

Report No. 157

Interim review of the anti-dumping duties on cold rolled steel originating in or imported from the Russian Federation

The International Trade Administration Commission of South Africa herewith presents its **Report No. 157 INTERIM REVIEW OF THE ANTI-DUMPING DUTIES ON COLD ROLLED STEEL ORIGINATING IN OR IMPORTED FROM THE RUSSIAN FEDERATION: FINAL DETERMINATION**



Ms N.P. MAIMELA
CHIEF COMMISSIONER

PRETORIA

09/02/2006

INTERIM REVIEW OF THE ANTI-DUMPING DUTIES ON COLD ROLLED STEEL ORIGINATING IN OR IMPORTED FROM THE RUSSIAN FEDERATION

SYNOPSIS

The International Trade Administration Commission of South Africa (the Commission) initiated a review of the anti-dumping duties on cold rolled steel originating in or imported from the Russian Federation through Notice No. 1279 in Government Gazette No. 27823 on 29 July 2005.

The Board on Tariffs and Trade (the predecessor of the Commission) recommended the imposition of Anti-Dumping duties against the importation of cold rolled steel originating in or imported from the Russian Federation. It published its finding in Report Number 4200 dated 17 December 2002.

The following anti-dumping duties are currently in place:

Tariff heading	Originating in or imported from	Exported by	Anti-dumping duty
72.09	Russian Federation	JSV Severstal	27.4%
		All other exporters	76.1%

The Commission sent out an "essential facts" letter to the interested parties on 22 November 2005, communicating the Commission's preliminary determination that the revoking of the duties is not likely to lead to the continuation or recurrence of material injury. Interested parties were invited to comment on the "essential facts" letter and the Commission considered all comments received in making its final determination.

The Commission made a final determination that the revoking of the anti-dumping duty is not likely to lead to the continuation or recurrence of material injury to the SACU industry. It therefore, recommended to the Minister of Trade and Industry that the anti-dumping duties be withdrawn.

APPLICATION AND PROCEDURE

1.1 APPLICANT

The application was lodged by Joint Stock Company Severstal ("JSC Severstal"), Cherepovets; and Novolipetsk Iron & Steel Corporation, ("NLMK"), Lipetsk, being manufacturers of the subject product in the Russian Federation.

1.2 BACKGROUND

The Board on Tariffs and Trade recommended the imposition of Anti-Dumping duties against the importation of cold rolled steel originating in or imported from the Russian Federation. It published its finding in Report Number 4200 dated 17 December 2002.

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The exporters and importers who participated in the initial investigation requested an interim review based on alleged significantly changed circumstances as contemplated in Article 45.1 of the Anti-Dumping Regulations (ADR 45.1). As a result of the application the Commission initiated a review through Notice No. 1279 in Government Gazette No.27823 on 29 July 2005.

1.3 SACU INDUSTRY

The SACU industry consists of Mittal Steel South Africa and Duferco Steel Processing (Pty) Ltd being the manufacturers of the subject product in the SACU area.

1.4 IMPORTERS

The following SACU importers supported the application:

- (a) Steelbank Merchants (Pty) Ltd;
- (b) Repinter South Africa CC
- (c) Steel Resources Incorporated
- (d) Clyde Steel (Pty) Ltd;

1.5 REQUIREMENTS

The Applicant had to prove:

- 1.5.1 changed circumstances with reference to dumping and that dumping is not likely to continue or recur if the duty is removed and/or
- 1.5.2 changed circumstances with reference to injury and that injury is not likely to continue or recur if the duty is removed.

1.6 Changed circumstances with reference to dumping

The applicant did not provide any information in this regard as the application was brought on the basis of the fact that the SACU is no longer suffering material injury as a result of changed circumstances.

1.6.1 Changed circumstances with reference to no injury occurring or recurring

1.6.1.1 The SACU Industry

The applicant stated that Mittal Steel Company N.V., the South African producer's controlling shareholder, obtained a 51% stake in the company in June 2004. This was preceded by a business assistance agreement between Iscor and Mittal Steel Company N.V. concluded in early 2002, in terms of which Mittal Steel provided assistance to the South African company for a three-year period in exchange for shares – provided that certain cost-saving thresholds were met. Established in 1928, Mittal Steel South Africa (MSSA), previously known as Ispat Iscor, has been forged into a modern, highly competitive supplier of flat and long products to the domestic and global markets. The applicant further stated that the SACU industry and market changed significantly since the anti-dumping duties were imposed in 2002.

Not only did ISCOR become Mittal Steel South Africa on 14 March 2005, making them part of one of the biggest steel groups in the world, but it also produced record profits in 2004.

Extensive re-engineering and streamlining of the operations were introduced at Vanderbijlpark. The Vanderbijlpark plant is ranked as one of the lowest cash-cost producers of steel, contributing to

MSSA's position as one of the world's most efficient manufacturers.

The applicant stated that MSSA states on the company's website that: "The company's financial strength is underscored by its low cost of production and ownership of its iron ore resources, as well as the company's strong position in the domestic market".

