



**MINISTRY OF BUSINESS,  
INNOVATION & EMPLOYMENT**  
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**TRADE AND  
INTERNATIONAL**

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Trade (Anti-dumping and Countervailing Duties) Act 1988

## Dumping Investigation

# Aluminium-Zinc Coated Steel from Korea

## Step 2 Final Report

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## Abbreviations

The following abbreviations are used in this Report:

Act (the)	Trade (Anti-dumping and Countervailing Duties) Act 1988
AZ	Aluminium-zinc
COVID-19	Coronavirus disease of 2019
Dongkuk	Dongkuk Steel Mill Co
EBIT	Earnings Before Interest and Tax
Fletcher Steel	Fletcher Steel Limited
HRC	Hot-rolled coil
IPP	Import price parity
KG Dongbu	KG Dongbu Steel Co Ltd
MBIE	Ministry of Business, Innovation and Employment
MCL	Metal coating line
Metals NZ	Metals New Zealand
Minister, the	The Minister of Commerce and Consumer Affairs
Moriah	Moriah Co Ltd
MT	Metric ton/tonne
NZD	New Zealand dollar
NZ Steel	New Zealand Steel Limited
OECD	Organisation for Economic Cooperation and Development
PIP Report	Public Interest Preliminary Findings Report
PIPES	Public Interest Partial Equilibrium Simulation
POI(D)	Period of Investigation (Dumping)
POI(I)	Period of Investigation (Injury)
RoofTG	RoofTG Pacific Limited
USD	United States Dollar
VFD	Value for Duty
WTO	World Trade Organization

# 1. Summary

## Purpose

1. This report has been prepared to meet the requirements of section 10G(4) of the Trade (Anti-Dumping and Countervailing Duties) Act 1988 (the Act) that, in relation to the investigation of dumping of aluminium-zinc (AZ) coated steel from the Korea<sup>1</sup> (subject goods), the chief executive of the Ministry of Business, Innovation and Employment (MBIE) report the findings of investigation step 2 to the Minister of Commerce and Consumer Affairs (the Minister).
2. The report sets out the findings of investigation step 2 that form the basis for recommendations by the chief executive to the Minister on whether it is in the public interest to impose an anti-dumping duty at rates determined by the Minister, at the end of investigation step 1, on exports of the subject goods.

## Proceedings

3. On 8 June 2021, following an application from New Zealand Steel Limited (NZ Steel), MBIE initiated an investigation of alleged dumping of AZ coated steel from Korea and Taiwan<sup>2</sup>. On 2 December 2021, based on the findings of investigation step 1, the Minister made an affirmative determination that there had been injurious dumping from Korea, and a negative determination that there had been no dumping from Taiwan. The Minister also determined the anti-dumping duty rates for exports from Korea, which form the basis of investigation step 2, and terminated the investigation into exports from Taiwan.
4. On 23 February 2022, a Step 2 Public Interest Preliminary Report (PIP Report) was provided to notified parties in accordance with section 10G(1) of the Act. The PIP Report set out the preliminary findings likely to form the basis for a determination to be made by the Minister under section 10H(1), as to whether imposing the anti-dumping duty is in the public interest. Parties' comments have been considered in the preparation of the Step 2 Final Report (this Report).

## Conclusion

5. The conclusions reached at the end of this investigation step 2 are:
  - Overall, considering the situation relating to the period 2022- 2026, it would be in the public interest to impose an anti-dumping duty at the rates determined by the Minister in the step 1 investigation.
  - However, in light of the short-term effects of the COVID-19 pandemic on the domestic industry, downstream industries and consumers, the Minister should suspend the imposition of the duty on the grounds permitted under section 13B of the Act.
  - There are grounds for a suspension because the users of the goods have been significantly impacted by an emergency.

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<sup>1</sup> In this report, "Korea" refers to the Republic of Korea, also known as South Korea.

<sup>2</sup> In this report, "Taiwan" refers to the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu.

6. In light of the considerations set out above, MBIE will recommend that the Minister determine, under section 10H(1), that imposing an anti-dumping duty is in the public interest and so impose the duty under section 13(1) at the rates determined under section 10D(2)(a), but that he then suspend the imposition of the duty for a period of six months under section 13B(3) noting that he may, by notice, later change the period of suspension under section 13B(4).

### **Overview of Step 2 Final Report**

7. Section 2 of this Report provides an overview of proceedings, and sets out the legal requirements and definitional basis on which it has been prepared.
8. Section 3 of this Report sets out the market situation for AZ coated steel affecting the five-year period for which an anti-dumping duty is being contemplated – this forms the context for the present step 2 investigation. Understanding this context assists qualitative assessment of the matters that must be considered in the public interest investigation, and provide the context within which to assess the likely evolution of events and influences on those matters over the five-year period.
9. Section 4 of this Report sets out MBIE’s public interest investigation, addressing the question raised in section 10F(2) of the Act of whether the cost to downstream industries and consumers of imposing the duty is likely to materially outweigh the benefit to the domestic industry of imposing the duty. In undertaking this investigation, MBIE has addressed each factor set out in section 10F(3) of the Act and other matters that it considers appropriate, or that are raised by other parties.
10. Section 5 of this Report sets out MBIE’s findings in relation to the public interest test.
11. Section 6 of this Report covers the imposition of an anti-dumping duty at rates determined following the stage 1 investigation, and the appropriateness of suspending this duty under section 13B(3) of the Act.
12. Section 7 of this Report sets out MBIE’s overall conclusions on this step 2 investigation, which will form the basis for recommendations to the Minister on determinations and decisions he must make under sections 10H(1), 13 and 13B of the Act.

## 2. Proceedings

### 2.1 Investigation

#### Initiation

13. On 8 June 2021, following an application by NZ Steel, MBIE initiated an investigation into the alleged dumping of the subject goods from Korea and Taiwan under section 10A of the Act.

#### Step 1 Investigation – Injurious dumping and associated duty rates

14. Step 1 of the investigation was completed in December 2021 and, on 2 December 2021, the Minister made an affirmative determination under section 10D(1) of the Act that, in relation to imports of the subject goods from Korea, the goods were dumped and material injury to the industry has been or is being caused by the dumping. Consequently, in accordance with section 10D(2) of the Act, the Minister determined the rates of the anti-dumping duty to form the basis for the step 2 investigation, and directed the chief executive of MBIE to start that investigation.
15. In respect of imports of the subject goods from Taiwan, the Minister made a negative determination under section 10D(1) that the goods were not dumped. Consequently the investigation in relation to Taiwan was terminated under section 11(1) of the Act.

#### Step 2 Investigation – Public interest test

16. A step 2 investigation under the Act requires MBIE to investigate whether the imposition of an anti-dumping duty at the rates determined in step 1 is in the public interest. The Act treats the imposition of this duty as being in the public interest unless the cost to downstream industries and consumers of imposing the duty is likely to materially outweigh the benefit to the domestic industry of imposing the duty.
17. On 23 February 2022, a PIP Report was provided to interested parties in accordance with section 10G(1) of the Act. The PIP Report set out the preliminary findings likely to form the basis for a determination to be made by the Minister under section 10H(1), as to whether imposing the anti-dumping duty is in the public interest. Written submissions on the PIP Report were received by MBIE from several interested parties and have been taken into account as appropriate in the preparation of this Report and the development of the conclusions in it.

### 2.2 Legal requirements

18. The requirements for investigations are set out in Part 4 of the Act, and are covered sequentially in this Report. The requirements for a step 2 investigation (the public interest investigation) are provided in section 10F of the Act:
- (1) *If the Minister directs the chief executive to start investigation step 2, the chief executive must investigate whether imposing an anti-dumping or a countervailing duty at the rate determined under section 10D(2)(a) is in the public interest.*
  - (2) *Imposing the duty is in the public interest unless the cost to downstream industries and consumers of imposing the duty is likely to materially outweigh the benefit to the domestic industry of imposing the duty.*

- (3) *In investigating whether imposing the duty is in the public interest, the matters the chief executive must investigate include the following.*
- (a) *the effect of the duty on the prices of the dumped or subsidised goods;*
  - (b) *the effect of the duty on the prices of like goods produced in New Zealand;*
  - (c) *the effect of the duty on the choice or availability of like goods;*
  - (d) *the effect of the duty on product and service quality;*
  - (e) *the effect of the duty on the financial performance of the domestic industry;*
  - (f) *the effect of the duty on employment levels;*
  - (g) *whether there is an alternative supply (domestically or internationally) of the like goods available;*
  - (h) *any other factor that the chief executive considers essential to ensure the existence of competition in the market.*

19. For completeness we note that MBIE can investigate other matters that it considers appropriate, or that are raised by other parties, and is not restricted to solely investigating the matters in section 10F(3) of the Act when determining whether, in its view, the imposition of a duty is in the public interest.

## 2.3 Subject goods

20. The goods which are the subject of the investigation are:

*Flat rolled iron and steel products (whether or not containing alloys), plated or coated with principally aluminium-zinc alloys (but the plating or coating may contain other alloys), not painted, and whether or not including resin coating or other surface treatment.*

21. As discussed in the Step 1 Final Report, the description of the subject goods does not cover goods that are not AZ coated steel. As such, and in addition to painted goods, the list of exclusions from the subject goods is:

- Goods for which there is no aluminium in the coating
- Goods for which there is no zinc in the coating (e.g. aluminised steel)
- Goods with coatings where zinc is the predominant or only element, whether or not aluminium is included, and whether electrolytically coated or hot dipped
- Goods with coatings which include magnesium alloyed with aluminium and zinc
- Goods for which there is no coating at all
- Goods of a thickness of 2mm or more.

## 2.4 Like goods

22. 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.*

23. NZ Steel produces AZ coated steel which is like the subject goods in all respects. This steel is therefore a “like good” for the purposes of this investigation. Accordingly, MBIE is not



required to consider whether the New Zealand industry also produces other goods that have characteristics that closely resemble the subject goods.

24. The term “AZ coated steel”, from this point on in this Report, is used as a general description covering both, the subject goods and the like goods produced by the New Zealand industry.

## 2.5 Notified Parties

25. Section 3 of the Act defines “notified parties” as the Government of the country of export; exporters and importers known to have an interest in the goods; and the applicant in relation to the goods. Section 3E of the Act sets out the provisions relating to the giving of notice and written advice to notified parties.

### New Zealand Industry

26. Section 3A of the Act provides that the term “industry” (referred to in this report as the New Zealand Industry) in relation to any goods, means:

- (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.*

27. The applicant, NZ Steel, remains the sole manufacturer of AZ coated steel in New Zealand and therefore constitutes the New Zealand industry for the purpose of this investigation.
28. NZ Steel provided a response to the Step 2 Investigation Framework and Questionnaire (Step 2 Questionnaire), and supplementary submissions on 25 January 2022, 4 February 2022 and 11 February 2022.

### Exporters

29. MBIE provided the Step 2 Questionnaire and the PIP Report to Korean producers of the subject goods and a New Zealand based intermediary trader – Moriah Co Ltd (Moriah). Responses were received to the Step 2 Questionnaire from one producer – Dongkuk Steel Mill Co (Dongkuk) and Moriah. No substantive responses were received from the other producers. No exporters provided responses to the PIP Report.

### Importers

30. Importers were invited to respond to the Step 2 Questionnaire and the PIP Report. Fletcher Steel Ltd (Fletcher Steel) and RoofTG Tile Group (RoofTG) provided responses to both documents.

## 2.6 Affected parties

31. Section 10G(2) of the Act requires the chief executive to give all persons that the chief executive considers would be significantly affected by imposing an anti-dumping duty a reasonable opportunity to present, in writing, all evidence relevant to the investigation.
32. MBIE considers that, because they are affected by prices and supplies of AZ coated steel and goods incorporating AZ coated steel, affected parties, in addition to the notified parties, should include consumers and downstream industries (as defined in section 10F(4) of the Act), as well as representative consumer and business associations.

## Consumers

33. Section 10F(4) defines consumers for the purposes of section 10F as:
- (a) *New Zealand consumers of –*
    - (i) *the dumped or subsidised goods; or*
    - (ii) *like goods; or*
    - (iii) *the other goods referred to in paragraph (a) of the definition of downstream industries; and*
  - (b) *if the Minister considers it appropriate for the purposes of this section, any other relevant New Zealand consumers.*
34. In this investigation, the subject goods and the like goods are used by immediate downstream industries as an input into the production of other goods which may include intermediate goods, or final goods. The intermediate goods may be used by other downstream manufacturers to produce inputs or components of another good, or final goods. In light of this, MBIE considers that it would be appropriate that users of any of these intermediate or final goods, such as builders and roofers, or distributors of the goods, such as building supply retail chains, be considered to be other relevant New Zealand consumers for the purposes of this investigation.
35. MBIE has accordingly recommended to the Minister that “other relevant New Zealand consumers” in terms of subsection (b) of the definition of “consumer” in section 10F(4) of the Act should include users of any of the intermediate or final goods which incorporate imported AZ coated steel, such as builders and roofers and distributors of the goods, as well as end users such as the general public. This report proceeds on the basis that the Minister will agree with MBIE’s recommendation in this regard.

## Downstream Industries

36. Section 10F(4) defines downstream industries for the purposes of section 10F as:
- (a) *each immediate downstream New Zealand industry that uses the dumped or subsidised goods, or like goods, as an input in the production of other goods; and*
  - (b) *if the Minister considers it appropriate for the purposes of this section, any other relevant downstream New Zealand industry.*
37. MBIE has identified a range of industries that use the dumped goods, or like goods produced by NZ Steel, as an input in the production of other intermediate and final goods as described above. The goods MBIE has identified as ‘downstream goods’, produced from imported or domestic AZ coated steel, include:
- Painted AZ coated steel
  - Roofing and cladding products, including roll-formed long-run roofing, roof tiles, wall cladding, flashings, architectural trays.
  - Rainwater products, including spouting and down pipes.
  - Buildings, including kitsets and larger buildings.
  - Fences.
  - Garage doors.

38. Importers of the subject goods are primarily producers of downstream goods, who also purchase from the domestic industry, or are steel merchants who supply producers of downstream goods with imported or domestic AZ coated steel. The subject goods and immediate downstream goods, such as painted steel, are used by roll formers to produce inputs for many of the products listed above, either by the roll formers themselves or by further downstream industries. In some cases, downstream industries may not be the immediate user of the imported AZ coated steel or of the immediate downstream good. This would, absent a decision by the Minister, exclude these industries from consideration. However, MBIE considers that it would be appropriate to include these industries in this step 2 investigation, because they provide an important element in the considerations relating to supply and demand and prices of AZ coated steel in New Zealand.
39. Accordingly, MBIE will recommend to the Minister that “other relevant downstream New Zealand industries” in terms of subsection (b) of the definition of “downstream industries” in section 10F(4) of the Act should include downstream industries that are not the immediate user of the imported AZ coated steel or of the immediate downstream good, but nevertheless produce intermediate or final goods using imported AZ coated steel. This report proceeds on the basis that the Minister will agree with MBIE’s recommendations in this regard.

