Attachment 3.

4.2.2 Indonesia

Base Prices

86. Pacific Steel estimated export prices based on TradeMap data for the total USD FOB value of exports from Indonesia to New Zealand divided by the total volume, to give a unit value in USD/tonne FOB.
87. In establishing export prices, MBIE accepts average per unit prices from import data if the subject goods are closely aligned with the trade data from which the average FOB has been calculated. The TradeMap data used by Pacific Steel excludes goods subject to data suppression, and includes goods other than the subject goods. In the case of Indonesia there is not a significant difference in the volumes involved compared with Customs data, while the average values per tonne are also not significantly different.
88. MBIE is satisfied that subject to ensuring that any investigation uses data relating to actual shipments of the subject goods, the information in the application is information that is reasonably available to the applicant and is sufficient to provide evidence for the base prices proposed.

Adjustments

89. To calculate an ex-factory export price, Pacific Steel deducted estimated costs between FOB and ex-factory in Indonesia.

Cost of Credit

90. Pacific Steel estimated cost of credit based on an estimate of the period provided in days, with the interest rate being 5.8 per cent, which was Pacific Steel's estimate of the average for Bank Indonesia's benchmark 7-day reverse repo rate⁹ in FY2019, as shown at tradingeconomics.com.¹⁰
91. MBIE notes that according to tradingeconomics.com, the Bank Indonesia Lending Rate has been at levels about 0.75 per cent above the 7-day reverse repo rate over the POI(D).¹¹
92. MBIE is satisfied that subject to an investigation clarifying the interest rate and credit periods that might apply to actual shipments, the information in the application is information that is reasonably available to the applicant and is sufficient to provide evidence for the adjustment proposed.

Export packaging

93. Pacific Steel noted that most of the packaging cost used in the 2014 *Galvanised Coil from Malaysia* Review was the cost of plastic wrap, which Pacific Steel indicates has not changed since then. Pacific Steel has therefore used the same USD/tonne amount as in the 2014 Review.
94. MBIE is satisfied that subject to an investigation clarifying the export packaging costs that might apply to actual shipments, the information in the application is information that is reasonably available to the applicant and is sufficient to provide evidence for the adjustment proposed.

Inland freight

95. The rate that Pacific Steel has used is based on an estimate from a New Zealand commercial source.
96. MBIE has checked the information provided, and is satisfied that subject to an investigation clarifying the inland freight costs that might apply to actual shipments, the information in the application is information that is reasonably available to the applicant and is sufficient to provide evidence for the adjustment proposed.

Export documentation and shipping charges

97. The information provided by Pacific Steel was obtained from a commercial source and reflects November 2019 costings in Indonesia, excluding the local freight and packaging amounts.
98. MBIE has checked the information provided, and is satisfied that subject to an investigation clarifying the export documentation and shipping charges that might apply to actual

⁹ The "reverse repo rate" is the rate at which the central bank of a country borrows money from commercial banks within the country. It is a monetary policy instrument which can be used to control the money supply in the country (<https://economictimes.indiatimes.com/definition/reverse-repo-rate>)

¹⁰ <https://tradingeconomics.com/indonesia/indicators>, last accessed on 11 February 2020.

¹¹ <https://tradingeconomics.com/indonesia/interest-rate>, last accessed on 11 February 2020.

shipments, the information in the application is information that is reasonably available to the applicant and is sufficient to provide evidence for the adjustment proposed.

Ex-factory Export Price

99. Pacific Steel has calculated an ex-factory export price of USD1010/tonne by deducting the adjustments it has proposed from the base price.
100. MBIE notes that based on Customs data and the average Customs USD-NZD exchange rate for FY2019, the export price would be around 7 per cent higher than the Pacific Steel estimate.
101. MBIE's analysis is included in Confidential Attachment 3.

4.2.3 Conclusions on Export Prices

102. MBIE is satisfied that Pacific Steel has provided information that is reasonably available to it on base prices and adjustments in the calculation of Chinese and Indonesian export prices.

4.3 Normal Values

103. Section 10(3)(i) of the Act requires that an application include such information as is reasonably available to the applicant on normal values of the allegedly dumped goods when destined for consumption in the domestic markets of the countries of origin or export (or, where appropriate, on prices to third countries or prices based on constructed value).
104. In its application Pacific Steel noted that it was difficult to obtain evidence of Chinese and Indonesian prices at the wholesale level for domestically sold subject goods. Consequently, Pacific Steel developed normal value information using the constructed value approach set out in MBIE's Dumping Investigation Application Form¹² at Table 7.2. Pacific Steel used current information adjusted as necessary, but based on Pacific Steel's wire manufacturing costs, with allowance made for differences between the economics of wire-making in Indonesia and China compared with New Zealand. Particular differences noted by Pacific Steel include costs of electricity, gas and labour, and some other differences such as yield.
105. With regard to its own cost data, Pacific Steel has described how its accounting and cost information system was used to establish the cost elements set out in the constructed normal value table. For relevant cost items, Pacific Steel has provided the basis for the calculation of Chinese costs by reference to external data, and has provided the supporting data and analysis.

¹² <https://www.mbie.govt.nz/assets/c4d13a5d45/dumping-investigation-application-form.pdf>

4.3.1 China

Constructed value

Billet price

106. Pacific Steel's application states that the base for the billet cost for the construction of a galvanised wire price in China is an in-China billet price series published by an international steel industry information service. The particular base price used by Pacific Steel is billet ex-stock Tangshan, China, with an adjustment made to exclude VAT and has been converted from RMB/tonne to USD/tonne at the average exchange rate for FY2019 obtained from ofx.com.¹³ Pacific Steel provided details of the base prices and the adjustments made.
107. Pacific Steel claimed that in its view, and that of other administrations, the China price is distorted downwards, which reduces the normal value and results in a conservative dumping margin, but is available data.
108. MBIE is satisfied that for the purposes of initiation, the information in the application is information that is reasonably available to the applicant and is sufficient to provide evidence for the constructed value.

Billet costs

109. No provision is made for conveying billet to the mill.
110. Pacific Steel proposed an amount for the cost of vanadium based on the FY2019 average volume in Pacific Steel's fencing wire, with an estimate of the appropriate percentage to account for the possible mix. Information in support of the amount used was provided.
111. MBIE notes that the question of provision for vanadium costs may need to be covered by any physical difference adjustments to actual prices.
112. Nominal amounts for billet handling and billet inventory were provided in the application on the basis of amounts indicated in Pacific Steel's application for the 2017 investigation of *Reinforcing Steel Rebar from China and Malaysia (2017 Rebar)*.
113. MBIE notes that in the 2017 *Rebar* Investigation the application proposed adjustments for billet handling and inventory on the basis of the different standards applying to goods sold on the domestic market and goods sold for export to New Zealand, with the latter requiring more stringent testing and different billet chemistry. In the event, the investigation did not rely on constructed values, but physical difference adjustments were made for chromium and vanadium costs required to meet the standards. MBIE understands that the main reason for the different standards required for sales of rebar to New Zealand arose from the particular seismic requirements in the New Zealand market, which do not apply to galvanised wire. Accordingly, there would appear to be no need to include the billet handling and inventory costs for rebar in constructing a value for wire.

¹³ <https://www.ofx.com>.

Yield

114. Pacific Steel proposed the inclusion of cost elements to cover the yield of wire from billet and the bright draw and galvanised post yields. For the billet yield achieved by Chinese mills with their longer runs compared with Pacific Steel's 4-year average yield different percentages were applied, but for bright and galvanised yields it was assumed that there was no difference between Chinese and Pacific Steel production costs. Provision was also made for returns from scrap.
115. MBIE is satisfied that for the purposes of setting out cost elements in a constructed value, the information in the application is information that is reasonably available to the applicant and is sufficient to provide evidence for the cost elements proposed.