The applicant further indicated that it is clear from the 2003 Annual Report of the then Iscor Limited that it preformed exceptionally well during that period as it is stated in the mentioned report that *"The year to June 2003 has been the most successful in our history"*. It is therefore very relevant to note that in the audited annual results for 2004 it is stated that, *"...headline earnings for the year increased by 183% compared to last year"*. It continues, *"...record high global steel prices, strong domestic demand and cost containment through savings, were the drivers for these excellent results."*

The Report also indicates that domestic demand increased by 22% during 2004, *"...driven by a robust local economy."*

1.6.1.2 Changes in Global Market

1.6.2. International Demand

Global demand for steel, including cold-rolled steel, is currently higher than any period in recent history. And in accordance with forecasts, world steel consumption will continue to grow.

1.6.2.1 Russian market

Since 1999, the global steel market has undergone considerable changes that affected global supply of steel and consequently had a serious impact on the supply of steel in markets of certain

countries. The limited global supply of raw materials in addition to increased demand by China and India for finished steel products have contributed to rising prices for finished steel products, resulting in improved earnings for Russian steel producers.

Besides international conditions, the recovery of the Russian economy had a great impact on the domestic steel market development. In accordance with estimates by the Russian Ministry of Economic Development and Trade, Russian GDP growth was 7.3% in 2003 and 7.1% in 2004. GDP growth leads to increased steel consumption. The GDP as forecast by the Government of the Russian Federation will be at levels ranging between 7% and 10 % for the next years.

Brunswick UBS states that in today's Russia " Tight domestic supply coupled with the continued growth of domestic consumption [has] resulted in a shortage of steel within Russia...

The Commission found that sufficient proof of changed circumstances was provided with regard to injury.

1.6.3 Injury not likely to continue or recur

The Applicant cited the following factors to support its allegation that injury to the SACU industry is not likely to continue or recur if anti-dumping measures against Russian cold rolled steel are terminated:

1.6.3.1 The Commission's Report No 93

The Commission's finding in its report No 93 "*Sunset review of the anti-dumping duties on hot rolled plates and sheets of steel originating in or imported from the Russian Federation and the Ukraine*"

In the above investigation the Commission took into account that the international steel prices are currently high and that there is a high demand for steel on the international market. It concluded that it is not likely for the exporters from the Russian Federation and the Ukraine to lower their prices when exporting to SACU in future. The Commission, therefore, made a final determination that the expiry of the duty is not likely to lead to continuation or recurrence of injury.

1.6.3.2 Other factors

- Favourable international market conditions (high steel prices, auspicious forecasts for 2005-2006, rapidly developing markets in China, India and some others); growing Russian GDP that leads to high demand for steel products;
 - High level of capacity utilization of Russian steel producers accomplished by focusing on down-stream products manufacturing;
 - Favourable conditions in Russian domestic market (high prices and strong demand) that cause re-directing of Russian producers' sales to domestic market more than to export;
 - Long-term contract relationship between Russian producers and their customers all over the world;
 - Termination of great number of trade restrictions that opens Canadian, USA and Chinese markets for sales;
 - Strong demand for cold-rolled steel on the international market exacerbated by shortage of raw materials.
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- Recovery of the SACU market – Steel consumption increased by 20 per cent during 2004.
 - South African steel demand boosts domestic sales
 - Profitability of the South African steel industry – Operating profits at Mittal Steel more than doubled in 2004.

MITTAL STEEL (SA) Ltd, the SACU manufacturer, which is the major domestic manufacturer of the subject product, in accordance with Article 4.1 of the Anti-Dumping Agreement, provided the following information to indicate what the effect would be if the anti-dumping duties were revoked:

Indexed injury indicators table

	2002	2003	2004	June 2005 Annualised	Estimate if duties are revoked
Price depression	100	117	127	137	135
Price suppression	100	98	86	82	86
Sales Volumes (Tons)	100	84	111	98	93
Profit	100	101	174	178	156
Output Volume	100	99	106	117	116
Market Share	100	94	98	101	95
Productivity per employee (Tons)	100	88	103	117	116
Return on investment	100	452	540	604	624
Capacity utilisation	100	99	106	117	116
Cash flow	100	172	295	310	316
Inventories	100	130	91	91	91
Employment	100	112	103	100	100
Wages	100	109	132	139	139
Growth	100	84	111	98	93

Determination

Although the injury table projections by the SACU producers seem to suggest a small measure of injury for 2005, the Commission was not convinced that this could be caused by likely imports from the Russian Federation and not by conditions within the international and SACU steel markets. The Commission therefore found that there was not sufficient evidence that the revoking of the anti-dumping duties would likely lead to continuation or recurrence of material injury.

2. FINAL RECOMMENDATION

The Commission made a final determination that:

- the revoking of the anti-dumping duty is not likely to lead to the continuation or recurrence of material injury.

It therefore decided to recommend to the Minister of Trade and Industry that the anti-dumping duties on cold rolled steel originating in or imported from the Russian Federation be withdrawn.