### **Business Associations**

40. Business associations representing downstream industries or consumers were invited to provide submissions in response to the Step 2 Questionnaire, and the PIP Report. These associations included Metals New Zealand (Metals NZ), the New Zealand Building Industry Federation, the New Zealand Construction Industry Council, the New Zealand Metal Roofing Manufacturers Association, and the Roofing Association of New Zealand, which were invited to encourage participation in the investigation by their members who might be affected by the imposition of the duty.
41. A response was received in both cases from Metals NZ, but none from any of the other groups.

## **2.7 Findings of the Step 1 Investigation**

### **Dumping**

42. The step 1 investigation established that imports of the subject goods from Korea were dumped. Imports of the subject goods from Taiwan were not dumped.

## Injury

43. MBIE concluded that the domestic industry is being materially injured by dumped imports of AZ coated steel from Korea. In particular:
- There has been an increase in imports of the subject goods along with price effects and a consequential effect on the domestic industry which can be attributed to dumping.
  - There was evidence that dumped imports have partially contributed to price depression and suppression, have contributed to a decline in output and sales revenue, market share and profits, and have partly contributed to negative effects on return on investment and growth.
  - The effects of other factors which may be having an economic impact on the New Zealand industry have not been attributed to the dumping of the goods from Korea.

## Rate or amount of anti-dumping duty

44. On the basis of the conclusions reached in the step 1 investigation, MBIE considered that it would be appropriate to determine rates of anti-dumping duty that address the level of dumping.
45. For imports from Korea, MBIE considered that an *ad valorem* duty would best meet the situation of imports of AZ coated steel, and should be set at the margin of dumping. The weighted average margin of dumping for imports from Korea was 3.4%.
46. No dumping was found for imports from Taiwan and the investigation into imports from Taiwan has been terminated, so no anti-dumping duty could apply to imports from Taiwan.
47. The rates of anti-dumping duty determined by the Minister, which formed the basis for a step 2 investigation are shown in Figure 1 below. In accordance with Article 9.4 of the Agreement on the Interpretation of Article VI of GATT 1994 (the AD Agreement), the rate of anti-dumping duty for 'Other' suppliers is the weighted average for investigated suppliers, excluding rates established on the basis of facts available.

**Figure 1: Anti-dumping Duty**

Supplier - Korea		Ad Valorem Duty
Dongkuk Steel Mill Co (Dongkuk)		2.5%
KG Dongbu Steel Co Ltd (KG Dongbu)		12.6%
Other		2.5%

48. These rates of duty, at the full margin of dumping, form the basis of MBIE's public interest analysis. The rates of duty do not become applicable unless the Minister makes a final step 2 determination that their imposition is in the public interest.

## 2.8 Report Details

49. In this report, unless otherwise stated, years are calendar years ending 31 December and dollar values are New Zealand dollars (NZD). In tables, column totals may differ from individual figures because of rounding.

50. In the step 1 investigation, the period of investigation for dumping (POI(D)) was the year ended 31 December 2020, while the investigation of injury (POI(I)) involved evaluation of data for the period from January 2016 to December 2020. The POI(D) and the POI(I) are different time periods because of the nature of the information collected and conclusions which need to be reached in respect of this information over each period.
51. For the step 2 investigation, MBIE has considered the matters provided for in section 10F of the Act in the context of investigating whether the imposition of anti-dumping duty for the period 2022-2026 is in the public interest. The step 2 investigation was forward-looking, and took into account the situation affecting the New Zealand industry, consumers and downstream industries over the next five years, because that is the period for which the proposed anti-dumping duty would be in force. Mindful that the situation in five years will be less clear than in the shorter term, MBIE identified and considered the matters that will influence the market over this period, including the New Zealand market situation, the effect of COVID-19, the global steel market situation, and the outlook for the construction sector in New Zealand.
52. All volumes are expressed on a metric ton (MT, t or tonne) basis unless otherwise stated. Exports to New Zealand were mainly invoiced in United States dollars (USD), although a variety of currencies were used. The exchange rates used to convert these amounts to New Zealand dollars (NZD) are those relating to specific transactions, where available, or the Customs exchange rates or the rate that MBIE considers most appropriate in the circumstances, as indicated in the text.

## 2.9 Submissions on the Public Interest Preliminary Findings Report

53. The PIP Report was circulated to notified parties and other interested parties on 23 February 2022 and, as set out above, a number of interested parties provided written submissions in response. **Annex 1** sets out a summary of the submissions and MBIE's responses to each. The following key issues were raised.

### **Deferral rather than suspension of anti-dumping duty**

54. NZ Steel considers the anti-dumping duty should be deferred rather than suspended as its reading of section 13B of the Act, and associated materials, suggests a duty that has not been imposed cannot be suspended (only deferred). NZ Steel also notes that a deferral would result in a full five-year period of relief for the industry, in that the imposition of the anti-dumping duty at the end of any deferral period would be for a full 5 years.
55. MBIE notes that the fact circumstances which make it possible for the Minister to conclude that the suspension of the duty is appropriate would also allow for the deferral of the duty. However, for reasons set out in section 6.3 of this Report, MBIE considers that suspension is appropriate because, on the basis of the recommendations arising from this Report, the anti-dumping duty will first have been put in place by the Minister and then immediately suspended for the six month period proposed. It is intended that where an anti-dumping duty is suspended, the overall length of the period of duty is five years, including any period of suspension. A pushing-out of the five year period if that is the outcome of a deferral, would extend the period of the duty beyond five years.

### **Changes to period of suspension**

56. A number of submitters sought a variety of changes to the period of suspension. Fletcher Steel proposed a rolling six month period, noting an arbitrary timeframe of six months does not provide sufficient flexibility to deal with the ever-evolving supply chain issues resulting from COVID-19 and a rolling basis would allow industry participants sufficient lead time to make informed decisions around their purchasing. RoofTG proposed a one year period of suspension which would provide importers, downstream industries and consumers with increased certainty and would allow a sufficient time to meaningfully assess any changing economic conditions.
57. MBIE noted, in paragraph 258 of the PIP Report, that section 13B(4)(a) of the Act requires the Minister to specify the period of suspension. MBIE has also, in section 6.3 of this Report, provided further elaboration of the basis for deciding on six months as the recommended period of suspension. MBIE remains of the view that this is a reasonable suspension period, on the basis of its assessment of all of the considerations involved, and in particular when taken with the proposed process for considering any change to the suspension period.

### **Procedure for ending or extending suspension**

58. NZ Steel noted that the reference to a possible further extension of the period of suspension beyond six months creates uncertainty. RoofTG notes the need for future decisions to extend or terminate the suspension to be based on a careful assessment of factors, noting these factors should be found to have changed significantly before a decision to end the suspension period is taken. RoofTG also proposed that interested parties should be provided with an opportunity to present relevant facts to inform decisions about the termination or extension of a suspension.
59. MBIE agrees that any decisions on the extension or termination of a suspension should be made on the basis of changes in the conditions which justified the suspension. This approach is reflected in the process described in section 6.3 below, which includes inviting interested parties to provide submissions.

### **Summary**

60. Submissions have been taken into account as appropriate in finalising this Report and in the recommendations to be made to the Minister on the step 2 investigation. While the key findings have not changed between the PIP Report and this Report, the discussion of the period of suspension and the process to be followed in considering the ending or extension of suspension has addressed the matters raised.

## 3. Context

61. The matters to be considered in a public interest investigation are set out in section 10F of the Act. Section 10F(2) provides that imposing the duty is in the public interest unless the cost to downstream industries and consumers of doing so is likely to materially outweigh the benefit to the domestic industry. Section 10F(3) sets out a (non exclusive) range of matters that must be investigated in making an assessment under section 10F(2). Consideration of those matters is undertaken in the context of the market situation for AZ coated steel affecting the five-year period for which anti-dumping duty is being contemplated. The relevant market factors involved, which can be inter-related, include influences on supply and demand for AZ coated steel in the New Zealand market, the effect of the COVID-19 pandemic, the international steel market, supply chain issues, and the New Zealand market for building materials.
62. The summaries below are derived from a range of sources and are indicative and representative rather than exhaustive. Their relevance is in assisting the qualitative assessment of the matters that must be considered in the public interest investigation, and to provide the context within which to assess the likely evolution of events and influences on those matters over the five-year period.
63. It should be noted that this section summarises information available up to the time of the preparation of the PIP Report. The subsequent Russian invasion of Ukraine has had an impact on global steel prices and supplies and on the price of raw materials, and will have an adverse effect on the global economy generally. While it is not clear whether or to what extent these developments will directly affect prices and supplies of AZ coated steel in New Zealand, it does confirm MBIE's views on the volatility of the market in the short-term and the uncertainty of the outlook ahead.

### 3.1 Market Sector

#### AZ Coated Steel

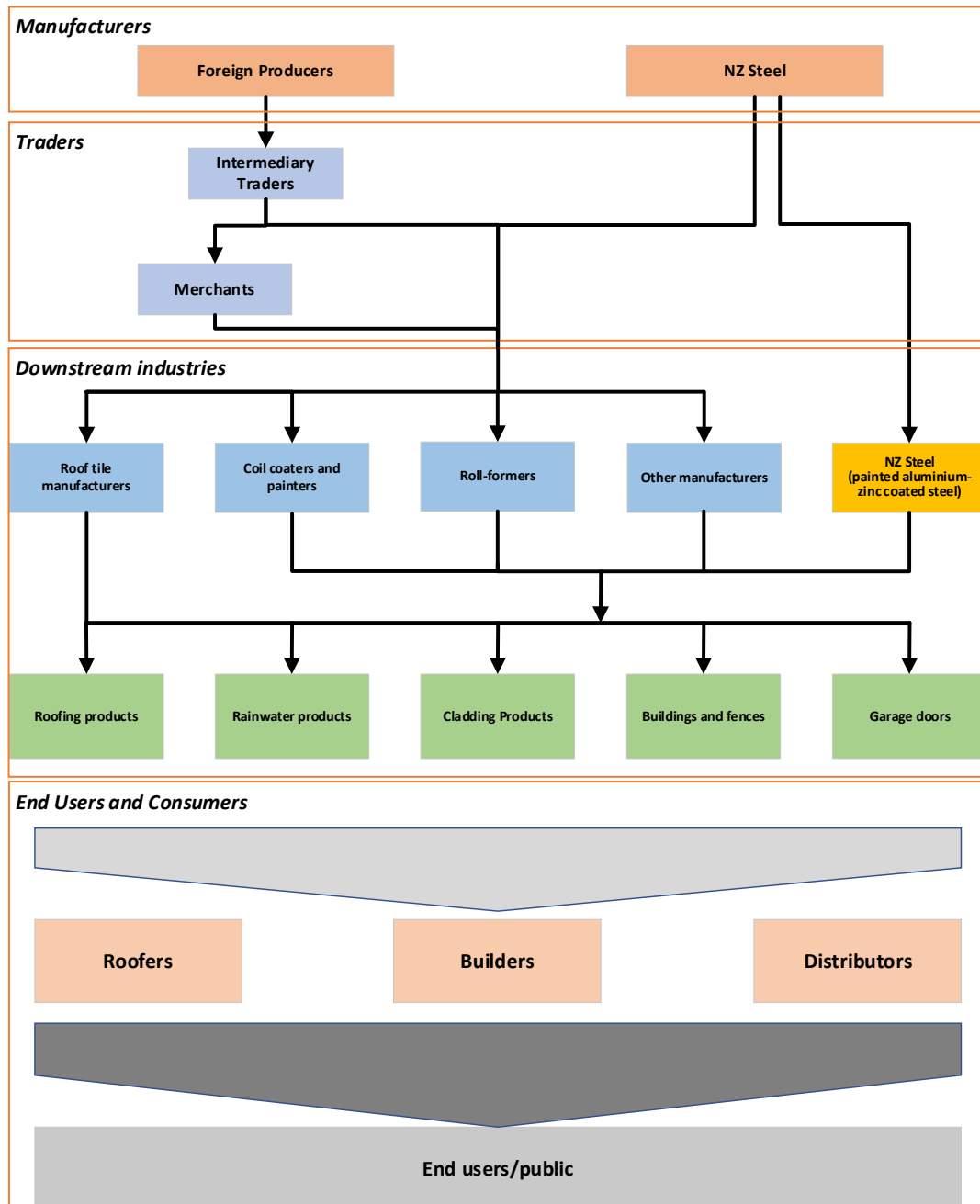
64. In New Zealand, AZ coated steel is used primarily for the production of goods used in roofing and cladding. Other goods produced from AZ coated steel include rainwater goods – spouting, downpipes; buildings, including garden sheds as finished goods or as kitsets, and larger buildings; fences; and garage doors.
65. In the roofing sector, AZ coated steel is used to produce long-run steel roofing and steel tiles, which compete with asphalt shingles, concrete tiles and other products such as terracotta tiles, cedar shakes and slate tiles. In the Commerce Commission's "*Notice seeking clearance for IKO to acquire all of the shares of Ross Roof Group Limited*" of May 2021, it was noted that long-run steel, like *Colorsteel*<sup>®</sup> (NZ Steel), *ColorCote*<sup>®</sup> (Fletcher Steel) and *KiwiColour*<sup>®</sup> (Kiwi Steel), accounts for about 70% of roofing sales in New Zealand, with pressed steel tiles produced by RoofTG and Ross Roof Group having a combined and falling market share of around 12%. Long-run steel is functionally and compositionally identical to steel tiles. Both products are made from one sheet of painted Zincalume produced by NZ Steel or an imported equivalent. The only material difference between the two products is that long-run steel is "roll-formed" into sheets of profiled steel panels (corrugated, trapezoid, trough and tray sections), whereas steel tiles are cut and pressed into smaller individual tiles.

66. Sheet metal was the most popular roof cladding material in 2019, being used on around 70% of houses, compared with 55% in 2010. The use of sheet metal in wall cladding also showed a minor upward trend over this period.

**Production and Distribution**

67. The following figure provides a broadly indicative picture of the domestic supply chain for AZ coated steel and downstream products, and reflects the coverage of downstream industries and consumers, as noted in section 2 of this Report.