Labour

116. Pacific Steel has included provision for Chinese labour costs at 43.07 per cent of Pacific Steel's costs, with the relativity based on data for gross domestic product (GDP) per capita adjusted for purchasing power parity (PPP) obtained from tradingeconomics.com.¹⁴
117. MBIE has confirmed that the figure provided is based on the supporting evidence. MBIE is satisfied that for the purposes of setting out cost elements in a constructed value, the information in the application is information that is reasonably available to the applicant and is sufficient to provide evidence for the cost elements proposed.

Utilities

118. The relative costs for electricity and gas for China were based on information from energyconsultants.com World Energy Pricing 2016 report for electricity, and a 2018 International Association of Energy Economics (IAEE) Energy Forum article *Cost of Natural Gas in Eastern Chinese Markets*. The application had China at 64.22 per cent of New Zealand costs for electricity, based on a comparison of the country data from the World Energy Pricing 2016 report. The comparative percentage for gas was based on prices reported in the IAEE Energy Forum article and Pacific Steel's actual costs. Costs for other utilities were based on the gas relativity.
119. MBIE has reviewed the source of electricity prices and is satisfied that the provision made for the electricity price differential is based on the source material.
120. The gas price used was the average of three total costs for gas from the Sulige field delivered in Shanghai, Guangzhou and Beijing. Pacific Steel added a 0.5 per cent uplift because it considered that the prices in the IEAA Energy Forum article did not include a margin. However, MBIE's reading of the IAEE article suggests that the values identified in the article appear to be inclusive of profits, so the uplift does not appear to be justified.
121. Subject to the modification to the gas price used, MBIE is satisfied that for the purposes of setting out cost elements in a constructed value, the information in the application is information that is reasonably available to the applicant and is sufficient to provide evidence for the cost elements proposed.

¹⁴ <https://tradingeconomics.com/china/indicators>

Maintenance

122. The provision for maintenance was based on Pacific Steel's estimate of the relativity between Chinese plants and Pacific Steel's costs. Pacific Steel noted that it does not have access to specific positive evidence to support its estimates, but points out that such evidence is not reasonably available to it, so it has made an estimate taking into account its understanding of the comparative situation.
123. MBIE is satisfied that for the purposes of setting out cost elements in a constructed value, the information in the application is information that is reasonably available to the applicant and is sufficient to provide evidence for the cost elements proposed.

Other Costs

124. The provision for rollshop costs and other variable costs was based on Pacific Steel's estimate of the comparative costs of Chinese plants compared with Pacific Steel's costs. Pacific Steel noted that it does not have access to specific positive evidence to support its estimates, but points out that such evidence is not reasonably available to it, so it has made an estimate taking into account its understanding of the comparative situation. Zinc prices were based on London Metal Exchange (LME) prices.
125. MBIE is satisfied that for the purposes of setting out cost elements in a constructed value, the information in the application is information that is reasonably available to the applicant and is sufficient to provide evidence for the cost elements proposed.

Administrative and Selling Costs

126. Pacific Steel provided estimates of administrative and selling costs based on Pacific Steel's costs.
127. MBIE notes that since Pacific Steel has based its profit estimates on gross profits, which include administrative and selling costs, e.g. as provided for in Pacific Steel's injury spreadsheet, it is not appropriate to double count by making a separate provision for administrative and selling costs in the constructed value.
128. MBIE's assessment of the constructed normal value proposed for China will therefore exclude provision for administrative and selling costs.

Profits

129. A profit rate of 11.657 per cent was proposed by Pacific Steel, being the average of gross profits achieved by Baoshan, Angang and Maashan Iron and Steel in FY2019. The data was obtained by Pacific Steel from investing.com/equities for the first three quarters of FY2019, and from Reuters¹⁵ for the last quarter. The average gross profit for each company was calculated as the average of the gross profit percentage achieved in each quarter.
130. With regard to the basis for profits, MBIE notes that in relation to constructed values, the Act (at section 5(2)(d)(B) refers to the "rate of profit normally realised on sales of goods...of

¹⁵ <https://www.reuters.com/companies/600019.SS/financials/income-statement-quarterly>
<https://www.reuters.com/companies/0347.HK/financials/income-statement-quarterly>
<https://www.reuters.com/companies/0323.HK/financials/income-statement-quarterly>

the same general category in the domestic market of the country of export...” The companies identified are major State-owned steel groups, and it remains to be established whether or not Chinese producers of galvanised wire exported to New Zealand include such and whether overall company profits can reflect profits on sales of goods of the same general category in the domestic market of the country of export.

131. MBIE is satisfied that for the purposes of making provision in a constructed value, the information in the application is information that is reasonably available to the applicant and is sufficient to provide evidence for the cost elements proposed.

Ex-factory Normal Value

132. On the basis of the information and assumptions summarised above, Pacific Steel constructed a normal value of USD1259/tonne.
133. From its consideration of the accuracy and adequacy of the information provided, MBIE has made adjustments to the proposed normal value based on the matters raised above, and in particular has excluded the provision for billet handling and inventory, the provision for a profit margin for gas prices, and the provision for administrative and selling costs. The resulting constructed normal value is around 3 percent lower than the Pacific Steel estimate.
134. MBIE’s analysis is included in Confidential Attachment 3.

4.3.2 Indonesia

Constructed value

Billet price

135. Pacific Steel’s application states that the base for the billet cost for the construction of a galvanised wire price in Indonesia is a billet price series published by an international steel industry information service. The particular price used by Pacific Steel is semi-finished/billet East Asia with import cost and freight basis (CFR) in USD/tonne. Pacific Steel provided details of the base prices and the adjustments made.
136. MBIE is satisfied that for the purposes of initiation, the information in the application is information that is reasonably available to the applicant and is sufficient to provide evidence for the constructed value.

Billet costs

137. Pacific Steel has provided an estimated amount based on information provided for 2017 *Rebar*. In that case, Pacific Steel’s application included an estimate of billet costs to mill based on Pacific Steel’s experience of the costs to import billet between cost, insurance freight (CIF) and the mill yard to the point where the billet is ready for acceptance into a reheat furnace. Those costs were the sum charges relating to port clearance, stevedore, inspection, road transport, and unloading. For the current application, Pacific Steel has excluded provision for billet sort by heat.
138. MBIE is satisfied that subject to clarifying any billet transport costs that might apply to actual shipments, the information in the application is information that is reasonably available to the applicant and is sufficient to provide evidence for the cost element proposed.

Initiation Report

Galvanised Wire from China and Indonesia

139. Pacific Steel proposed an amount for the cost of vanadium based on the FY2019 average volume in Pacific Steel's fencing wire. Information in support of the amount used was provided.
140. MBIE notes that the question of provision for vanadium costs may need to be covered by any physical difference adjustments to actual prices.
141. Nominal amounts for billet handling and billet inventory were provided in the application on the basis of amounts indicated in Pacific Steel's application for the 2017 *Rebar* investigation.
142. MBIE notes that in the 2017 *Rebar* Investigation the application proposed adjustments for billet handling and inventory on the basis of the different standards applying to goods sold on the domestic market and goods sold for export to New Zealand, with the latter requiring more stringent testing and different billet chemistry. In the event, the investigation did not rely on constructed values, but physical difference adjustments were made for chromium and vanadium costs required to meet the standards. MBIE understands that the main reason for the different standards required for sales of rebar to New Zealand arose from the particular seismic requirements in the New Zealand market, which do not apply to galvanised wire. Accordingly, there would appear to be no need to include the billet handling and inventory costs for rebar in constructing a value for wire.