**Figure 2: Domestic Supply Chain for AZ Coated Steel**



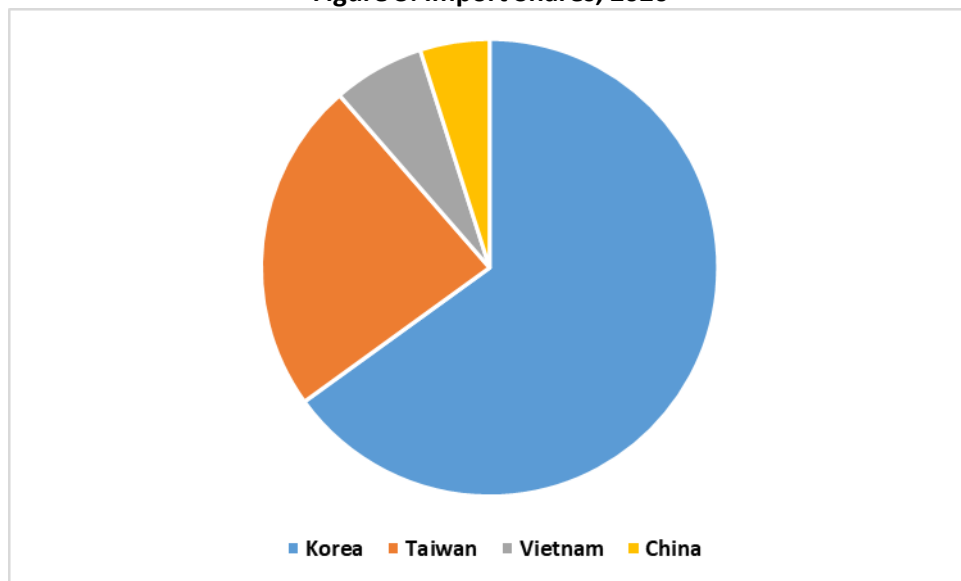
68. AZ coated steel is manufactured in New Zealand by NZ Steel and sold to downstream industries and to steel and building supply merchants. The downstream industries include coil painters, steel roof tile manufacturers, roll formers, roofing manufacturers, building companies, and garage door manufacturers. NZ Steel also uses AZ coated steel in the



production of painted steel coil for sale to downstream industries. In addition to sales on the New Zealand domestic market, downstream industries also export downstream goods, accounting for a significant proportion of production for some downstream industries.

69. Downstream industries purchase AZ coated steel from NZ Steel and also import in order to meet shortfalls in the availability of the product from NZ Steel.
70. AZ coated steel is imported by downstream industries producing the goods noted above, and by importers/merchants for sale to such industries. Painted AZ coated steel is also imported by downstream industries as well as by importers/merchants. Figure 3 shows AZ coated steel import shares for 2020 (excluding painted AZ coated steel).

**Figure 3: Import Shares, 2020**



### Competition

71. In November 2021, the Government asked the Commerce Commission to carry out a study into whether competition for residential building supplies in New Zealand was working well and, if not, what could be done to improve it. While the date for completion of the study is well beyond the deadline for this report, the Preliminary Issues Paper,<sup>3</sup> issued on 17 December 2021, provides some useful background material on the market for building materials in New Zealand.
72. The Preliminary Issues Paper noted that building materials make up a significant proportion of the cost of building new housing and renovations or extensions to existing houses. It is therefore important that competition is working well since this will benefit consumers through the prices they pay for key building supplies, the quality and range of supplies available, and the level of innovation within the industry. The Minister considered that it was in the public interest to require a study based on the following indicators suggesting there may be impediments to competition in the supply or acquisition of key building supplies:

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<sup>3</sup> Commerce Commission New Zealand (2021, December 17). *Residential building supplies market study*. [https://comcom.govt.nz/\\_data/assets/pdf\\_file/0025/273553/Residential-building-supplies-market-study-Preliminary-Issues-paper-17-December-2021.pdf](https://comcom.govt.nz/_data/assets/pdf_file/0025/273553/Residential-building-supplies-market-study-Preliminary-Issues-paper-17-December-2021.pdf)

- The supply of some building supplies is highly concentrated.
  - There is a high level of vertical integration in the supply chain.
  - Pricing of building supplies is not transparent, with perceived widespread use of rebates and loyalty schemes.
  - Difficulties for new building supplies to enter NZ, including anecdotal evidence of issues in the building consent process.
73. The Preliminary Issues Paper set out the criteria being considered by the Commerce Commission for identifying key building supplies, and noted that there were some unique characteristics of building in New Zealand, including the need for performance and durability requirements to include mitigation of risks of earthquakes and winds, the traditionally more bespoke nature of housing stock, and the specification of brands of building supplies by engineers and architects.
74. In relation to COVID-19, the Preliminary Issues Paper noted that the COVID-19 pandemic has placed pressures on the residential building supplies industry. In addition to lockdown restrictions there have been major disruptions to global supply chains. The top two issues have been identified as increases in the price of materials and supplies, and shortages of materials and supplies. The pandemic has been seen as exacerbating existing issues, which included worldwide shipping and delays in manufacturing.
75. Additional issues facing the residential building sector include rising land price inflation and housing supply shortages.
76. In considering the issues to be addressed in the study, the Commerce Commission's assessment of the factors affecting competition will include:
- Prices, choice, quality and innovation in the industry.
  - The margins earned by key suppliers.
  - Whether there are other outcomes that are not consistent with those expected in a workably competitive market.
77. In considering industry structure, the study will look at the concentration of providers of key building supplies and whether this results in weak competition and poor outcomes; and whether vertical integration poses a barrier to competition from independent manufacturers/importers or to independent merchants.
78. The assessment of concentration will look at the extent of economies of scale in the supply chain, the extent to which different building supplies are substitutable, barriers to importing, regional difference in concentration, how concentration is changing over time, and whether the high concentration is leading to poor outcomes for consumers.
79. The assessment of vertical integration in supply chains will look at whether it generates efficiencies in managing the supply chain or whether it makes it harder for independent firms to enter and compete because they cannot access competitive distribution systems or secure the supply of key inputs.
80. The Preliminary Issues Paper notes that competitive outcomes can be affected by a range of conduct. Under vertical arrangements, contractual arrangements entered into between participants at different levels of the supply chain may dampen competition or prevent the entry or expansion of new market participants. Such arrangements can include rebates, exclusivity agreements and tying or bundling. Rebates can include other loyalty payments

or non-monetary incentives for purchasing key building supplies from a particular merchant, or the receipt of rebates, loyalty payments or non-monetary incentives by merchants for stocking particular manufacturers' products. These arrangements can have a detrimental effect on competition by preventing potential rivals' access to inputs or customers or by increasing rivals' costs.

81. Accommodating behaviour, or coordination, involves firms limiting their rivalry so they can all reach a more profitable outcome. This can lead to higher prices or reduced choice or quality, and may not necessarily require explicit agreement.
82. Impediments to entry and expansion can limit the number of competing suppliers. If they are difficult, then less competitive offerings in terms of higher prices, lower quality and resulting higher profits, are more likely to persist, to the detriment of consumers.
83. The Preliminary Issues Paper noted that the regulatory and standards system can act as a potential impediment to entry and expansion. MBIE is the over-arching regulator through its responsibility for building law reform, the Building Code, and building standards. Other bodies include BCAs (Building Consent Authorities), BRANZ (an independent research and testing organisation), and CodeMark (voluntary product certification of compliance with the Building Code).
84. The study will look at whether the regulatory system poses barriers to prospective international or domestic entrants to NZ markets; creates a disproportionate compliance burden for emerging manufacturers of innovative products; incentivises vertical integration or vertical supply arrangements to mitigate liability and compliance risk; and otherwise impedes competition.
85. In terms of behavioural impediments, the study will look at the role each specifying and decision-making party plays in making decisions on building supplies; how consumer preferences impact the choice of building supplies; the information available to decision-makers and ability to use that information; the role of risk aversion in decision-making; and the extent to which the incentives of decision-makers are aligned with the interests of consumers.
86. MBIE considers that the issues identified by the Commerce Commission reflect factors that could be considered essential to ensure the existence of competition in the market for AZ coated steel in terms of section 10F(3)(h) of the Act. Given the differences in product range and time frame, MBIE's consideration in the step 2 investigation was necessarily more limited in scope than the Commerce Commission study.

### **3.2 COVID-19**

87. The COVID-19 pandemic and its effects, including initiatives taken to address the effects of the pandemic, have had and will continue to have an influence on economic activity and everyday life, including on the production and sale of AZ coated steel and downstream products. MBIE's assessment of the impact of COVID-19 has considered the direct impact of the virus and responses to prevent its spread, including lockdowns and travel limitations; government responses in terms of support for affected companies; broader economic effects, including effects on economic activity in New Zealand; and effects on the international economy.

### **Direct impact**

88. The effects of the COVID-19 pandemic, and government responses to it, have already been seen in NZ Steel's production volumes for 2020, when the shutdown in April-May 2020 resulted in a significant reduction in production and sales for the relevant period. However, since then there have been no further lockdowns of the same nature. For example, NZ Steel was able to operate during the lockdowns which responded to the Delta variant in 2021.
89. The direct impact of COVID-19 going forward is more likely to be the effect of the impact of the Omicron variant, as well as any subsequent variants, on the health and availability of staff involved in the production and distribution of AZ coated steel and downstream products at both NZ Steel and downstream industries. As noted by respondents to the Step 2 Questionnaire, the travel limitations arising from COVID-19 do have an effect on the ability of importers and downstream industries to source acceptable alternative suppliers. The travel limitations, which are now being eased, can also affect the availability of workers in production and downstream industries, as well as in end-user industries, such as construction.
90. At this stage it is unclear when or for how long any such effects might apply in the context of the time frame for the consideration of the impact of the imposition of anti-dumping duty, being 2022-2026. A significant effect of COVID-19 is its contribution to the lack of certainty going forward.
91. In its response to the Step 2 Questionnaire, NZ Steel suggested that the effects of the COVID-19 "blip" should be set aside in the investigation of the public interest, because it occurred in the past (2020) and is not useful in thinking about the five-year period for the imposition of anti-dumping duty. However, the public interest investigation looks forward, so in carrying out the step 2 investigation MBIE identified and considered the matters that will influence the market over this period, including the effect of COVID-19. In this context, while COVID-19 might be a "blip" from the perspective of NZ Steel, COVID-19 may not be a "blip" for other parties, and is an ongoing factor of uncertain duration and impact.

### **Support for affected industries**

92. Government support measures for affected industries have focused primarily on support to maintain jobs and wages, and to sustain companies through lockdowns and travel limitations. Support has been available to companies and to individuals. The Government has indicated that future support will be provided where necessary.
93. Government support measures can mitigate some of the effects on companies affected by lockdowns and other COVID-19 related situations, and it is necessary to ensure that these COVID-19 effects, and the Government response, are not conflated with the effects of dumping and the imposition of anti-dumping duty. Nevertheless, COVID-19 developments will continue to be a major influence on economic and fiscal outcomes and represent a major source of uncertainty and risk.

## Broader New Zealand economic effects

94. The Treasury's *Half Year Economic and Fiscal Update*<sup>4</sup> (the Update), published on 15 December 2021, took into account the effect of the Delta variant of COVID-19, but did not address the likely effects of the Omicron variant. In summary, key features of the Update were:
- There was stronger economic activity and the need for less COVID-19 fiscal support than had been anticipated.
  - Activity fell in the September quarter owing to restrictions, but the Treasury expects a rebound in subsequent quarters, supported by pent-up demand, continued strength in building construction, and the more permissive COVID-19 Protection Framework.
  - The combination of supply chain disruptions and strong demand has seen capacity pressures intensify, contributing to higher inflation. Consumers Price Index (CPI) inflation is forecast to peak at 5.6% in the March 2022 quarter, significantly higher than the peak expected in the 2021 Budget Economic and Fiscal Update (Budget Update), before trending down. As a result, interest rates are expected to rise faster and to a higher level than forecast in the Budget Update. Higher inflation is a major contributor to higher nominal gross domestic product (GDP) over the forecast period compared to the Budget Update.
95. In its *Fortnightly Economic Update* for January 2022,<sup>5</sup> the Treasury noted that economic activity increased in late 2021 as restrictions eased, but that waning business confidence, a slowing housing market and the threat of Omicron point to further volatility ahead. Cost, price and inflation pressures continue to build. Internationally, Q4 growth momentum has subsided as COVID-19 cases have surged, but with seemingly lesser impacts on activity than earlier outbreaks. Tightening labour markets and rising inflation in the major advanced economies is driving global interest rates higher.

### Global outlook

96. A McKinsey survey<sup>6</sup> published in December 2021 noted that "Executive sentiment ends the year on a generally positive note, with most survey respondents expecting 2022 to bring better economic conditions despite heightened risks from the pandemic and inflation." It was noted that the COVID-19 pandemic was seen as the top risk to growth in all regions, along with inflation. This reflects the emergence of the Omicron variant as being of increasing concern.
97. The World Bank's "Global Economic Prospects"<sup>7</sup> published in January 2022, notes that:

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<sup>4</sup> See The Treasury, (2021, December 15). *Half Year Economic and Fiscal Update 2021*. <https://www.treasury.govt.nz/system/files/2021-12/hyefu21.pdf>

<sup>5</sup> See The Treasury, (2022, January 21). *Fortnightly Economic Update*. <https://www.treasury.govt.nz/system/files/2022-01/feu-21jan22.pdf>

<sup>6</sup> See McKinsey & Company, (2021, December 21). *The coronavirus effect on global economic sentiment, December 2021* <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/the-coronavirus-effect-on-global-economic-sentiment>

<sup>7</sup> See The World Bank, (2022, January). *Global Economic Prospects*. <https://www.worldbank.org/en/publication/global-economic-prospects>

*The global recovery is set to decelerate amid continued COVID-19 flare-ups, diminished policy support, and lingering supply bottlenecks. The outlook is clouded by various downside risks, including new virus variants, unanchored inflation expectations, and financial stress. If some countries eventually require debt restructuring, the recovery will be more difficult to achieve than in the past. Climate change may increase commodity price volatility. Social tensions may heighten as a result of the increase in inequality caused by the pandemic. These challenges underscore the need to foster widespread vaccination, enhance debt sustainability, tackle climate change and inequality, and diversify economic activity.*

98. In summarising the latest outlook in January 2022, the Organisation for Economic Cooperation and Development (OECD)<sup>8</sup> notes:

*The global economic recovery has progressed more strongly than anticipated a year ago but it is becoming increasingly imbalanced, as lower-income economies struggle to keep up where vaccination rates are low, and advanced economies face very different challenges across GDP growth, employment, the labour market and industries depending on their protection models.*

*Meanwhile the surge in demand for goods has caused bottlenecks in production chains, causing prices to rise due to high demand, high energy prices and fuel shortages, and bottlenecks in production chains. Rising food and energy prices are hitting low-income households in particular.*

*Governments need to ensure that vaccination remains the top policy priority, invest in a more sustainable recovery, and alleviate skill shortages to improve job opportunities and restore business dynamism.*

99. In summary, the effects of the COVID-19 pandemic continue, and while there is some economic recovery, it is uncertain whether it can be sustained in the face of growing pressures.

### **3.3 International Steel Market**

100. The forecasts and assessments described in this section do not fully reflect the most recent developments, including the full effect of the Omicron variant of COVID-19, and the impact of the Russian invasion of Ukraine on the steel market. As noted above in this Report, the situation with Russia and Ukraine has had an impact on global steel prices and supplies and on the price of raw materials, and will have an adverse effect on the global economy generally. It is not clear yet, however, whether or to what extent these developments will directly affect prices and supplies of AZ coated steel in New Zealand. These developments confirm the volatility and uncertainty involved in trying to assess the future evolution of prices and supplies of AZ coated steel.