Yield

143. Pacific Steel proposed the inclusion of cost elements to cover the yield of wire from billet and the bright draw and galvanised post yields. For the billet yield achieved by Indonesian mills with their longer runs compared with Pacific Steel's 4-year average yield different percentages were applied, but for bright and galvanised yields it was assumed that there was no difference between Indonesian and Pacific Steel production costs. Provision was also made for returns from scrap.
144. MBIE is satisfied that for the purposes of setting out cost elements in a constructed value, the information in the application is information that is reasonably available to the applicant and is sufficient to provide evidence for the cost elements proposed.

Labour

145. Pacific Steel has included provision for Indonesian labour costs at 46.44 per cent of Pacific Steel's costs, with the relativity based on gross domestic product (GDP) per capita adjusted for PPP from [tradingeconomics.com](https://tradingeconomics.com/indonesia/indicators),¹⁶ and with a further adjustment made to uplift the resulting differential by 50 per cent to take account of comparative labour productivity. Information in support of this proposal was provided.
146. MBIE has confirmed that the GDP per capita PPP figure provided is based on the supporting evidence, but MBIE is not persuaded that any further adjustment to reflect comparative labour productivity is justified, particularly when no similar adjustment for China is proposed.

¹⁶ <https://tradingeconomics.com/indonesia/indicators>.

Initiation Report

Galvanised Wire from China and Indonesia

147. Subject to the removal of the adjustment for comparative productivity, MBIE is satisfied that for the purposes of setting out cost elements in a constructed value, the GDP per capita PPP information in the application is information that is reasonably available to the applicant and is sufficient to provide evidence for the cost elements proposed.

Utilities

148. The relative costs for electricity and gas were based on information from energyconsultants.com World Energy Pricing 2016 report for electricity, and a *Jakarta Post* article¹⁷ on gas prices in Indonesia. The application had Indonesia at 53.75 per cent of New Zealand costs for electricity, based on a comparison of the country data from the World Energy Pricing 2016 report. The comparative percentage for gas was based on prices reported in the *Jakarta Post* article and Pacific Steel's actual costs. Costs for other utilities were based on the gas relativity.
149. MBIE is satisfied that for the purposes of setting out cost elements in a constructed value, the information in the application is information that is reasonably available to the applicant and is sufficient to provide evidence for the cost elements proposed.

Maintenance

150. The provision for maintenance was based on Pacific Steel's estimate of the relativity between Indonesian plants and Pacific Steel's costs. Pacific Steel noted that it does not have access to specific positive evidence to support its estimates, but points out that such evidence is not reasonably available to it, so it has made an estimate taking into account its understanding of the comparative situation.
151. MBIE is satisfied that for the purposes of setting out cost elements in a constructed value, the information in the application is information that is reasonably available to the applicant and is sufficient to provide evidence for the cost elements proposed.

Other Costs

152. The provision for rollshop costs and other variable costs was based on Pacific Steel's estimate of the comparative costs of Indonesian plants compared with Pacific Steel's costs. Pacific Steel noted that it does not have access to specific positive evidence to support its estimates, but points out that such evidence is not reasonably available to it, so it has made an estimate taking into account its understanding of the comparative situation. Zinc prices were based on LME prices.
153. MBIE is satisfied that for the purposes of setting out cost elements in a constructed value, the information in the application is information that is reasonably available to the applicant and is sufficient to provide evidence for the cost elements proposed.

Administrative and Selling Costs

154. Pacific Steel provided estimates of administrative and selling costs based on Pacific Steel's costs.

¹⁷ <https://www.thejakartapost.com/news/2019/02/11/industries-seek-government-commitment-to-lower-gas-prices.html>

155. MBIE notes that since Pacific Steel has based its profit estimates on gross profits, which include administrative and selling costs, e.g. as provided for in Pacific Steel's injury spreadsheet, it is not appropriate to double count by making a separate provision.
156. MBIE's assessment of the constructed normal value proposed for Indonesia will therefore exclude provision for administrative and selling costs for the constructed value.

Profits

157. A profit rate of 4.07 per cent was proposed, being the average of gross profits achieved by Gunawan (GDST) and Krakatau Steel (KRAS) in FY2019, obtained by Pacific Steel from investing.com/equities for the first three quarters of FY2019, and from WSJ Markets, Gurufocus¹⁸ for the fourth quarter of FY2019. The average gross profit for each company was calculated as the average of the gross profit percentage achieved in each quarter.
158. With regard to the basis for profits, MBIE notes that in relation to constructed values, the Act (at section 5(2)(d)(B)) refers to the "rate of profit normally realised on sales of goods...of the same general category in the domestic market of the country of export..." The companies identified by Pacific Steel are in the steel business, but Gunawan appears to focus on steel plates, while Krakatau Steel produces coil, plate, and rod.
159. MBIE is satisfied that for the purposes of making provision in a constructed value, the information in the application is information that is reasonably available to the applicant and is sufficient to provide evidence for the cost elements proposed.

Ex-factory Normal Value

160. On the basis of the information and assumptions summarised above, Pacific Steel has constructed a normal value of USD1208/tonne.
161. From its consideration of the accuracy and adequacy of the information provided, MBIE has made adjustments to the proposed normal value based on the matters raised above, and in particular has excluded the provision for billet handling and inventory, the provision for comparative labour productivity, the provision for administrative and selling costs, and possible errors in the treatment of the data. The resulting constructed normal value is around 6 per cent lower than the Pacific Steel estimate.

4.3.3 Conclusions on Normal Value

162. MBIE notes that with the exceptions noted above, the information provided on the constructed value is adequately supported by evidence included in the application or in referenced material.

4.4 Dumping Margins

163. The application indicated dumping margins of 30.2 per cent for China and 19.6 percent for Indonesia. MBIE's assessment of the margins after reviewing the accuracy and adequacy of the information provided, is that the dumping margins indicated are 18.3 per cent for

¹⁸ MBIE has been unable to obtain reliable access to the relevant WSJ Markets and Gurufocus sites and has relied on screenshots provided by Pacific Steel.

China and 5.1 per cent for Indonesia. Details of the analysis are included in Confidential Attachment 3.

164. Section 11 of the Act reflects Article 5.8 of the AD Agreement which requires that authorities shall reject an application and terminate an investigation if they are satisfied that there is not sufficient evidence of dumping or injury to justify proceeding with the case. There shall be immediate termination if the authorities determine that the margin of dumping is *de minimis*, or that the volume of dumped imports is negligible. A margin of dumping is *de minimis* if it is less than 2 per cent of the export price, while the volume of dumped imports, actual, or potential, is negligible if the volume from a particular country accounts for less than 3 per cent of imports, unless countries that individually account for less than 3 per cent of the imports collectively account for more than 7 per cent of imports.
165. The dumping margins assessed by MBIE are in excess of the *de minimis* levels set out in the AD Agreement.

4.5 Conclusions on Dumping

166. MBIE concludes that there is evidence of dumping that would be sufficient to justify initiating an investigation if there is also sufficient evidence that the dumping has caused or is causing material injury to the New Zealand industry.

Initiation Report

Galvanised Wire from China and Indonesia

5. Evidence of Material Injury

5.1 Legal Requirements

167. Under section 10 of the Act, a properly documented application must contain evidence of injury to a New Zealand industry caused by allegedly dumped imports before an investigation may be initiated. In the present case, Pacific Steel meets the requirements to be considered as the domestic industry.

168. Section 8(1) of the Act sets out the matters that must be examined when determining whether or not material injury to an industry is being caused by means of the dumping of goods imported into New Zealand, while section 8(2) sets out in more detail the matters that MBIE must have regard to in any investigation to establish if material injury exists. In determining whether the evidence provided by Pacific Steel is sufficient in terms of section 10(2), MBIE therefore takes guidance from these provisions of section 8 of the Act.