#### **Research and Markets**

101. A summary of a report by Research and Markets, *Steel - Global Market Trajectory and Analysis, 2021-2026*,<sup>9</sup> notes that In the post COVID-19 period, demand for finished steel

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<sup>8</sup> OECD, (n.d.). *Focus on the global economy*. <https://www.oecd.org/coronavirus/en/themes/global-economy>

<sup>9</sup> Research and Markets, (2022, February). *Steel – Global Market Trajectory & Analysis*. [https://www.researchandmarkets.com/reports/338732/steel\\_global\\_market\\_trajectory\\_and\\_analytics?](https://www.researchandmarkets.com/reports/338732/steel_global_market_trajectory_and_analytics?)

will be driven by the anticipated increase in construction activity, improvements in the manufacturing sector and subsequent rise in demand for and production of a range of machinery, a rise in fabrication of metal goods, and renewed demand for and production of transportation solutions, and improvement in the global economy. The ongoing urbanisation drive, and escalating demand for energy and water, are the other major factors promoting growth in the market.

102. Amid the COVID-19 crisis, the global market for steel, estimated at 1.7 Billion MT in the year 2020, is projected to reach a revised size of 2.2 Billion MT by 2026, growing at a compound annual growth rate (CAGR) of 4.1% over the analysis period. Construction is projected to grow at a 3.5% CAGR to reach 992 Million MT by the end of the analysis period.

### OECD

103. The OECD Report, *Steel Market Developments, Q2 2021*<sup>10</sup> provides an overview of steel market developments – including demand, supply, and prices - and the outlook by region based on information available until December 2020.
104. To summarise, the following key developments are discussed in this report:
- **The economic situation:** In its December 2020 Economic Outlook, the OECD projects world GDP growth to rebound to 4.2% in 2021 and 3.7% in 2022, following a 4.2% GDP contraction in 2020. Nevertheless, the economic outlook remains exceptionally uncertain due to unknowns concerning the successful rolling out of vaccines, the effectiveness of vaccines and the potential resurgence of the virus. Upside risks relate to the positive impacts on growth from faster-than-expected developments of vaccines around the world, and to the slowing down and quasi-disappearance of the disease in a number of countries. Downside-risks relate to the resurgence of the pandemic in many countries, as well as to a potential loss of confidence, should logistical issues concerning the distribution of vaccines prove more challenging than foreseen.
  - **Steel consumption:** The October 2020 forecasts of the World Steel Association (henceforth, “worldsteel”) pointed to a global steel consumption decline of 2.4% in 2020. This moderate decrease despite the outbreak of COVID-19 was mainly attributed to growth in China which accounted for around 57% of the global steel demand in 2020. Turkey was also projected to experience steel demand growth in 2020, after a sharp contraction in 2019.
  - **Steel production:** Global crude steel production declined by 0.9% in 2020, with plunging output in the first half of the year being partly offset by a recovery in the second half. Steel production increased significantly in Asia (+6%), mainly led by a strong rebound in China (+9.5%), in Other Europe (+13.7%), in the CIS (+6.4%) and in the Middle East (+5.6%), and moderately in South America (+3.7%), Africa (+1.3%) and Oceania (+0.5%). In contrast, steel production dropped in both the European Union (-5.0%) and North America (-13.8 %).

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<sup>10</sup> OECD, (2021, October 26). *Steel Market Developments: Q2 2021*.  
[https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DSTI/SC\(2021\)1/FINAL&docLanguage=En](https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DSTI/SC(2021)1/FINAL&docLanguage=En)

- **World steel trade:** The decline of steel exports accelerated for most economies during the first nine months of 2020. During this period, steel exports decreased (in year-on-year terms) in the European Union (18.5%), China (16.0%), the United States (13.1%), Turkey (10.4%), Brazil (9.2%), Chinese Taipei (8.4%), Korea (4.6%), and Japan (3.1%). On the other hand, steel exports from India and Russia increased by 45.2% and 12.4%, respectively, in the first three quarters of 2020.
- **Steel and steelmaking raw material prices:** Steel prices have risen sharply during the second half of 2020, following weakness earlier in the year. As of January 2021, monthly flat steel prices and rebar prices are 47% and 39% higher than one year earlier, respectively. A significant amount of steelmaking capacity idled during the heights of the pandemic could not be brought online quickly enough to meet recovering steel demand and restocking, leading to the rapid rise in global steel prices. As most of the plants that idled capacity during 2020 should have resumed production by March 2021, the recent global rally in steel prices could be short-lived. The sharp increase in prices has not translated into an increase of the average steel firm margin profit. Strong increases in raw materials needed to produce steel have reduced the margin. As of February 2021, prices of iron ore, coking coal and scrap were up 97%, 53% and 56%, respectively, from their levels one year earlier.
- **Capacity:** Global steelmaking capacity increased to 2,452.7 million MT at the end of 2020, i.e. by 1.6% from the level at the end of 2019. World steel production as a share of capacity declined from 76.5% in 2019 to 74.5% in 2020.
- **Steel demand outlook:** In its October 2020 outlook, worldsteel forecast that Chinese finished-steel demand would stagnate in 2021 following growth of 8% in 2020. Recoveries are expected elsewhere, with projections of steel demand growth of 22.7%, 8.1%, 11.0% and 6.6% for India, Japan, the European Union and the United States, respectively. In most jurisdictions, however, the level of finished-steel demand in 2021 is expected to remain below pre-pandemic levels.

### Price Forecasts

105. A price forecast by Commodity News, sourced from MEPS (a steel data supplier), published on 29 December 2021 and reported by Hellenic Shipping News<sup>11</sup> noted that steel market participants are becoming increasingly cautious in their purchasing requirements. The forward view on global prices is gradually turning more negative, particularly for coil products. The record high values reached in the summer of 2021 took many by surprise.
106. The peak of the price cycles occurred at differing points in each region. European transaction values reached their highest level in June 2021, while those in North America peaked in September. Asian prices levelled off during the *[northern]* summer months.
107. The outlook for the start of 2022 is becoming clouded by yet another wave of COVID-19 sweeping across the globe. The Omicron variant may slow the recovery in the steel market. Many buyers are concerned about a price collapse in the coming months. Divergent trends across the three regions researched are envisaged in the short term.

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<sup>11</sup> Hellenic Shipping News Worldwide, (2021, December 29). *Global steel prices forecast to remain elevated in 2022*. <https://www.hellenicshippingnews.com/global-steel-prices-forecast-to-remain-elevated-in-2022/>



108. European flat product prices are forecast to move upwards in the early months of 2022. A resumption of purchasing is anticipated at this time. Mills are keen to recoup their rising outlay on electricity and gas. North American transaction values are expected to continue to decline in the coming months. Procurement activity by buyers is weakening, amid rising stock levels at distributors and service centres. Domestic steelmakers are likely to offer discounts to boost sales.
109. MEPS predicts that the Asian average flat products composite transaction value<sup>12</sup> will decrease in the immediate future. COVID-19 outbreaks across the region are denting market activity and sentiment. A modest seasonal price revival is expected in the northern spring.
110. Reductions in steel selling values are predicted in the second half of 2022 across all regions researched. Diminishing growth in flat product consumption, due to the inflated cost of steel and other materials, is anticipated. Inflationary pressure is likely to dampen consumer spending. Moreover, the recovery in demand from the automotive sector is expected to be protracted.
111. MEPS does not envisage a price crash, despite the growing fear of this happening from a number of buyers in the market. Global transaction values should decrease more slowly than they rose in the past year. The MEPS World flat products composite transaction value is forecast to average around US\$1220 per tonne in 2022 – a rise of almost 60 percent above the 2010/2019 figure.
112. According to MEPS, prices are expected to find support above historical averages, due to increased mill input expenditure and moves to decarbonise the industry. The economic outlook for 2022 is also relatively strong. This is despite downside risks associated with new COVID-19 variants and the expected tightening of monetary and fiscal policy in many countries. As noted earlier, however, these forecasts do not take account of the effects of the Russian invasion of Ukraine on steel prices and output.

### 3.4 Supply Chain Issues

113. A recent KPMG report<sup>13</sup> has highlighted that the COVID-19 pandemic has affected every part of the value chain, from raw material sourcing to end customer, and is testing the commercial, operational, financial and organisational resilience of the majority of companies across the globe. COVID-19 has highlighted risks and resiliency gaps for many organisations. The ongoing global logistics disruptions stemming from the COVID-19 pandemic continue to impact businesses and consumers as the flow of consumer goods into key markets such as North America and Europe, South East Asia and India is restricted by the continued shutdowns of major global ports and airports, largely in China, South Korea, and the US.
114. The KPMG report notes that these major logistics disruptions create a ripple effect across global supply chains that ultimately cause goods to pile up in storage, impacting ships on their way to ports through diversion or being slowed down as they arrive at major transit

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<sup>12</sup> Composite transaction values are derived from values for a range of flat products.

<sup>13</sup> KPMG, (n.d.), *Six key trends impacting global supply chains in 2022*. <https://home.kpmg/xx/en/home/insights/2021/12/six-key-trends-impacting-global-supply-chains-in-2022.html>

- hubs. This restricts global trade flows and limits access for businesses to import products and to refill their stocks of inventory.
115. A CNBC item on a December 2021 report from trade credit insurers Euler Hermes<sup>14</sup> notes that renewed virus outbreaks, China's zero-COVID policy and expected trade volatility during the Lunar New Year, may continue to stress supply chains, and global disruptions may continue until the second half of 2022. Measures to contain COVID-19 can affect manufacturing and shipping operations, exacerbating the supply chain crisis, while the Omicron variant could deal another blow to supply chains. Production shortfalls are behind 75% of the current contraction in global trade volume, whilst logistical bottlenecks are the cause of the remaining 25% according to the Euler Hermes report. The report suggests that the supply chain chaos is likely to ease in the second half of 2022 because consumer demand has peaked as demand normalises gradually, while inventories are back to pre-COVID-19 levels as manufacturers restock. Shipping congestion should also be less acute in the second half of 2022 because capacity is increasing, although costs of shipping are likely to remain high. Global trade volumes are predicted to rise at slower rates in 2022 and 2023 compared with 2021, but trade imbalances will worsen.
116. The New Zealand Treasury *Half Year Economic and Fiscal Update* referred to above noted:
- One consequence of the COVID-19 pandemic has been a sharp lift in demand for goods, as consumers substituted away from in-person services. The global supply chain has struggled to keep up with the extra demand, given the time involved in expanding shipping capacity, causing freight prices to rise sharply. High freight costs mean that importers are paying significantly more to have goods shipped to New Zealand, adding to inflationary pressures as some retailers pass on the additional cost to consumers, while reducing margins for businesses who are unable to pass on the cost. Supply chain congestion and elevated freight costs are contributing to high CPI inflation around the world, including in New Zealand where annual CPI inflation reached 4.9% in the September 2021 quarter. Delays and shortages of materials are also weakening economic activity, stoking fears of 'stagflation' (stagnant economic growth and high price inflation) in the world economy, and central banks may be forced to raise interest rates if high inflation continues."*
117. Port congestion, competition for shipping space, and skilled labour shortages were also noted in the Treasury Update as affecting supply chains.

## 3.5 Outlook for Construction in New Zealand

### National Construction Pipeline Report

118. The *National Construction Pipeline Report 2021 (the Pipeline Report)*, published by MBIE<sup>15</sup> in December 2021 provides a forecast for construction activity through to December 2026. The report is based on residential and non-residential building and construction forecasts and data on researched non-residential building and infrastructure intentions. The report

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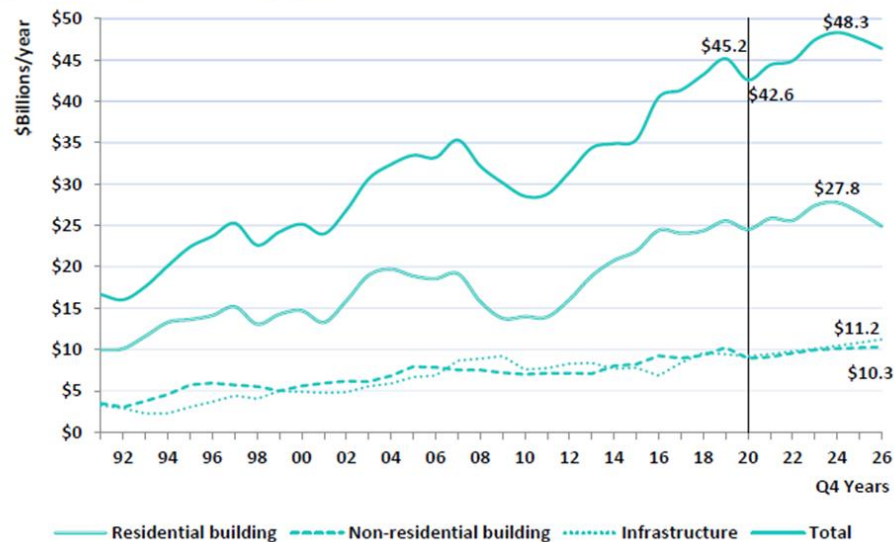
<sup>14</sup> CNBC, (2021, December 9). *Supply chain disruptions may ease in the second half of 2022, insurer says.*  
<https://www.cnbc.com/2021/12/09/supply-chain-crunch-may-ease-in-the-second-half-of-2022-euler-hermes.html>

<sup>15</sup> Ministry of Business, Innovation and Employment, (2021, December). *National Construction Pipeline Report 2021.*  
<https://www.mbie.govt.nz/dmsdocument/18150-national-construction-pipeline-report-2021>

notes that an important aspect is the continued uncertainty presented by the COVID-19 pandemic, and advises that the analysis presented is a best effort at estimating the likely impact of the pandemic on construction activity moving forward. However, the Pipeline Report states that a lot of uncertainty remains throughout the sector, and the ramifications of the pandemic are likely to be felt for several years.

**Figure 4: National Construction Value**

Figure 2.1.1 All construction nationally, by value



119. The above chart, included in the Pipeline Report, indicates continued growth in construction activity after the downturn in 2020 as a result of lockdowns. The predicted declines after 2024 reflect, *inter alia*, forecast reductions in GDP growth.

120. The key findings of the Pipeline Report are:

- Construction activity has held up well against the COVID-19 pandemic and is expected to continue to do so.
- Residential construction grows through to 2023.
- Growth in non-residential activity throughout the forecast period.
- Growth in infrastructure activity throughout the forecast period.

### New Zealand Building and Construction Sector Trends

121. An earlier MBIE report, *Building and Construction Sector Trends – Annual Report*,<sup>16</sup> published in September 2021, provided an overview of key trends in the year to June 2021.

122. The context for the report included:

- **COVID-19:** In 2020, work on the majority of building and construction projects paused during the national Alert Level 4 lockdown, with other impacts including supply chain issues, rising construction costs, businesses working for discounted rates, reduced availability of skilled migrant workers, negative mental well-being impacts on workers, and concerns about the quality of work.