169. Section 8(1) of the Act provides:

8. Material injury to industry—(1) In determining for the purposes of this Act whether or not any material injury to an industry has been or is being caused or is threatened or whether or not the establishment of an industry has been or is being materially retarded by means of the dumping or subsidisation of goods imported or intended to be imported into New Zealand from another country, the chief executive shall examine—

- (a) The volume of imports of the dumped or subsidised goods; and*
- (b) The effect of the dumped or subsidised goods on prices in New Zealand for like goods; and*
- (c) The consequent impact of the dumped or subsidised goods on the relevant New Zealand industry.*

Cumulation

170. Article 3.3 of the AD Agreement provides:

Where imports of a product from more than one country are simultaneously subject to anti-dumping investigations, the investigating authorities may cumulatively assess the effects of such imports only if they determine that (a) the margin of dumping established in relation to the imports from each country is more than de minimis as defined in paragraph 8 of Article 5 and the volume of imports from each country is not negligible and (b) a cumulative assessment of the effects of the imports is appropriate in light of the conditions of competition between the imported products and the conditions of competition between the imported products and the like domestic product.

171. In its application, Pacific Steel has considered the effects of imports from China and Indonesia on a cumulated basis. An investigation would need to ensure that the conditions for cumulation set out in Article 3.3 of the AD Agreement are met.

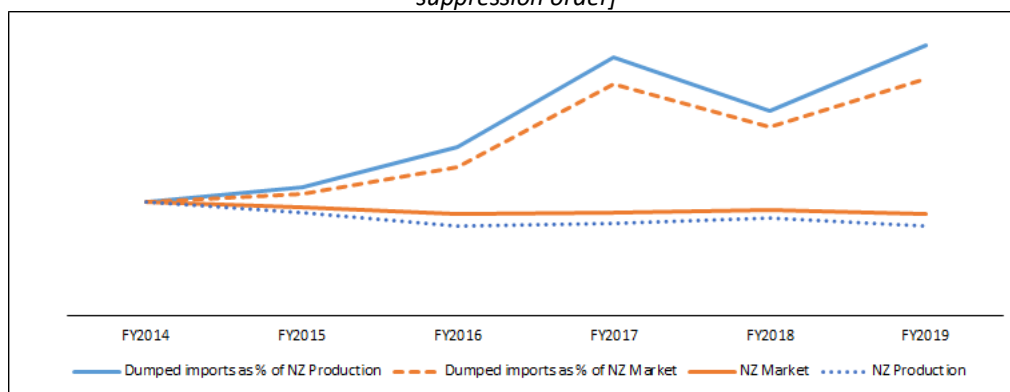
5.2 Import Volume Effects

172. Section 8(2)(a) of the Act requires that the chief executive should have regard to the extent to which there has been or is likely to be a significant increase in the volume of imports of

- dumped goods either in absolute terms or in relation to production or consumption in New Zealand.
173. For the purposes of this analysis, it is assumed that all imports from China and Indonesia are dumped, and that the level of dumping is more than *de minimis*.
174. In its application Pacific Steel provided information on import volumes and values for the period FY2017-FY2019, and volumes for the period FY2013-FY2019. Pacific Steel used TradeMap data, which includes non-subject goods but excludes goods subject to data suppression requirements.
175. Pacific Steel could not identify the point where injury began to be caused, but noted that import growth of dumped goods had been lumpy and was of an overall upward direction. Pacific Steel pointed out that it was notable that the dumped goods share of the market value was uniformly lower than the share of volume, which, it was claimed, was consistent with the dumped goods being injurious.
176. Because of the suppression orders in place on some statistical keys covering the subject goods, and because domestic production information is classified as commercial-in-confidence, MBIE cannot provide details of the actual volumes of imports and domestic production.
177. The following chart illustrates the relevant trends.

**Figure 5.1: Import Volume Effects
(Customs data, Pacific Steel data, Index 2014=1000)**

[Data indexed, values for Y axis deleted, gridlines deleted, in order to protect the confidentiality of information where making the information available would have a significantly adverse effect on the submitter of confidential information, and to maintain confidentiality of trade data subject to a suppression order]



178. MBIE has analysed imports from China and Indonesia, in absolute terms and in relation to consumption in New Zealand. The information shows that in absolute terms the volume of imports from China and Indonesia has generally increased over the period. Other imports have declined over the period, primarily as a result of decreases in imports from Australia in recent years. Relative to New Zealand production, imports from China and Indonesia have increased steadily and significantly over the period. As a share of domestic consumption (the New Zealand market), imports from China and Indonesia have also increased steadily. Detailed information on imports is set out in Confidential Attachment 1.
179. On the basis of this analysis, there is evidence to indicate that there has been an increase in the volume of imports of allegedly dumped goods from China and Indonesia in absolute terms and in relation to production and consumption in New Zealand.

5.3 Price Effects

180. Sections 8(2)(b) and (c) of the Act require that the chief executive should have regard to the extent to which prices of the dumped goods represent significant price undercutting in relation to prices in New Zealand (at the relevant level of trade) for like goods of New Zealand producers, and the extent to which the effect of the dumped goods is or is likely significantly to depress prices for like goods of New Zealand producers or significantly to prevent price increases for those goods that otherwise would have been likely to have occurred (price suppression).

5.3.1 Price Undercutting

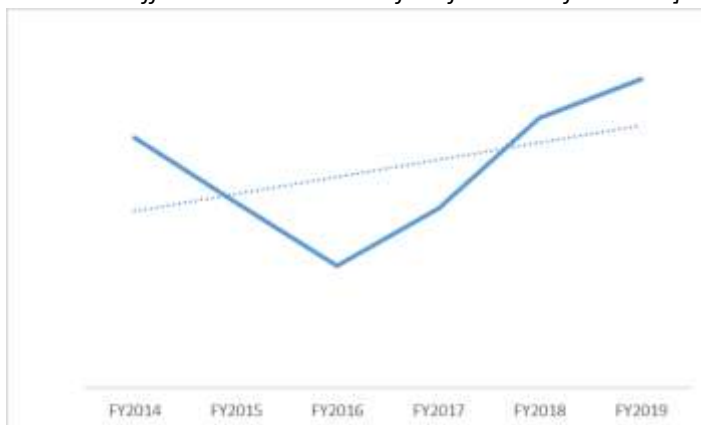
181. Price undercutting refers to the extent to which the prices of the subject goods are lower than prices in New Zealand for like goods of New Zealand producers. Prices are compared at the point that the imported goods first compete with the goods made in New Zealand. Price undercutting is not in itself a determinant of the existence or extent of injury, i.e. the margin or frequency of price undercutting is not a measure of the extent of the economic impact on the industry. That impact is to be measured, *inter alia*, in terms of the factors set out in section 8(2)(d) of the Act, outlined in section 5.4 of this Report.
182. In its application Pacific Steel compared relevant price levels at ex-wharf for imports and Pacific Steel's ex-factory price (i.e. its free-into-store (FIS) price less freight).
183. Pacific Steel used FY2019 cost, insurance and freight (CIF) import data, to estimate average prices from China, but did not identify the source of the data. Estimated costs from China to the ex-wharf level in New Zealand, sourced from a third-party, were then added to the CIF values to derive estimated ex-wharf values. These costs relate to New Zealand destination costs. Pacific Steel then compared these ex-wharf prices with its ex-factory domestic prices to gauge the extent of any price undercutting.
184. On the basis of this information, Pacific Steel estimated price undercutting measured as a percentage of Pacific Steel's average ex-factory price, resulting in different values within the range of 5-12% for both China and Indonesia. The information was provided for FY2019 only, so it is not possible to identify whether there is any particular trend.
185. MBIE has used Customs data and Pacific Steel's estimated landing costs to establish average ex-wharf values for imports from China and Indonesia. The comparison with Pacific Steel's FY2019 ex-factory price indicates price undercutting margins within the range of 2-8%. This is lower than the margins identified by Pacific Steel, but still indicates a degree of price undercutting. The undercutting margins derived on the same basis for earlier years were significantly higher for imports from China, while for imports from Indonesia they were generally higher except for one year when there was no price undercutting.
186. MBIE notes that this price undercutting analysis is based on average prices for the whole range of the subject goods, and an investigation which can look more closely at like-to-like product comparisons may produce different results. However, there is prima facie evidence that for some of the period there was price undercutting of Pacific Steel's average selling prices by the average prices of galvanised wire imported from China and Indonesia.

5.3.2 Price Depression

187. Price depression occurs where prices achieved by the New Zealand manufacturers are lower than those achieved in a period unaffected by allegedly dumped or subsidised goods. Price depression is not in itself a determinant of the existence or extent of injury. There must be a consequent impact on the industry, measured primarily in terms of the factors set out in section 8(2)(d) of the Act.
188. Pacific Steel submitted that it is suffering price undercutting and price depression at the level of trade at which it sells.
189. Pacific Steel provided information on price movements for FY2011-FY2019. Based on the POI(I) of 2014-2019, the following chart shows Pacific Steel’s average domestic selling prices for galvanised wire from FY2014 to FY2019, with index values based on FY2014.

**Figure 5.2: Price Depression
(NZD/tonne)**

[Y axis values deleted, X axis does not cross at 0, gridlines deleted, in order to protect the confidentiality of information where making the information available would have a significantly adverse effect on the submitter of confidential information]



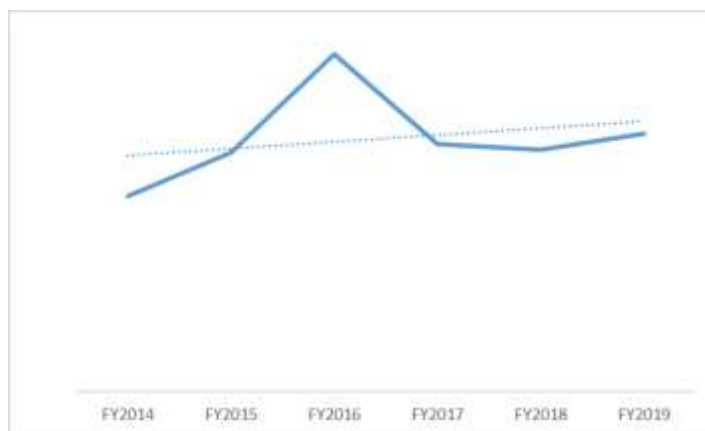
190. Figure 5.3 shows that Pacific Steel’s average selling price initially decreased from FY2014 to FY2016, but then increased through FY2017 to FY2019 to above the FY2014 level. The overall trend is upward, as shown by the dotted trend line. MBIE’s analysis is based on the period FY2014-FY2019, whereas Pacific Steel used data from FY2011. MBIE considers that a six year period provides a reasonable basis to assess recent trends in the various injury factors that it is required to review.
191. The evidence indicates that Pacific Steel has not experienced price depression.

5.3.3 Price Suppression

192. Price suppression occurs when New Zealand producers are unable to increase prices, for example, to recover cost increases. Price suppression is not in itself a determinant of the existence or extent of injury. There must be a consequent impact on the industry, measured in terms of the factors set out in section 8(2)(d) of the Act.
193. MBIE has compared Pacific Steel’s total costs as a percentage of sales revenue from FY2014 to FY2019. The following chart shows the resulting calculations:

**Figure 5.3: Price Suppression
(Cost/Price, %)**

[Y axis values deleted, X axis does not cross at 0, gridlines deleted, in order to protect the confidentiality of information where making the information available would have a significantly adverse effect on the submitter of confidential information]



194. Figure 5.4 shows that Pacific Steel’s cost of production per unit as a percentage of sales value fluctuated over the period but has increased overall, indicating that cost increases have not been recovered in prices.

195. There is evidence that Pacific Steel has experienced price suppression to the extent that average unit revenue did not reflect the extent of the same margins over costs per unit achieved at the beginning of the period being examined.

5.3.4 Conclusion on Price Effects

196. There is evidence that the average prices of galvanised wire imports from China and Indonesia have undercut Pacific Steel’s average selling prices for some of the period examined; that there is no price depression, but there is price suppression. MBIE is satisfied that Pacific Steel has provided sufficient evidence, for the purpose of initiation, that the allegedly dumped Chinese and Indonesian imports may be causing these price effects.

197. As noted earlier, the price effects examined above are not in themselves a determinant of injury. There must be a consequent impact on the industry, in particular when measured, *inter alia*, in terms of the factors and indices set out in section 8(2)(d) of the Act. Injury caused to the New Zealand industry is assessed in terms of the economic impact in the following section of the report.

5.4 Consequent Impact

5.4.1 Sales Volume and Sales Revenue

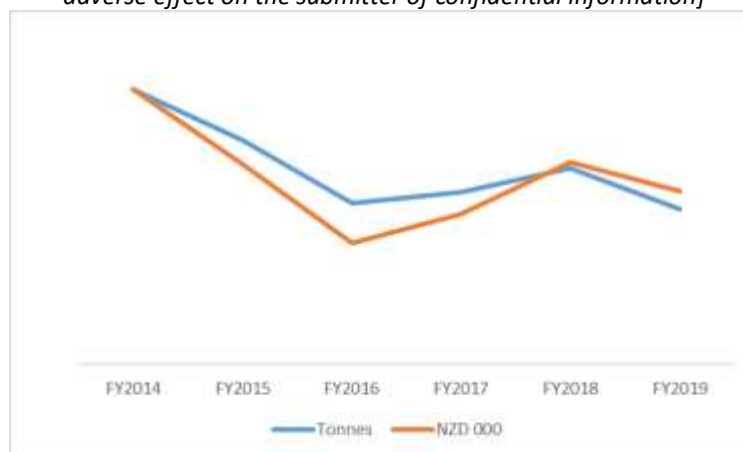
198. Movements in sales revenue can reflect changes in volume and prices of goods sold. Allegedly dumped imports can affect both of these factors through increased supply of goods to the market and through price competition.

199. Pacific Steel provided sales volume and sales revenue information covering FY2013 to FY2019.

200. The following chart illustrates the sales volume and sales revenue information for the POI(I), based on information provided by Pacific Steel.

**Figure 5.4: Sales Volume and Revenue
(indexed, FY2014=1000)**

[Y axis values deleted, X axis does not cross at 0, gridlines deleted, in order to protect the confidentiality of information where making the information available would have a significantly adverse effect on the submitter of confidential information]



201. The information clearly shows that Pacific Steel’s annual sales volumes and revenues declined over the whole period, following a slight increase between FY2017 and FY2018, then a further decline.
202. There is evidence that Pacific Steel has experienced a decline in sales volume and sales revenue.