<sup>16</sup> Ministry of Business, Innovation and Employment, (2021, August). *Building and Construction Sector Trends*. <https://www.mbie.govt.nz/dmsdocument/16973-building-and-construction-sector-trends-annual-report-2021-pdf>

- **Climate change emergency:** As a contributor to greenhouse gas emissions, the building and construction sector will play a key role in Government's overall climate change response. MBIE has initiated the Building for Climate Change Programme that will seek to address mitigation by lowering emissions from buildings and reducing the whole of life carbon footprint of building; and adaptation by ensuring that buildings are built in the right places and with more resilience.
123. In terms of construction materials, for roof cladding, sheet metal was the most popular roof cladding material in 2019. The percentage of houses with sheet metal roof cladding increased from approximately 55% 2010 to around 70% in 2019. During the same period, the percentage of houses with metal/concrete tile roofs decreased from just under 40% to under 20%. For wall cladding, there was a minor upward trend in the use of sheet steel.
124. The report notes that it was widely recognised that the COVID-19 pandemic had a "devastating impact" on global supply chains.
125. In summary, the report concluded that with the onset of the COVID-19 global pandemic, the sector faced a unique set of challenges which impacted on how building and construction businesses operated in the past year. However, despite this, building activity remained high, particularly in the past six months, when the number of residential building consents reached record-level highs. There also appeared to be a steady workforce pipeline, due in part to an increase in the number of domestic students enrolling in construction-related qualifications. The cost of building, however, remained high, and appeared to be exacerbated by the global supply chain issues impacting a number of industries, including construction.

### 3.6 Summary

126. The goods that are the subject of this public interest investigation, AZ coated steel, are used primarily in the New Zealand construction sector for both residential and non-residential buildings. Exports of downstream goods are also important for some downstream industries. There is only one New Zealand producer of AZ coated steel, with competition being provided by imports, primarily from Korea, and with major downstream industries purchasing both domestic and imported goods in order to ensure continuity of supply when domestic product is not available.
127. The COVID-19 pandemic has had and is having a major effect on economic activity in New Zealand and globally, including on the production and trade of AZ coated steel. The direct impact of 2020 lockdowns affected the New Zealand industry's production levels, and also affected the costs of importing from Korea in terms of increased prices and freight costs. The ongoing and future effects of COVID-19 are unclear, and the advent of the Omicron variant has introduced further uncertainty about the level of the pandemic's impact and its duration.
128. The international steel market is forecast to show increased demand for finished steel, with increasing demand in construction and automobiles, following the decline in demand in 2020. Prices rose sharply in the second half of 2020 and remained high through most of 2021 before starting to ease. However, prices are expected to remain significantly higher than the levels experienced in 2019 and early 2020. Steel production has been rebounding in most regions other than the EU and North America. However, recent developments in

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*Aluminium-zinc coated steel from Korea*

- Russia and Ukraine are likely to affect these forecasts and it is not yet clear how these developments will effect the price and availability of AZ coated steel in New Zealand.
129. Supply chain issues continue to be affected by the COVID-19 pandemic, and the outlook remains uncertain and volatile. The bottlenecks in supply chains may ease later in 2022 as consumer demand normalises, while shipping congestion is expected to be less acute as capacity increases. However, the potential impact of the Omicron variant means that the situation for the near future remains uncertain.
130. A major factor affecting building materials in New Zealand is the outlook for construction, with the effects arising from the COVID-19 pandemic, but also from the particular and longer-term issues facing construction in New Zealand. Reports on the outlook for construction activity indicate continuing uncertainty, but with the the likelihood of overall growth over the period to 2026.
131. In summary, the outlook is uncertain, but supply in the medium to long-term should begin to align more with demand, and supply chain issues should begin to ease. However, prices are expected to remain high, and it is unlikely that there will be any easing of supply constraints on the New Zealand market in the short term.

## 4. Public Interest Investigation

132. In undertaking a step 2 investigation, MBIE addresses the test set out in section 10F(2) of the Act of whether the cost to downstream industries and consumers of imposing the duty is likely to materially outweigh the benefit to the domestic industry of imposing the duty. In the investigation, MBIE assesses each factor set out in section 10F(3) of the Act, and can also investigate other matters that it considers appropriate, or that are raised by other parties, and is not restricted to solely investigating the matters in section 10F(3) of the Act.
133. MBIE's assessment has considered the situations that might result both with and without the imposition of duty. This includes, for example, consideration of factors affecting prices other than the imposition of anti-dumping duty.
134. The factors set out in section 10F(3) of the Act relate primarily to the effects of the imposition of anti-dumping duty on dumped imports of AZ coated steel. In the account of the investigation set out in this section, MBIE has addressed these effects, but has also addressed the consequential costs to downstream industries and consumers, and the benefits to the New Zealand industry, in terms of the question raised in section 10F(2). This consideration has taken into account the context of the broader market situation affecting AZ coated steel, as set out in section 3 of this Report, since that context is relevant to the consideration of the effects of the imposition of anti-dumping duty in both the short and longer-term.
135. In its assessment, MBIE has been mindful of the context of importations of the dumped goods, and that many importers of the dumped goods are themselves downstream industries using imported or domestic AZ coated steel as an input for the production of downstream goods, which can be inputs into other goods or are final goods. The investigation of the public interest proceeds on the basis of the descriptions of consumers and downstream industries proposed in section 2 of this Report.

### Quantitative Assessment

136. MBIE has developed the Public Interest Partial Equilibrium Simulation (PIPES) model to assist in the analysis of the potential economic impacts of the imposition of anti-dumping duty. The PIPES model can inform, to the extent practicable, the consideration of certain of the factors set out in section 10F(3) of the Act. Like other partial equilibrium models, PIPES allows MBIE to assess the economic effects that anti-dumping duty might have on consumers and producers in the market in question. It does this by observing how supply and demand in the market respond to the imposition of the duty. Economic theory dictates that the imposition of a duty will generally lead to a shift towards purchasing from domestic producers and away from imported goods. However, the extent of such a shift is heavily dependent on the nature of the market and how consumers and producers respond to such a shift in prices.
137. Assessing how consumers and producers respond in any given market is dependent on the availability of sufficiently useful data. Several simplifying assumptions are also made to allow for the application of the model. In this case, the "consumers" envisaged in the model are downstream industries using AZ coated steel to produce intermediate and final downstream goods. It is assumed that the imported goods and the domestically produced goods are substitutable; the supply curve for both the import and domestic market is

assumed to be upward-sloping (as supported by evidence in questionnaire responses); prices are assumed to adjust to the imposition of duty to ensure the markets clear at an equilibrium price and quantity; and it is assumed that the amount of the duty passed on to downstream industries purchasing AZ coated steel is 80% (this reflects MBIE's assessment of the extent and likelihood of the pass on rate based on information from importers and downstream industries). Simplifying assumptions of this nature are standard across partial equilibrium modelling, but as they must be made, the simulation is only indicative of the market outcome.

138. MBIE relied on data provided by interested parties through questionnaire responses, as well as confidential Customs data, to carry out its economic simulation. The data related to prices and volumes of AZ coated steel sales and not to downstream goods. The effects of the duty were calculated as the differences between the simulation's estimated outcome in relation to equilibrium prices and quantities in both the import and domestic market after the imposition of duty, and the baseline values obtained when the markets are in equilibrium prior to the imposition of duty.
139. For the purposes of the analysis, the pass on rate is assumed to be 80%, and the level of anti-dumping duty is the weighted average of the rates of duty proposed, i.e. 3.4%. It is also assumed that NZ Steel will adjust the price of the domestically produced AZ coated steel, as prices will no longer be suppressed by injurious dumping.
140. The outcome of the application of the PIPES partial equilibrium model in this step 2 investigation shows a cost to "consumers" (i.e. immediate downstream industries, as explained above) that outweighs the benefit to the domestic industry from the duty imposition. This outcome supports the conclusions MBIE has reached regarding the short-term effects of the imposition of the anti-dumping duty outlined in this section of this report.
141. It should be noted, however, that this analysis assesses only some aspects of the impact of the duty on prices, and not on the other effects of the duty, and is based on data relating to the past, rather than to the period of application for the proposed anti-dumping duty.
142. The PIPES model could not be used on prices to other downstream industries or consumers as end-users because of the lack of information available on relevant prices and volumes of sales of downstream and final goods, and the relative proportion of prices of such goods attributable to AZ coated steel as an input material.

#### **4.1 Effect of the duty on the prices of the dumped goods**

143. MBIE is required to consider the effect of the duty on the prices of the dumped goods. This can include consideration of past experience of the imposition of anti-dumping duty on the subject goods; the extent to which duty will contribute to price increases that are likely to be passed on to downstream industries and consumers and any subsequent effect on prices for downstream goods; price factors other than the anti-dumping duty that may be affecting the price of the imported goods and any downstream goods, including input costs, currency fluctuations, and the extent of competition in the market; and any other matters that may be relevant to the effect of the duty on the prices of the goods.
144. In considering the effect of the duty on the prices of the dumped goods, MBIE notes that the determined rates of duty are 2.5% and 12.6% of the dutiable value for the designated suppliers, with a weighted average of 3.4%. The significance of these margins for AZ coated

steel will depend on the contribution that its costs make to selling prices for downstream goods using imported dumped AZ coated steel. An anti-dumping duty has not previously been applied to AZ coated steel in New Zealand so there is no past experience to draw from. MBIE notes that, in its submission of 4 February 2020, NZ Steel pointed out that the weighted average level of duty, at 3.4%, is not “big, major, important or a relatively large quantum” and is therefore not significant. MBIE considers, however, that the effect of a duty of 12.6%, as proposed for goods from KG Dongbu, would be significant.

#### 4.1.1 Pass on of price increases

145. MBIE has taken account of submissions from interested parties in assessing the likelihood and extent to which anti-dumping duty might be passed on to customers.

##### Effect on importers/downstream industries

146. MBIE has noted that downstream industries may not only be the immediate user of the imported AZ coated steel or of the immediate downstream good, but MBIE considers that other downstream industries should not be excluded from this step 2 investigation, for the reasons outlined in section 2 of this Report. Accordingly, MBIE has considered the effects of imposition of the duty on the prices of dumped goods, as required under section 10F(3), and on the prices of downstream goods. The test in section 10F(2) requires MBIE to consider the cost to downstream industries of imposing the duty, so MBIE considers these are relevant matters for it to investigate.
147. The imposition of the duty is likely to increase the price that importers have to pay for the subject goods, and given that most importers are themselves downstream industries, the effect of the duty will therefore be immediately reflected in their costs. MBIE has also considered the extent to which importers, as downstream industries, are likely to pass on the duty through an increase in prices of goods produced from the imported AZ coated steel. Frequently, the customers affected are themselves downstream industries, such as roll formers, who manufacture goods for sale to a further set of customers, e.g. builders and roofers, who will then incorporate the goods into the goods or services they provide. This can mean that the impact of duty on prices of the dumped goods can be significantly dissipated as the goods move through the supply chain.
148. During the step 1 investigation, importers (who are mostly manufacturers of downstream products themselves) suggested that their customers are sensitive to price increases. In this situation, price increases of AZ coated steel caused by the imposition of anti-dumping duty may lead to price increases of downstream goods or to a loss of sales, as customers turn to alternative suppliers. These alternative suppliers can include the domestic industry or international suppliers other than those to which the anti-dumping duty would apply.
149. Another outcome is that price increases resulting from the imposition of anti-dumping duty can also lead to the direct importation of downstream goods by importers or their customers, since those goods will not be subject to anti-dumping duty. In light of this possibility it may be difficult for importers and downstream industries to pass on price increases and maintain sales volumes.
150. These considerations do not mean that buyers of downstream goods will not try to pass on at least some of the additional costs, and the likely impact of duty is that there may be price increases for downstream products which otherwise would not have occurred.



151. For some downstream industries, the export market is significant, and it is less likely that increased costs can be passed on to export customers, since they are not constrained by the availability or pricing of goods in the New Zealand market, and can choose to purchase from other countries. The effect is that price increases will not be passed on, with an impact on the profitability of the export sales, or prices will be increased and export sales will be lost to competition from other countries. In either case, the effect is a cost to the downstream industry. MBIE has reviewed information provided by downstream industries in this situation, and the likely effect on their financial performance is significantly adverse.
152. Importers/downstream industries have noted that in terms of the effect on prices of immediate downstream goods, the cost of AZ steel is a significant proportion of the cost of the finished product. Steel prices are considered to be currently at the top of the cycle, which makes it difficult for customers to absorb price increases, particularly given the significant increases in other costs. On the other hand, current demand exceeds the ability of the domestic industry to supply, so if customers cannot access alternatives they must pay the higher prices, with the impact that may have on prices and profitability further along the chain, or must reduce or delay activities and projects using AZ coated steel.
153. In summary, the effects of the imposition of the duty on the price of the dumped goods, and consequential impacts on downstream industries, includes:
- Immediate cost increases for those industries producing downstream goods which are also importers of the subject goods.
  - Likely attempts to pass on the increased costs of the duty to the New Zealand customers of these downstream industries.
  - Costs to downstream industries, including the likely reduction in profits if the increased costs cannot be passed on to export customers; or the loss of sales if export customers are not prepared to accept increased costs since they can access other suppliers.
  - The potential for customers to import the downstream goods direct, rather than purchasing them from the downstream New Zealand industries, or for downstream industries to import downstream goods themselves rather than manufacturing them in New Zealand.
  - The low level of duty proposed for goods from Dongkuk suggests that any price increases for domestic customers may not be significant, especially when taken in the context of all of the other factors affecting domestic prices discussed below, but the effect on export sales is likely to be significant.
  - The higher level of duty proposed for goods from KG Dongbu suggests that price increases for domestic customers are likely to be significant and it is unlikely that the full margin of dumping could be reflected in any price increases.

### **Effect on consumers**

154. In the context of this step 2 investigation, MBIE considers that in addition to end users, such as households, relevant consumers can include users of downstream goods, such as builders and roofers. MBIE has considered the effects of imposition of the duty both on the prices of dumped goods, as required under section 10F(3)(a), and on the prices of downstream goods. The test in section 10F(2) requires MBIE to consider the cost to

consumers of imposing the duty, so MBIE considers these are relevant matters for it to investigate.

155. In its response to the Step 2 Questionnaire, NZ Steel provided an analysis of the likely effect of the anti-dumping duty on the building costs for different buildings. The analysis identified the amount of AZ coated steel required for each of a single residential dwelling, a terraced house and a backyard garden-type shed, and applied the weighted average dumping margin of 3.4% and a confidential estimated value for duty (VFD) per MT price for imports from Korea. The results indicate that the additional dollar cost per building is miniscule. Similarly, the effect on developer costs for a total development or for materials used in a development, are a very, very small percentage of the total cost. The analysis ignores the multiplier effect of producer, reseller or installer margins on the duty element of the price of the relevant downstream good, but this has no significant effect on the outcome of the analysis in dollar terms.
156. MBIE has verified NZ Steel's calculations by using an indicative average VFD value for 2020 of NZD 1300/MT and the volume estimates for product use identified by NZ Steel to establish the additional costs of the duty. The outcome is around \$37 for the single residential dwelling, \$14 for the terraced house, and \$8 for the backyard garden-type shed. In terms of the effect on the cost of materials, the duty would be equivalent to 0.017% of the costs for the single residential dwelling and 0.009% for the terraced house. These figures are lower than those estimated by NZ Steel, reflecting the lower indicative VFD figure used by MBIE. Indicative trade figures for 2021 suggest an increase in VFD value of around 75%, with consequent effects on the cost of the duty increase in terms of buildings, but still with a miniscule effect overall. The aggregate effect over all new housing is potentially equivalent to an annual level of NZD 1.1 million for the quantum of the anti-dumping duty over the 44,000 residential dwellings identified in the Pipeline Report, discussed in section 3.5 of this Report. However, this value is also miniscule compared with the estimated construction value of around NZD 25 billion for these dwellings.
157. MBIE agrees that the likely impact on the cost of an end product such as a whole house is effectively immaterial, irrespective of the precise VFD level of imports. However, MBIE notes that there are some end products and downstream industries who are likely to be affected in different ways, and to a much greater extent by the imposition of the duty.