5.4.2 Market Share

203. Analysis of market share must consider changes in the size of the total market. A decline in the domestic industry’s market share when the total market is expanding will not necessarily indicate that material injury is being caused, particularly if the domestic industry's sales are also growing, because the New Zealand industry is not entitled to a particular market share.
204. Pacific Steel provided market share information which it claimed to show that the dumped goods have grown segment share over the period FY2013 to FY2019 showing steady growth at the expense of Pacific Steel, despite Pacific Steel having the capacity to supply those goods. Pacific Steel noted that counterfactual analysis indicates the extent of injury by a comparison of the share of Chinese and Indonesian goods in FY2013 compared with FY2019.
205. Pacific Steel referred to the Panel report in WTO dispute DS518 as supporting the view that loss of domestic manufacturer share can be injurious.¹⁹ MBIE notes that the Panel’s conclusions related to the matters before it and to the particular situation of that safeguard investigation, including whether the Indian authority had provided a reasoned and adequate explanation of its findings on market share in the context of the overall

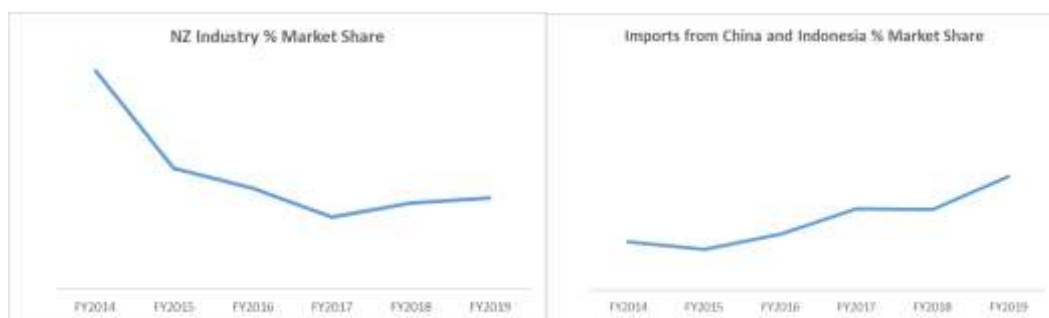
¹⁹ DS518 India – Iron and Steel Products, Panel Report WT/DS518/R.

examination of the situation of the domestic industry. This does not negate the MBIE position that there is no entitlement to market share, and that a decline in the domestic industry's market share when the total market is expanding will not necessarily indicate that material injury is being caused. As noted below, the situation in the current case is not that of a declining market share in a growing market.

206. The following charts illustrate market share information for galvanised wire from FY2014 to FY2019 using Customs data and Pacific Steel production figures.

**Figure 5.5: Market Share
(Customs data, %)**

[Y axis values deleted, X axis does not cross at 0, gridlines deleted, in order to protect the confidentiality of information where making the information available would have a significantly adverse effect on the submitter of confidential information]



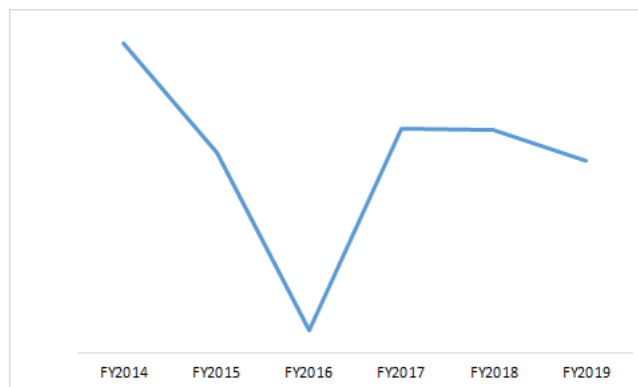
207. The chart shows that the domestic industry's market share declined over the period as a whole FY2014-FY2019. The decrease in market share has reflected an increase in imports from China and Indonesia with a related increase in market share. The market share held by imports from other sources increased in FY2015 and remained stable until a decline in FY2019. The total market size has fluctuated over the period and the decline in the share of domestic sales is not attributable in whole to any increase in the total market.
208. It can be concluded that there is evidence of a decline in the industry's market share that can be attributed to allegedly dumped imports of galvanised wire from China and Indonesia.

5.4.3 Profits

209. Dumped or subsidised imports can affect gross profit and net profit via their impact on sales prices and volumes.
210. Pacific Steel claimed that gross profit and earnings before interest and taxation (EBIT) had declined in absolute terms over the period FY2013 to FY2015 as a result of Chinese and Indonesian undercutting. Pacific Steel noted that the price per tonne for gross profit and EBIT showed a similar pattern.
211. Pacific Steel claimed that MBIE must consider the circumstances of the domestic industry but for the dumping, and assesses the gross profit and EBIT that would have applied in FY2019 if profitability levels from FY2013-FY2015 had applied, with the difference between the notional level and the actual level being a measure of the injury.
212. The following chart shows Pacific Steel's EBIT figures from FY2014 to FY2019.

**Figure 5.6: EBIT
(NZD000)**

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213. The evidence shows that EBIT increased in FY2017 following a significant decline in FY2016. MBIE is satisfied however that over the period as a whole there is evidence that Pacific Steel has experienced a decline in profit, as measured by EBIT.

5.4.4 Other Economic Impacts

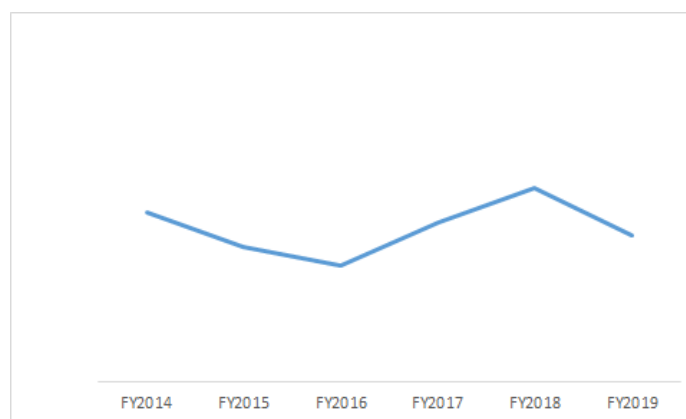
214. Pacific Steel’s application listed the other factors referred to in section 8(2)(d) of the Act, with comments on whether or not they are affected by allegedly dumped imports.

Productivity

215. Productivity is the relationship between goods produced and the inputs required to manufacture those goods. Productivity is affected by output/sales and capacity utilisation levels.
216. Pacific Steel noted that there has been material injury to productivity when considered on the basis of labour units.

**Figure 5.7: Productivity – Production per employee
(tonnes/employee)**

[Y axis values deleted, X axis does not cross at 0, gridlines deleted, in order to protect the confidentiality of information where making the information available would have a significantly adverse effect on the submitter of confidential information]



217. MBIE notes that while there has been some fluctuation in productivity per employee, the overall trend indicates a minor increase in productivity over the period.

Return on investment (ROI)

218. An analysis of return on investment measures profit against the value of the investment in a business. Changes in return in investment may impact the ability to retain current investment or attract new investment. Declines in return on investment can result from a decline in profit or an increase in the level of investment within the business.

219. Pacific Steel noted that the change in ownership of Pacific Steel and consequent changes in accounting provisions has affected the relevance of information relating to return on investments over the period FY2013 to FY2019. Accordingly, Pacific Steel considered that it is more useful to focus on the more fundamental aspects of the profitability of the mill. Pacific Steel claimed that ROI is markedly lower than would otherwise be the case due to dumped imports, and considered that it had suffered ROI injury in an economic sense as its EBIT has declined.

220. MBIE notes that due to the changes in relevant accounting provisions there is no consistent data that would allow a ready assessment of the economic impact of the alleged dumping on ROI.