#### **4.1.2 Price factors**

158. In assessing the effect of the duty on the prices of the dumped goods, MBIE has had regard to the relevant price factors in the market for the dumped goods. These can include price trends currently affecting the market for the dumped goods, exchange rate movements, and raw material costs, all of which can affect the price of imports independently of anti-dumping duty, and must therefore be considered in assessing the materiality of the cost to downstream industries and consumers of imposing the duty.

##### *Price Trends*

159. The most obvious price trend since the step 1 investigation considered dumping and injury based on 2020 data, has been the significant increase in prices of imports over the last year or so. These price increases have reflected the increases in steel coil prices as well as the higher cost of shipping the goods to New Zealand.

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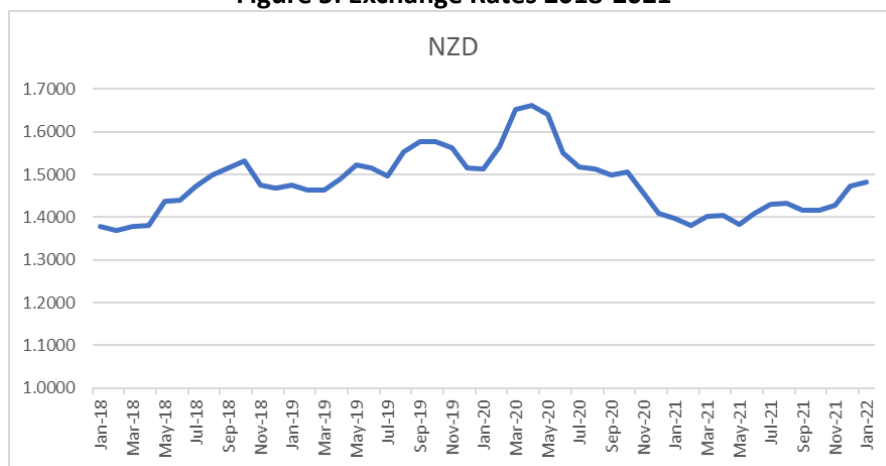
Aluminium-zinc coated steel from Korea

- 160. MBIE has analysed Customs data for 2020 and 2021, based on estimates of imports of the subject goods, which indicate that since April 2021 prices at the VFD level increased by around 75% to the end of 2021. This increase did not include the increased cost of shipping.
- 161. Using Stats NZ import data for individual tariff items for key goods, MBIE has obtained indicative data for increases in freight costs. The data shows that freight and insurance costs started rising significantly from January 2021, with costs more than doubling during 2021 compared with the average for 2020.
- 162. These increased costs dwarf any increased price that could be attributed to anti-dumping duty.

*Exchange Rates*

- 163. Most transactions involving imports of the subject goods are in USD. The information on exchange rate movements indicates that from 2018 until the first quarter of 2020 the NZD lost value against the USD, but has since recovered (although it has fallen slightly in the last few months). This suggests that over 2021, exchange rate movements helped to ameliorate price increases in USD. It is not clear, however, whether current trends will continue, or whether exchange rates will have any significant effect on prices actually paid in NZD by New Zealand importers.
- 164. MBIE notes that in terms of average annual movements in exchange rates, the changes are greater than the weighted average dumping margin of 3.4%, and certainly greater than the 2.5% for the main exporter. In 2019, the average USD-NZD exchange rate was 4.80% lower than in 2018, 1.32% lower in 2020 than in 2019, and 8.70% higher in 2021 compared with 2020. This indicates that for 2021, the movement in the exchange rate was greater than the average margin of dumping, and would have negated the impact of the imposition of the anti-dumping duty by a significant amount.

**Figure 5: Exchange Rates 2018-2021**



*Raw Materials*

- 165. In the Step 1 Final Report, MBIE noted that international steel price movements can affect prices paid by importers, irrespective of dumping, given the operation of NZ Steel’s import price parity (IPP) model, as well as prices of the main raw materials, such as hot-rolled coil (HRC), with flow-on effects on prices for AZ coated steel. In that report, MBIE provided a chart from Steelbenchmarker™ which showed that in 2016 prices for HRC were at their

lowest level since 2002, then rose to a peak around mid-2018 before dropping again to the first half of 2020. Since then there has been a sharp rise to historically high levels. This price evolution is reflected in the price information used in the step 1 investigation. This tends to confirm that prices of the subject goods and NZ Steel's prices have a relationship with international steel prices, but does not mean that such price effects have been misattributed to dumping, since price effects of dumping can still apply alongside international price movements. The information also showed that prices for markets other than the US began to drop later in 2021 as some of the effects of the COVID-19 pandemic on supply and demand began to ease. The recent events involving Russia and Ukraine which are both major producers and exporters of steel is likely to have an effect on the global steel market. The extent to which this will effect prices in New Zealand is not yet clear.

### Summary

166. The combination of price trends, movements in exchange rates and raw material prices, has led to the current market situation where prices of AZ coated steel imports have already increased significantly since the period of investigation, and by far more than the extent of the anti-dumping duty. It appears that prices are beginning to show some easing, but are still significantly higher than in 2020.

#### 4.1.3 Conclusion on the effects of the duty on prices of the dumped goods

167. MBIE considers that the imposition of *ad valorem* duty at the rates proposed is likely to contribute to higher prices for the dumped subject goods imported from Korea, and it is likely that the increases will be passed on to downstream industries and consumers in the form of increased prices of downstream goods using AZ coated steel. The impact of any price increase will depend on the extent to which other factors are affecting prices, and the evidence indicates that in the short-term those other factors are more likely to have had, and be having, a significantly greater effect than the anti-dumping duty. It is likely that where downstream industries are exporters, there is likely to be a significant effect on export sales, with consequent costs to downstream industries in the short-term.

## 4.2 Effect of the duty on the prices of like goods produced in New Zealand

168. MBIE is required to consider the effect of the duty on the prices of like goods produced in New Zealand. In this assessment, MBIE has had regard to the degree of substitutability between the imported and domestically produced goods; the extent to which the domestic industry is likely to change the price of the like goods in response to a change in the price of imported goods; and whether domestic prices are likely to respond to market factors other than the anti-dumping duty.

### 4.2.1 Substitutability

169. The imported AZ coated steel and the AZ coated steel produced by NZ Steel are clearly substitutable to the extent that they are like goods.
170. However, in terms of practical substitutability, i.e whether AZ coated steel is available to customers in the quantities required at the time required, a number of respondents to the Step 2 Questionnaire indicated that NZ Steel has been unable to meet their requirements,

and provided supporting evidence. Potential alternative sources of supply to Korea include China, Japan, Taiwan and Viet Nam, but the respondents have identified practical difficulties in changing suppliers in the short-term, whether or not alternative supplies can be obtained at prices lower than the Korean or New Zealand goods.

#### **4.2.2 Price movements**

171. The purpose of the anti-dumping duty is to remove the adverse effects of dumping by allowing the domestic industry to achieve prices that are not limited by competition from dumped imports. Normally, it can be expected that the domestic industry will seek to increase its prices to incorporate the level of the anti-dumping duty.
172. NZ Steel's pricing to its customers is based on import parity pricing, and is reviewed regularly to ensure competitiveness. A premium over import pricing is provided for in order to reflect the benefits and value of local supply, including short lead times, order flexibility, small order item quantities, product quality, technical service, payment terms, customer service, and NZD pricing.
173. MBIE understands that NZ Steel increased its prices in 2021 to reflect market movements.
174. To the extent that prices of domestically-produced goods are based on import price parity, and in light of the increased international prices for AZ coated steel since 2020, it can be expected that NZ Steel will be able to increase prices at least to the extent of the anti-dumping duty. This expectation also takes into account the limited alternative supply sources to Korea that might be readily available to New Zealand importers and downstream industries, and the increased international prices of AZ coated steel. However, in light of the various other factors influencing prices, such as international steel price trends, exchange rates, freight costs and raw material costs, it would be difficult to attribute any significant element of any price increases by NZ Steel to the effect of the anti-dumping duty.

#### **4.2.3 Market Factors**

175. In assessing the effect of the duty on the prices of like goods produced in New Zealand, MBIE has had regard to the current market situation, in particular assessing the relevant price factors in the domestic market that arise from competition.
176. The current and forecast market situation for steel prices is outlined in section 3 above. In summary, international prices for steel products rose sharply in the second half of 2020 and remained high through most of 2021 before starting to ease. Prices are expected to remain significantly higher than the levels experienced in 2019-2020.

#### **4.2.4 Conclusion on the effect of the duty on prices of like goods produced in New Zealand**

177. MBIE concludes that the imposition of duty is likely to allow NZ Steel to incorporate the level of such duty in its prices, since the operation of import parity pricing would support this. However, the short-term situation is likely to be that any increases in NZ Steel's prices that would reflect the level of anti-dumping duty will be outweighed by price increases in response to the other market factors (international steel price trends, exchange rates, freight costs and raw material costs), so any price increase reflective of anti-dumping duty would not, in itself, contribute a material benefit to the New Zealand industry.

Nevertheless, the current market situation may be temporary, albeit with some uncertainty about how long this will be the case, and in the longer-term the particular influences on price attributable to the COVID-19 pandemic and supply chain issues are likely to ameliorate. In these circumstances, the impact of the anti-dumping duty on prices of the AZ coated steel produced by NZ Steel will become more likely to have a material effect on the New Zealand industry because the relative price effects of other market factors would have decreased.

### **4.3 Effect of the duty on the choice or availability of like goods**

178. MBIE is required to consider the effect of the duty on the choice or availability of like goods. In assessing this, MBIE has had regard to the potential impact that the imposition of the anti-dumping duty may have on the choice or availability of like goods in the New Zealand market, domestic production, and market shares of imported and domestically produced goods.

#### **4.3.1 Availability of like goods**

179. The market for AZ coated steel in New Zealand is made up of domestically-produced and imported goods, with imports coming primarily from Korea.

##### *Prices*

180. Prices of imports are driven by international steel prices and the costs of transportation to New Zealand. The cost of anti-dumping duty is assumed to be incorporated into the ex-wharf cost of the goods to importers/downstream industries, and it is also assumed that the New Zealand industry's prices will effectively incorporate the anti-dumping duty. This means that the effect of prices on substitutability as a result of the imposition of anti-dumping duty will be limited, since both imports from Korea and domestic prices will effectively reflect the anti-dumping duty.

181. However, as noted in the preceding sections, there are other influences on price that in the current market situation significantly outweigh the effect of the anti-dumping duty, and mean that prices of imports are significantly higher than they were during the step 1 investigation period. This confirms that the incidence of the anti-dumping duty would have only a limited effect on substitutability.

##### *Availability*

182. A consistent theme in the submissions made by importers and downstream industries in response to the Step 2 Questionnaire is that NZ Steel is currently having difficulties in meeting demand for AZ coated steel, and that it is therefore not possible to easily replace imports from Korea with NZ Steel's product. Evidence has been provided to support these claims.

183. It has been noted by a respondent to the Step 2 Questionnaire that the level of anti-dumping duty applicable to KG Dongbu, at 12.6%, means it is likely that importers will cease to buy from KG Dongbu, further limiting the availability of AZ coated steel on the New Zealand market. MBIE notes that KG Dongbu is not the main supplier of imported AZ coated steel from Korea.

184. Alternative suppliers are available in other countries, primarily Taiwan, Japan, China and Viet Nam. Downstream industries have noted that suppliers need to be able to meet the

relevant AS/NZ standards, while the testing and verification process, and the associated product development process, can take a lengthy period of time in order to ensure that an acceptable product can be supplied. This suggests that in the short-term a switch of suppliers is unlikely to be a viable option.

#### *Imports of downstream goods*

185. As noted in the discussion on price effects, one possible consequence of the imposition of anti-dumping duty is the potential for downstream industries, or their customers, to import downstream products direct from foreign suppliers. This would remove the need for downstream industries to import AZ coated steel or purchase it from NZ Steel, and would therefore reduce demand, and would have the effect of reducing the overall market for AZ coated steel.
186. Given the operation of the other price factors which have been identified, it would be difficult to attribute any such outcome to the effect of the imposition of the anti-dumping duty on its own.

### **4.3.2 Domestic production**

187. NZ Steel is the only producer of AZ coated steel in New Zealand, meaning there is no alternative domestic source of supply.
188. Importers and downstream industries have also provided evidence of NZ Steel's inability to supply all of their requirements for AZ coated steel.
189. In its comments on the Step 2 Questionnaire, NZ Steel noted that the question relating to the ability of the domestic industry to supply the entire market had not been asked in previous public interest investigations, and interpreted the question as suggesting that if the domestic industry has difficulty in providing orders in a timely manner then the imposition of the anti-dumping duty is not in the public interest. NZ Steel indicated that it did not consider that the premise of the question arose under the Act and even if it did the premise was not sound. NZ Steel suggested that while the question is about the timeliness of desired domestic supply volumes, the public interest investigation is about the volume of Korean imports being priced unfairly, and these two matters should not be conflated.
190. MBIE notes that the questions it asks are not required to be limited to questions asked in previous public interest investigations, which may have involved different products and different market situations; nor is the public interest investigation only about the volume of dumped Korean imports. In fact the investigation is about the relative costs to consumers and downstream industries and benefits to the domestic industry if anti-dumping duty is imposed.
191. The basis for the question was to understand supply and demand in the current market situation so as to investigate the effects of the duty on the choice or availability of like goods, as required by section 10F(3)(c) of the Act, as well on the other matters specified in section 10F(3). The question sought to obtain views on the extent to which imports of the subject goods are meeting demand that the domestic industry is unable to cover. In the event, the question elicited useful responses from importers and downstream industries.
192. MBIE notes that its consideration of the matters relating to the public interest test covers a wide range of factors and the decision as to whether or not the imposition of anti-dumping

duty is in the public interest takes into account all of those factors and is not predicated on any single factor alone.

193. MBIE considers that the extent to which the domestic industry can meet demand is very relevant to a consideration of whether the costs of imposing the duty on consumers and downstream industries materially outweighs the benefits to the domestic industry. If the duty does not, or cannot, lead to any increase in sales volume or market share for the domestic industry, then the benefit it provides can only be through an increase in price and hence sales revenue. These effects are discussed in the previous sections of this Report.

#### **4.3.3 Conclusion on the effect of the duty on the choice and availability of like goods**

194. MBIE considers that in terms of the choice and availability of like goods, the imposition of anti-dumping duty could, in the short-term, impose costs on downstream industries, without providing any clear benefit to the domestic industry. However, the market conditions giving rise to this view are likely to be temporary and short-term, and MBIE must consider the longer-term situation covering the full period for which duty would be applicable. When the factors affecting supply and demand in the market return to a more normal situation, the impact of the anti-dumping duty is likely to be more marked, and the costs to the downstream industries will not materially outweigh the benefits to the New Zealand industry when the whole of the period of application of the duty is taken into account.

#### **4.4 Effect of the duty on product and service quality**

195. MBIE is required to consider the effect of the duty on product and service quality. In this assessment, MBIE has had regard to the goods' characteristics, including any standards that might be applicable, customer preferences and perceptions relating to quality of the products and of the service provided by the New Zealand industry and by Korean suppliers, and any other relevant considerations.

##### **4.4.1 Characteristics of the goods**

196. The relevant standard is AS 1397-2011, which specifies requirements for continuously hot-dip metallic coated sheet steel and strip. The requirements covered by the standard included formability grades of steel; structural grades of steel; classes of coating for zinc, zinc/aluminium (ZA), zinc/aluminium/magnesium (ZM), aluminium/zinc (AZ), aluminium/zinc/magnesium (AM); and surface finish. Imports from Korea, and the goods produced by NZ Steel, are generally identified as meeting the relevant requirements for AZ coated steel in this standard.

##### **4.4.2 Quality considerations**

197. Downstream industry respondents to the Step 2 Questionnaire noted that AZ coated steel whether imported from Korea or purchased from NZ Steel is generally comparable in terms of product quality. This is to be expected since the downstream industries use both imported and domestic product to produce downstream goods and need to be able to provide consistent quality of output. However, respondents also noted that NZ Steel has some issues in relation to service quality, and provided evidence in support.



198. NZ Steel has argued that quality is an unhelpful factor in the analysis of public interest. MBIE notes that section 10F(3)(d) of the Act requires that it investigate the effect of the duty on “product and service quality”. MBIE considers that this can relate to the quality of the product, which can include whether the goods meet the required standard, but can also include the extent to which specific customer requirements are met; whether there are any issues with finishing, presentation or packing; and service quality around timeliness of delivery and responsiveness to customer needs.

#### **4.4.3 Conclusion on the effect of the duty on product and service quality**

199. MBIE considers that in relation to the effect of the duty on product and service quality the main impact of the imposition of anti-dumping duty will depend on the extent to which importers and their customers are required to seek other suppliers, who may not have the capability to meet particular customer requirements. The information available suggests that while this may be a short-term issue it is unlikely to be significant in the medium to longer-term. Increased costs to downstream industries may also arise if the incidence of service quality issues with NZ Steel increases as customers are required to rely on NZ Steel as a supplier.

### **4.5 Effect of the duty on the financial performance of the domestic industry**

200. MBIE is required to consider the effect of the duty on the financial performance of the domestic industry. In this assessment, MBIE has had regard to the findings of the step 1 investigation, the current financial state of the domestic industry, the impact of imposing the duty and whether any effects, other than those intended, could arise from the imposition of duty.

#### **4.5.1 Step 1 Investigation**

201. In step 1 of the investigation, MBIE assessed the likely financial impact on NZ Steel of dumping of the subject goods from Korea, and found that it was suffering material injury. This conclusion was based on a finding of dumping by the major exporters from Korea to New Zealand in 2020, and on the effect of dumped imports considered in relation to the period 2016-2020. MBIE has had regard to this injury analysis in assessing the effect of the duty on the financial performance of the domestic industry for step 2 of the investigation. The relevant financial effects considered by MBIE are summarised below.

#### **Step 1 assessment of injury factors**

##### *Volume effects*

202. Imports of dumped goods from Korea increased over the POI(I) in absolute terms and in relation to production and consumption in New Zealand.

##### *Price effects*

203. MBIE’s overall conclusion on price effects in the Step 1 Final Report was that during 2020 there was some price undercutting that could be attributed to dumped imports from Korea, and there was price undercutting from non-dumped imports from Taiwan. However, on the whole, the price undercutting by dumped imports was not significant in 2020. MBIE further concluded that NZ Steel experienced price depression and price suppression which could be partly attributed to dumped imports.

*Output and sales revenue*

204. In the injury analysis in step 1 of the investigation, MBIE concluded that there was evidence that NZ Steel had experienced a decline in output and sales revenue attributable in part to the dumped goods.

*Market share*

205. MBIE noted that as NZ Steel lost market share in AZ coated steel, other products which are part of the product mix produced in NZ Steel's metal coating line (MCL) plant, and other MCL products produced for the export market, experienced stable positive growth. These included products that use AZ coated steel as an input for further processing.
206. MBIE concluded that there was evidence that NZ Steel experienced a decline in market share for AZ coated steel which resulted in an adverse economic impact as the dumped imports gained market share. MBIE reached this conclusion on the basis of the volume effects findings, which indicated a significant increase in the volume of dumped imports, and the output and sales revenue findings, which indicated that even after adjusting for the COVID-19 shutdown the domestic industry was still experiencing declines in output and revenue in 2020. MBIE further concluded that there were factors other than dumping which had also contributed to the decline in market share and the subsequent economic impacts identified in the step 1 investigation.

*Profits*

207. MBIE concluded that there is evidence that NZ Steel experienced a decline in profits which can be attributed, in part, to the dumping of imports of subject goods from Korea.

*Other financial indicators*

208. In its Step 1 Final Report, MBIE also stated that:
- To the extent that dumped imports had increased in volume, and had contributed to price depression and suppression, they had partly contributed to negative effects on return on investment and growth.
  - It could not be concluded that dumping of the subject goods had contributed to any negative economic impact being experienced by NZ Steel in respect to productivity and utilisation of production capacity.
  - There were factors affecting domestic prices other than the dumped imports of the subject goods from Korea.
  - The magnitude of the margin of dumping did not contribute to a significant adverse impact on the New Zealand industry.
  - There was no clear evidence that the dumped imports had contributed to actual or potential negative effects on cash flow, inventories, employment or wages.
209. MBIE assessed the causal link between the dumped imports and any material injury on the basis of the requirement of the Act and the AD Agreement. MBIE was satisfied that in relation to the matters the chief executive is required to have regard to under section 8(2) of the Act, it had not attributed to dumped imports any injury caused by other factors.

## Conclusion

210. Overall, MBIE's conclusion was that the dumping of the subject goods from Korea had contributed to material injury to the New Zealand industry producing like goods during the POI(I).

### 4.5.2 Current financial state of the New Zealand industry

211. The step 1 investigation covering the POI(I) to 2020 established that the dumping of imports was contributing to injury to NZ Steel in relation to its AZ coated steel business. In terms of the current financial state of the New Zealand industry, MBIE has considered information relating to the position since the POI(I) affecting AZ coated steel, as well as the overall financial position of NZ Steel.
212. In a range of submissions, interested parties have noted that NZ Steel's current and projected financial performance have been "exceptional", and that with world steel prices at record levels and demand for steel far in excess of NZ Steel's capacity to supply, the company's prospects are solid.
213. MBIE notes that in its 2021 Annual Report BlueScope Steel Limited, NZ Steel's parent company, stated that its performance in the New Zealand and Pacific Islands had shown an increase of AUD 101.9 million in sales revenue, due to higher domestic despatch volumes and higher domestic and export selling prices referenced to higher global steel prices. The increase of AUD 135.9 million in underlying EBIT was due to:
- Higher domestic volumes particularly higher value coated and painted products and elimination of some loss-making products.
  - Higher domestic and export selling prices driven by higher global steel prices.
  - Lower raw material costs particularly thermal coal on lower global prices.
  - Lower depreciation following the asset write-down in June 2020, partly offset by higher operating costs, particularly energy costs.
214. The Annual Report noted that in New Zealand domestic sales of flat products increased by 19% over FY2020 due to strong conditions across building and construction segments and following the impact of COVID-19 restrictions on operations and the supply chain in FY2020. It was noted that the number of new dwelling consents remained at the highest level observed in recent years, following a sustained period of growth; there was strong demand for metal coated and painted products, with construction levels increasing by 30% over FY2020, and recently launched painted products continued to contribute to volume growth. Further upgrades to the painted steel manufacturing plant to help meet increasing domestic demand were to be made in the second half of FY2022, including an AUD 9 million investment in coating equipment.

## Conclusion

215. The developments in the market situation reported in the BlueScope Annual Report generally reflect the situation outlined in section 3 of this Report. MBIE notes that NZ Steel's overall financial position appears to be very healthy, that sales of coated and painted steel have made a particular contribution, and that this situation is likely to continue while global steel prices remain high and New Zealand domestic demand remains strong on the back of continuing growth in construction activity. However, as discussed

elsewhere in this Report, the factors that contributed to the improved performance reflect the short-term situation, while MBIE's analysis of the market factors arising primarily from the COVID-19 pandemic is that they are likely to ameliorate over the medium to longer-term. MBIE considers, therefore, that those factors are unlikely to continue to have an influence for the whole of the period of the application of anti-dumping duty, covering 2022-2026, and it is likely that the current financial performance will not be sustained. It then becomes more likely, in the medium to longer-term, that the domestic industry will be materially affected by the dumping of AZ coated steel if anti-dumping duty is not imposed.

#### **4.5.3 Conclusion on the effect of the duty on the financial performance of the domestic industry**

216. While the step 1 investigation concluded that dumped imports had contributed to material injury to the New Zealand industry, more recent market developments have placed NZ Steel in a very healthy financial position, with coated steel products making an important contribution to this outcome. However MBIE considers, for reasons outlined elsewhere in this Report, that it is likely that those factors will no longer apply in the mid to longer-term, covering 2022-2026. It then becomes more likely that the financial performance of the domestic industry will be materially affected by the dumping of AZ coated steel if anti-dumping duty is not imposed.

### **4.6 Effect of the duty on employment levels**

217. MBIE is required to consider the effect of the duty on employment levels. In assessing this, MBIE has had regard to the extent to which the imposition or non-imposition of duty would likely affect levels of employment in the domestic industry and in downstream industries.

#### **4.6.1 Employment effects on the domestic industry**

218. In step 1 of the investigation, MBIE concluded that there were no actual or potential negative effects on employment and wages that could be attributed to imports of the dumped goods. This conclusion recognised that NZ Steel did not claim any material injury affecting employment and wages as a result of the dumping of AZ coated steel from Korea. It also recognised that employees were engaged on the MCL plant, which produced a range of products in addition to the subject goods, and while production of the subject goods for the domestic market might have decreased, production of other goods and for other markets had not.

219. In light of the conclusions reached with regard to the other factors addressed in this investigation, MBIE does not consider that the imposition or non-imposition of the anti-dumping duty is likely to have an adverse effect on employment in the production of the subject goods by the New Zealand industry over the period being considered.

#### **4.6.2 Employment effects on downstream industries and consumers**

220. On the basis of the information available from a limited number of downstream industries, employment in those industries related to the processing of the subject goods is significantly higher than the level of employment in NZ Steel's MCL. Information provided by downstream industries shows that any reductions in output of downstream goods could

lead to reductions in employment. Also, the reductions in activity due to shortages of goods are contributing to loss of earnings in downstream industries.

#### **4.6.3 Conclusion on the effect of the duty on employment levels**

221. The information available indicates that in the short-term the potential impact on employment in downstream industries from the effects of imposing anti-dumping duty could be significantly greater than the impact on the domestic industry of not imposing duty. However, the precise impact on employment in downstream industries is subject to a number of factors, including the ability to absorb any price increases or to pass on increased costs to customers, as well as the ability to access alternative suppliers if anti-dumping duty leads to price increases for imported and domestic supplies that cannot be sustained. The indications are that the current market situation affecting prices and the ability to take on new suppliers is likely to be temporary and short-term, and in the mid to longer-term those issues will be resolved and any effects on employment in downstream industries will be ameliorated.

#### **4.7 Whether alternative supply (domestically or internationally) of like goods available**

222. MBIE is required to consider the effect of the duty on alternative supply (domestically or internationally) of like goods available. In this assessment, MBIE has had regard to whether the domestic industry is able to meet domestic demand; whether there are any alternative sources of supply, competitive in price and quality, capable of accommodating additional demand; whether there are any technical specifications demanded by the domestic market that may restrict import possibility; and whether there are any other relevant factors to consider.

##### **4.7.1 Demand**

223. Respondents to the Step 2 Questionnaire provided evidence indicating that NZ Steel is unable to meet their requirements, and suggest that it is therefore not in the public interest to impose anti-dumping duty on Korean AZ coated steel. NZ Steel has argued that it is not a requirement of the public interest test that NZ Steel should have to fulfil all domestic demand, since the claim is not relevant to the need to address unfair trade.

224. MBIE agrees that NZ Steel is not required to meet all domestic demand, but to the extent that it does not meet the requirements of its customers at prices that reflect market conditions, then customers will need to look elsewhere, and the consideration of ability to supply may be relevant when assessing whether, taken overall, the costs to downstream industries and consumers of applying the anti-dumping duty materially outweigh the benefits to the domestic industry. This analysis takes account of prices and the availability of alternative supplies if the domestic industry is unable to meet demand.

##### **4.7.2 Alternative supply**

225. There are clearly no domestic sources of supply alternative to NZ Steel.

226. As noted above in section 4.3.1, alternative suppliers are available in other countries, but downstream industries have noted that in the short-term a switch of suppliers is unlikely to be a viable option.

227. MBIE notes, however, that in Australia the Australian Anti-Dumping Commission (AADC) has recently imposed anti-dumping duty on imports of AZ coated steel from Korea (with dumping margins of 3.9% for Dongkuk, 2.6% for KG Dongbu and 10.5% for unco-operative exporters) and Viet Nam (with rates of duty ranging from 8.1% to 10.9%). No anti-dumping duty was applied to goods from Taiwan and one supplier from Viet Nam, on the basis that they were not dumping.
228. The Australian outcome, and New Zealand's step 1 determination that imports of AZ coated steel from Taiwan are not dumped, confirms that undumped supplies could be available from Taiwan and Viet Nam, while there is a possibility that some suppliers from Korea could divert sales from Australia to New Zealand as a result of lower rates of anti-dumping duty.
229. The attractiveness of any alternative suppliers will depend on prices and availability as well as quality. In this context, the effect of the level of anti-dumping duty in relation to other influences on price, and on considerations of quality and reliability, will be significant for importers and downstream industries when determining whether an alternative supplier should be pursued. In this context the relevant levels of anti-dumping duty are 2.5% for Dongkuk and 12.6% for KG Dongbu, which suggests that any additional costs from the duty on Dongkuk may not be significant in the context of all of the factors influencing prices discussed in this PIP Report, whereas the duty on KG Dongbu is likely to have a significant effect on purchase decisions.