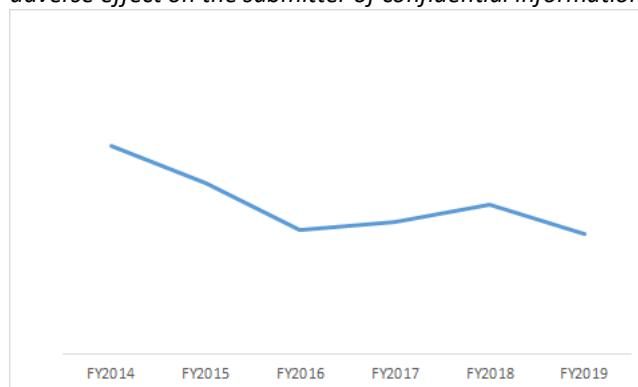
Utilisation of production capacity

221. The utilisation of production capacity reflects changes in production volumes or changes in capacity. A decline in production volumes will normally lead to a higher cost per unit due to increased fixed overheads per unit. This will lead to a decrease in profit level, unless offsetting savings are found elsewhere.

222. Pacific Steel noted that use of galvanised wire production capacity declined between FY2013 and FY2014, and attributed this to the alleged dumping of imports since the dumping and price undercutting had enabled those goods to increase their market share at the expense of domestic production.

Figure 5.8: Capacity Utilisation (%)

[Y axis values deleted, X axis does not cross at 0, gridlines deleted, in order to protect the confidentiality of information where making the information available would have a significantly adverse effect on the submitter of confidential information]



223. As indicated by the chart above, there is evidence that there has been a decline in capacity utilisation over the period.

Factors affecting domestic prices

224. The Act lists this matter as one of the various factors and indices to which the chief executive must have regard to when assessing the economic impact of dumped goods on the industry. MBIE examines this factor in the context of the economic impact of dumped goods on the industry.
225. Pacific Steel has not made any claims regarding factors affecting domestic prices other than those relating to price effects and their consequent impact on the factors outlined above.

Magnitude of the margin of dumping

226. Section 8(2)(d)(iii) of the Act refers to the magnitude of the margin of dumping as a factor the chief executive is to have regard to.
227. Pacific Steel noted that there are significant margins of dumping of Chinese and Indonesian imports, at 30.2 per cent and 19.6 per cent respectively. The impact of the margin of dumping is reflected in the market through “import price parity (IPP) price pressure.”
228. MBIE notes that the price undercutting margins estimated by Pacific Steel are less than the dumping margins identified by Pacific Steel. This factor will need to be considered in light of the actual margins of dumping established in an investigation.

Cash flow

229. Cash flow is the total amount of money being transferred into and out of a business, especially as it affects liquidity, and provides an indication of the ability of producers to self-finance their activities.
230. Pacific Steel noted that it is difficult to fully assess the cash flow effect from the dumping and undercutting of Chinese and Indonesian imports. Pacific Steel nonetheless applied a “but for” analysis to estimate the dollar value of the cash flow effect on the basis of the level of price undercutting by imports from Indonesia.
231. MBIE notes that there is evidence that Pacific Steel has experienced a negative effect on cash flow, but an investigation will need to examine the basis for any effects.

Inventories

232. Increasing inventories at the end of a financial period can be a sign of injury, bearing in mind the context of the normal conditions and practices of the industry concerned.
233. Pacific Steel does not point to an adverse economic impact related to inventories.

Employment and Wages

234. Pacific Steel claimed that there has been material injury in relation to employment headcount arising from profitability pressure. The adverse effects on wages is commensurate with the headcount effect.
235. Pacific Steel provided evidence of the numbers employed in the production of galvanised wire, showing that there is evidence of a decline in employment, with possible consequences for total wages.

Growth

236. Pacific Steel observed that the price undercutting by imports from China and Indonesia adversely affects growth.
237. Pacific Steel suggested that the availability of remedies for unfairly-traded goods is a very important part of the global and New Zealand domestic economy, and full recourse should be available to local businesses if they are to compete on a level playing field in New Zealand against international competitors. Pacific Steel suggested that New Zealand is unlike other jurisdictions in this respect, and cited statements from EU officials regarding the EU's trade defence system.
238. Pacific Steel did not provide any specific evidence in support of its claims relating to the effect on growth.

Ability to Raise Capital and Investments

239. Pacific Steel considered that the current dumping and injury from Chinese and Indonesian goods challenged the availability of investment capital for the Auckland wire mill. Decisions to place investment capital take account of the visible risks to a fairly traded economic environment and the unavailability of trade measures is a significant negative in any investment consideration.
240. Pacific Steel did not provide any specific evidence in support of its claims relating to the effect on the ability to raise capital and investments.

5.4.5 Conclusion on Consequent Impact

241. MBIE is satisfied that:
- There is evidence that Pacific Steel has experienced a decline in sales volume and sales revenue.
 - There is evidence of a decline in the industry's market share that can be attributed to allegedly dumped imports of galvanised wire from China and Indonesia.
 - There is evidence that Pacific Steel has experienced a decline in profit, as measured by EBIT.
 - While there has been some fluctuation in productivity per employee, the overall trend indicates a minor increase in productivity over the period.
 - Due to the changes in ownership there is no consistent data that would allow a ready assessment of the economic impact of the alleged dumping on ROI.
 - There is evidence that there has been a decline in capacity utilisation.
 - There is no particular evidence relating to factors affecting domestic prices and the magnitude of the margin of dumping.
 - There is evidence that Pacific Steel has experienced a negative effect on cash flow.
 - Pacific Steel does not point to an adverse economic impact related to inventories.
 - There is evidence of a decline in employment, with possible consequences for wages.
 - Pacific Steel did not provide any specific evidence in support of its claims relating to the effect on growth.
 - Pacific Steel did not provide any specific evidence in support of its claims relating to the effect on the ability to raise capital and investments.

242. Overall, MBIE is satisfied that there is sufficient evidence that there is a consequent impact on Pacific Steel in relation to a number of injury factors arising from the volume and price effects of allegedly dumped imports of galvanised wire from China and Indonesia.

5.5 Conclusion on Material Injury

243. Material injury is not defined in either the Act or the AD Agreement, but rather is the level of injury which can be demonstrated by an objective and unbiased investigating authority on the basis of an assessment of the factors set out in section 8 of the Act, and in the context of the circumstances of the industry concerned.

Import Volumes

244. There is sufficient evidence to support a conclusion that there has been an increase in the volume of imports of allegedly dumped goods from China and Indonesia in absolute terms and in relation to production and consumption in New Zealand.

Price Effects

245. There is sufficient evidence that the average prices of allegedly dumped galvanised wire imports from China and Indonesia have undercut Pacific Steel's average selling prices for some of the period examined, and that there is price suppression. MBIE is satisfied that Pacific Steel has provided sufficient evidence, for the purpose of initiation, that the allegedly dumped imports of galvanised wire from China and Indonesia may be causing these price effects.

Economic Impact

246. MBIE is satisfied that there is sufficient evidence that there has been a consequent impact on Pacific Steel in relation to a number of injury factors arising from the volume and price effects of allegedly dumped imports of galvanised wire from China and Indonesia. These injury factors include decline in sales volume and sales revenue, market share, profit and capacity utilisation, with actual and potential negative effects on cash flow, employment and wages.

Conclusion

247. On the basis of its analysis, MBIE concludes that for the purposes of initiation there is sufficient evidence that the domestic industry is being materially injured by allegedly dumped imports of galvanised wire from China and Indonesia.

6. Evidence of Causal Link

6.1 Legal Requirements

248. Section 10A(1)(a)(ii)(A) of the Act requires that sufficient evidence be provided that material injury is caused by the allegedly dumped goods in order for an investigation to be initiated. This does not preclude any other factor(s) also being a cause of material injury, and section 8(2)(e) of the Act identifies those other factors that the chief executive shall have regard to in assessing injury. This reflects the requirements of Article 5.2 of the AD Agreement.
249. The assessment of the injury factors in section 5 above includes discussion of the causal relationships of allegedly dumped imports on volume and price effects and their consequent impact on the domestic industry, as set out in the application and in MBIE's examination of the adequacy and accuracy of the claims made.
250. MBIE is also required to examine factors other than the dumped goods that have injured or are injuring the industry.

6.2 Dumped Imports

251. As described in the preceding sections of this report, MBIE has examined the claims made by Pacific Steel with regard to the volume and price effects of allegedly dumped imports and the consequent impact on the domestic industry, including the extent and nature of any such effects and the causal relationship with the allegedly dumped imports of galvanised wire from China and Indonesia.
252. MBIE has identified that sufficient evidence has been provided, for initiation purposes, that there has been an increase in imports of galvanised wire from China and Indonesia, and that price undercutting by allegedly dumped imports from China and Indonesia has contributed to price suppression being experienced by Pacific Steel. Sufficient evidence has been provided to support claims that the consequence of these volume and price effects is actual declines in sales volume and sales revenue, market share, profit and capacity utilisation, with actual and potential negative effects on cash flow, employment and wages.

6.3 Other Imports

253. Section 8(2)(e)(i) of the Act refers to the volume and prices of goods that are not dumped.
254. Pacific Steel provided FY2019 quarterly and annual data on imports from all countries, for volumes, volume share, and values, with annual average prices. Pacific Steel also provided estimates of the levels of price undercutting attributable to the main sources of imports. In providing the information, Pacific Steel noted that data suppression created difficulties for this exercise.
255. Pacific Steel noted that the major suppliers to New Zealand were Canada, Indonesia, China and Australia, and that only China and Indonesia were undercutting Pacific Steel's prices. Pacific Steel noted the difficulties created by data suppression but indicated that current information tended to suggest that Australian, Canadian and Korean goods might not be dumped and were not a cause of material injury to Pacific Steel.

256. MBIE has reviewed Customs data on the levels of imports from the main supplying countries and other sources for all of the subject goods. The information covers statistical keys subject to data suppression, and some goods which may not compete directly with the goods produced by Pacific Steel, and are average values, but the information reviewed does provide an indication of the potential impact of imported goods other than the allegedly dumped goods from China and Indonesia.
257. The information indicates that imports from sources other than China and Indonesia were primarily from Australia and Canada, with much smaller volumes from other sources. Australia has been the major source of imports over the period, with Canada being the second-largest supplier. An analysis of average prices for these countries suggests that they were not undercutting Pacific Steel's prices.
258. Details of MBIE's analysis are included in Confidential Attachment 1.
259. MBIE is satisfied that information on the prices and volumes of imports other than the allegedly dumped goods does not provide a basis for changing the conclusions reached in Chapter 5 of this Initiation Report.

6.4 Demand and Consumption

260. Section 8(2)(e)(ii) of the Act refers to contraction in demand or changes in the patterns of consumption.
261. Pacific Steel notes that it has not observed changes in consumption patterns or reductions in demand that may have contributed to injury. The total market has remained within a consistent range for some time, and the main feature has been the increase in share and in absolute terms of the dumped goods.
262. Pacific Steel has not seen any changes in marketing channels, goods used or the nature of wire usage.

6.5 Trade Practices

263. Section 8(2)(e)(iii) of the Act refers to restrictive trade practices of, and competition between, overseas and New Zealand producers.
264. Pacific Steel notes that it does not have any information that restrictive trade practices have caused injury to the domestic industry, nor does it consider that there are such practices.

6.6 Developments in Technology

265. Section 8(2)(e)(iv) of the Act refers to developments in technology.
266. Pacific Steel notes that it does not have any information suggesting that developments in technology by its overseas competitors have been a cause of injury to the domestic industry. The changes that it has made to its business in recent years are an improvement to its production rather than a cause of injury. Pacific Steel's production method is similar to other manufacturers.

6.7 Exports of New Zealand Producers

267. Section 8(2)(e)(v) of the Act refers to the export performance and productivity of the New Zealand producers.
268. Pacific Steel advises that it has not recently been exporting the subject goods.

6.8 Imports by the New Zealand Industry

269. Section 8(2)(f) of the Act requires the chief executive to have regard to the nature and extent of importations of dumped or subsidised goods by New Zealand producers of like goods, including the value, quantity, frequency, and purpose of any such importation.
270. Pacific Steel advised that it has not recently imported subject goods.

6.9 Conclusions on Causal Link

271. MBIE is satisfied that there is sufficient evidence, for the purpose of initiation, of a causal link between the allegedly dumped imports from China and Indonesia and the volume and price effects and consequent impact on the domestic industry as set out in Chapter 5 of this Initiation Report.
272. With regard to the other causes of injury identified in the Act, MBIE is satisfied that injury caused by any other factors has not been attributed to the dumped imports.
273. MBIE notes that any investigation will need to have regard to the extent to which imports from other sources might be affecting the state of the domestic industry. It will also need to examine any other factors to determine whether they are relevant.

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7. Conclusion

274. On the basis of its examination of the information provided by the applicant, MBIE concludes that:
- a. Sufficient evidence has been provided for the purpose of initiation that galvanised wire from China and Indonesia is being dumped, and that;
 - b. Sufficient evidence has been provided for the purpose of initiation to show that material injury to the New Zealand industry is being caused by the alleged dumping of goods imported from China and Indonesia.
275. On this basis, an investigation should be initiated to determine the existence and effect of the alleged dumping of galvanised wire imported from China and Indonesia, with notice of the decision made in accordance with the requirements of the Act.

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8. Recommendation

277. Based on the above conclusions, MBIE recommends that the General Manager of the Science, Innovation and International Branch of MBIE, acting under delegated authority from the Chief Executive:

Agree that, in accordance with the requirements in section 10A(1)(a) of the Act, there is sufficient evidence to justify investigating whether galvanised wire from China and Indonesia imported into New Zealand is dumped, and that the alleged dumping has caused and is causing material injury to an industry,

Agree that, in accordance with the requirements in section 10A(1)(b) of the Act, the collective output of New Zealand producers who have in writing expressed support for the application constitutes 100 per cent of New Zealand production of like goods to the subject goods,

Note that, in accordance with the requirements in section 10A(2)(a) of the Act, the governments of China and Indonesia have been advised of the goods that are the subject of the proposed investigation,

Agree to start an investigation into the alleged dumping of galvanised wire imported from China and Indonesia.

Agree to give notice of the decision to start step 1 of the investigation, in accordance with section 10B(2) of the Act, and to sign the attached *Gazette* Notice.

Adam Dubas
Acting Manager
Trade and International
Labour, Science and Enterprise

1 May 2020

Agreed

Prue Williams
Acting General Manager
Science, Innovation and International
Labour, Science and Enterprise

25 May 2020

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CONFIDENTIAL ATTACHMENT 1: TRADE DATA

The information in this Confidential Attachment includes trade data subject to suppression orders by Statistics New Zealand because release of the data could identify individual transactions and commercial publication of commercially sensitive information would damage the businesses of importers or exporters.

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CONFIDENTIAL ATTACHMENT 2: EXPORTERS AND IMPORTERS

The information in this Confidential Attachment is derived from Customs data which identifies suppliers and importers of specific transactions of subject goods. The information is confidential because making the information available would have a significantly adverse effect on the exporters and importers to whom the information relates.

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CONFIDENTIAL ATTACHMENT 3: DUMPING ANALYSIS

The information in this Confidential Attachment is derived from commercial-in-confidence information from Pacific Steel and from other sources. The information is confidential because making the information available would have a significantly adverse effect on the parties to whom the information relates, and in some cases is subject to an obligation to maintain confidentiality.