#### **4.7.3 Conclusion on whether there is an alternative supply of like goods available**

230. MBIE concludes that while alternative supplies of AZ coated steel may be available, it may not be a short-term viable option to change suppliers. However, any decision to switch suppliers will depend on the effects of the imposition of anti-dumping duty on prices from Korean suppliers in the context of all of the other influences on prices.

#### **4.8 Factors essential to ensure the existence of competition in the market**

231. MBIE is required to consider the effect of the duty on any factors the chief executive considers essential to ensure the existence of competition in the market. In this assessment, MBIE has had regard to the current situation in the market for AZ coated steel, whether there is risk of monopolisation; how accessible the market is to new entrants; and any existing protection of the domestic industry, as well as any other relevant factors.

##### **4.8.1 Current market situation and risk of monopolisation**

232. NZ Steel is the sole manufacturer of AZ coated steel in New Zealand. If New Zealand was not open to trade, NZ Steel would have a pure monopoly for the subject goods, giving it market power to raise prices above costs with no risk of losing its profits to a new market participant. This kind of monopolistic behaviour, if exercised, would drive prices up with no incentive to lower them.
233. Although NZ Steel is the sole domestic producer, New Zealand is a small open economy, with competition introduced to the market through international trade. The extent to

which other sources can provide alternative supplies is addressed in the discussion of substitutability in section 4.7 above, and market accessibility in section 4.8.2 below.

234. MBIE considers that there is a very limited risk of monopolisation of the New Zealand market for AZ coated steel as a result of the imposition of the anti-dumping duty.

#### **4.8.2 Market accessibility**

235. The ability of new players to enter the market affects the level of competition. To the extent that there are few formal barriers to trade, new suppliers can theoretically freely enter the market. MBIE notes that, in this context, new players can include importers and intermediaries, as well as foreign producers.
236. Many respondents to the Step 2 Questionnaire considered that entry to the market would not be easy in a small market like New Zealand, and would require significant capital and relationships with suppliers. Additional factors currently applicable include supply chain difficulties; high world prices; the difficulty in adding new suppliers in light of the COVID-19 travel difficulties and the testing and verification processes required; as well as the deterrent effect of trade remedy actions. NZ Steel, however, did not consider that accessibility to new entrants was a material aspect of a public interest investigation, since there were well-established importers and distributors in New Zealand, as well as some relatively new entrants. MBIE notes that these considerations appear to apply to importers and intermediaries rather than to producers in foreign countries.
237. High world prices and supply chain difficulties are addressed in section 3 of this Report. These factors are likely to have an impact in the short-term, and do have an impact on the extent to which new suppliers might add to competition in the New Zealand market for AZ coated steel.
238. MBIE notes that recent Government announcements on international travel arrangements and COVID-19 measures mean that international business travel is likely to be readily available in the near future. However, while this may facilitate travel involved in finding and preparing suitable alternative supplies, this is not a quick process according to downstream industries, and is unlikely to resolve matters for importers and downstream industries in the short-term.
239. With regard to trade remedies as potential barriers to market access, MBIE notes that NZ Steel has been active in seeking to have trade remedy measures applied to steel products that it produces, but notes that such measures are only applied where the conditions are met. In this context it should also be noted that trade remedy actions against steel products are a feature of international trade, not limited to New Zealand, and international suppliers will be aware of this.

#### **4.8.3 Existing protection of domestic industry**

240. The Normal rates of Customs duty for most items covering the subject goods are Free or 5%, but imports from Korea and from many current or potential sources of imports have preferential access free of duty under the relevant free trade agreements.

#### **4.8.4 Other relevant factors**

##### *Factors affecting supply*

241. The main factors affecting supply in the New Zealand market include the availability of AZ coated steel from NZ Steel in a market that is affected by the increasing demand for building materials for the construction industry, to the extent that, according to submissions from some parties, NZ Steel is unable to meet current demand from its customers. For reasons outlined by interested parties, access to alternative suppliers to the Korean producers is limited and is not a viable option in the short-term, which means that to the extent that NZ Steel is unable to supply, New Zealand customers will need to continue to import from their Korean suppliers at prices that include the anti-dumping duty. Assuming that NZ Steel's prices also reflect the duty (and the other price factors noted in this PIP Report) the imposition of the duty is unlikely on its own to have an impact on the existence of competition in the New Zealand market.
242. Another consideration relating to supply in the New Zealand market arises from production by NZ Steel of downstream goods in competition with its customers for AZ coated steel. NZ Steel produces painted AZ coated steel on its MCL line. As noted above in relation to NZ Steel's financial performance, there appear to have been increases in the production and range of painted products which use AZ coated steel. While there is scope for pricing and availability of AZ coated steel and painted AZ coated steel from NZ Steel to assist in the promotion of sales of the NZ Steel product, no specific claims have been made by interested parties regarding the impact on competition.

##### *Factors affecting prices*

243. Any consideration of the factors affecting prices and the impact of the imposition of anti-dumping duty needs to take account of the relative impacts of the various factors compared with the duty. It has been noted that global steel prices have increased significantly since 2020, to a much greater extent than the dumping margin, with exchange rate movements having a lesser but similar effect, while shipping costs have increased significantly and by far more than the margin of dumping. Given these circumstances, the likely effect of the duty on prices of AZ coated steel and downstream products is outweighed by the effect of other factors, which will continue to apply irrespective of the imposition of the duty. This suggests that the imposition of the anti-dumping duty will have at the most only a marginal impact on prices and competition in the New Zealand market, at least for as long as current global market conditions continue.

#### **4.8.5 Conclusion on factors essential to ensure the existence of competition in the market**

244. MBIE considers that the imposition of the anti-dumping duty is unlikely to have a significantly negative effect on the existence of competition in the New Zealand market.

#### **4.9 Other matters affecting the public interest**

245. As noted at the beginning of section 4 of this Report, MBIE assesses each factor set out in section 10F(3) of the Act, as well as other factors it considers relevant to assessing whether or not the cost to downstream industries and consumers of imposing the duty is likely to materially outweigh the benefit to the domestic industry of imposing the duty. In general, the extent to which other factors might be relevant is considered in relation to the purpose



of the public interest investigation, being the weighing of the effects of imposing the duty on downstream industries and consumers on the one hand, and the benefits to the New Zealand industry on the other.

246. In assessing what might be relevant factors, beyond those listed in section 10F(3), MBIE considers the purpose of the Act, which in this context is to apply anti-dumping duty in accordance with New Zealand's obligations as a party to the WTO Agreement in order to prevent material injury to an industry as a result of dumping. In MBIE's view, this means that the factors considered do not extend to broader considerations of economic policy, industry policy, international relations, or environmental or social policy concerns.

#### 4.9.1 Specific matters

247. In their responses to the Step 2 Questionnaire, a number of interested parties raised matters which they considered should be addressed by MBIE in its investigation of the public interest.

##### *Housing market policy*

248. It has been suggested that the imposition of the anti-dumping duty would not align with the New Zealand Government's current critical objectives of building more affordable housing and controlling inflation. It was noted that in the Regulatory Impact Statement (RIS) prepared by MBIE on the suspension of anti-dumping duties on residential building materials it was stated that duties imposed on building materials were not in the public interest because they were a barrier to competition and made housing less affordable.
249. MBIE notes that the sections of the RIS referred to were summarising the position when the suspension of anti-dumping duties on residential building materials was originally proposed in 2014, when an additional measure proposed was the introduction of the public interest test into the Act. The public interest test as enacted is the test being applied in the current investigation, which provides a more detailed basis for analysis of the impact of the imposition of anti-dumping duties on competition and the effect on prices on downstream industries and consumers. Accordingly, the approach taken by MBIE in applying the relevant provisions of the Act is aligned with the Government's objectives for the public interest assessment as elaborated since the original suspension of anti-dumping duties.

##### *Use of public interest test in other jurisdictions*

250. NZ Steel notes that Canada and the EU have public interest tests and has analysed the extent to which the EU and Canada have set aside duties on public interest grounds. NZ Steel found that Canada set aside less than 2% of cases, and the set aside rate of the EU was 3.5%. NZ Steel points out that in the Parliamentary debates on the introduction of the public interest test into the New Zealand legislation, it was noted that the EU and Canadian regimes provided models for the New Zealand approach, and suggests that if the New Zealand set aside rate is much different from those of Canada and the EU then the New Zealand public interest test will not have proved, as Parliament was informed, similar to the EU and Canada, but different.
251. MBIE notes that the "set aside" rates of other jurisdictions are not relevant to MBIE's statutory obligation to apply the relevant tests as set out in the Act. The similarity between the New Zealand, Canadian and EU public interest tests is that they all make the

assumption that the duties will apply unless it is “clearly concluded” (EU) that it is not in the public interest to apply the measures, or the cost to consumers and down stream industries is likely to “materially outweigh” (NZ) the benefits to the domestic industry of imposing the duties. However, the “set-aside” rates of other jurisdictions are not relevant to the situation of a particular New Zealand investigation or to New Zealand’s investigation of the matters provided for in the Act.

#### 4.9.2 Conclusion on other matters affecting the public interest

252. MBIE is satisfied that none of the other matters raised in submissions or arising from MBIE’s own research are relevant to the consideration of the matters provided for in section 10F of the Act.

### 4.10 Overall Conclusions

253. On the basis of its investigation into the matters set out in section 10F of the Act, MBIE has concluded that:

- The imposition of *ad valorem* duty at the rates proposed is likely to result in higher prices for the dumped subject goods imported from Korea, and it is likely that the increases will be passed on to downstream industries and consumers in the form of increased prices of downstream goods using AZ coated steel. The relative impact of any price increase will depend on the extent to which other factors are affecting prices, and the evidence indicates that in the short-term those other factors are more likely to have had, and be having, a significantly greater effect than the proposed anti-dumping duty.
- The imposition of duty is likely to allow NZ Steel to incorporate the level of such duty in its prices, since the operation of import parity pricing would support this. However, the short-term situation is likely to be that any increases in price that would reflect the level of anti-dumping duty will be outweighed by responses to other market factors, and would not contribute a material benefit to the New Zealand industry.
- The current market situation may be temporary, albeit with some uncertainty about how long this will be the case, and in the longer-term the particular influences on price attributable to the COVID-19 pandemic and supply chain issues are likely to ameliorate. In these circumstances, the impact on prices of the anti-dumping duty will become more likely to have a material effect.
- In terms of the choice and availability of like goods, the imposition of anti-dumping duty could, in the short-term, impose costs on downstream industries, without providing any clear benefit to the domestic industry.
- In relation to the effect of the duty on product and service quality, the main impact of the imposition of anti-dumping duty will arise if importers and their customers are required to seek other suppliers, who may not have the capability to meet particular customer requirements; and if the incidence of service quality issues with NZ Steel increases as customers are required to rely on NZ Steel as a supplier.
- The step 1 investigation found that dumping was contributing to injury to the New Zealand industry in the period up to 2020, but since then NZ Steel’s overall financial position has improved and appears to be very healthy, with sales of

coated and painted steel having made a particular contribution. However, it is likely that the factors which led to this situation will no longer apply in the mid to longer-term, and when considering the full period for the application of anti-dumping duty, it is more likely that the domestic industry will be materially affected by the dumping of AZ coated steel.

- In the short-term, the potential impact on employment in downstream industries from the effects of imposing the anti-dumping duty could be significantly greater than the impact on the domestic industry of not imposing duty. However, indications are that the current market situation affecting prices and the ability to take on new suppliers is likely to be temporary and short-term, and in the mid to longer-term those issues will be resolved and any effects on employment in downstream industries will be ameliorated.
- While alternative supplies of AZ coated steel may be available, it may not be a short term viable option for downstream industries to change suppliers. However, any decision to switch suppliers will depend on the effects of the imposition of the anti-dumping duty on prices from Korean suppliers in the context of all of the other influences on prices, while in the mid to longer term the issues relating to the time required to introduce new suppliers will be resolved.
- The imposition of the anti-dumping duty is unlikely to have a significantly negative effect on the existence of competition in the New Zealand market.
- The outcome of the application of the PIPES model employed by MBIE to assess the impact to consumers and producers from the imposition of the duty, shows a cost to consumers that outweighs the benefit the domestic industry will receive from the duty imposition. This outcome supports the conclusions outlined above regarding the short-term effects of the imposition of the anti-dumping duty. However, this analysis assesses only some aspects of the impact of the duty on prices, and not on the other effects of the duty, and is based on data relating to the past, rather than to the period of application for the proposed anti-dumping duty.
- None of the other matters raised are relevant to the consideration of the matters provided for in section 10F of the Act.

## 5. Findings on the Public Interest

### 5.1 Approach

254. As set out in section 10F(2) of the Act, the public interest test provides that imposing the duty is in the public interest unless the cost to downstream industries and consumers of imposing the duty is likely to materially outweigh the benefit to the domestic industry of imposing the duty at the rates determined as a result of the step 1 investigation. In investigating this matter, MBIE has assessed each factor set out in section 10F(3) of the Act together with other matters that it considered appropriate, in the context of the overall costs to downstream industries and consumers, and the benefits to the domestic industry, of the imposition of the proposed anti-dumping duty.
255. MBIE has addressed this question on the basis of the whole of the period for which any anti-dumping duty would be applied, being the five-year period 2022-2026. In investigating the matters set out in section 10F(3) of the Act, MBIE has taken account of the short-term situation arising from the effects of the COVID-19 pandemic, which are likely to be temporary, and the longer-term factors expected to affect the market once the COVID-19-related effects have ameliorated.

### 5.2 Short-term situation

256. MBIE has found that taking into account the step 1 investigation findings, consumers and downstream industries are likely to face higher prices for AZ coated steel imported from Korea and produced domestically than they otherwise would if anti-dumping duty was not imposed. However, the significance of any such price increases is limited by the low level of duty rates that would apply (2.5% for the main Korean supplier), the extent to which the duty is likely to flow through to goods produced by downstream industries, and the much greater price effects attributable to factors other than the level of anti-dumping duty, attributable primarily to the effects of the COVID-19 pandemic.
257. There are currently limitations on the ability of importers and downstream industries to source alternative supplies of like goods, arising from the need for assurance that the goods meet the needs and specifications of the purchasers, and the availability of the goods whether from the domestic or international markets in the context of the effects of the COVID-19 pandemic on the supply of AZ coated steel.
258. In view of the current and likely level of demand, the imposition of the anti-dumping duty in the short-term is unlikely to influence the level of sales of the domestic industry or to have any real effect on the level of prices and consequent effects on the revenue and profits of the New Zealand domestic industry. Indeed, the increased demand and the price increases that have taken place irrespective of any anti-dumping duty, have already contributed to increased sales and profits for the domestic industry.
259. On the other hand, the imposition of duty could lead to increased costs for some downstream industries that will not be recovered in respect to export sales, with significantly adverse effects on profitability, and potentially employment.
260. MBIE concludes that in light of current market conditions attributable primarily to the COVID-19 pandemic, and in the short-term, the imposition of the determined rates of anti-dumping duty is unlikely to provide significant benefit to the domestic industry, and the

likely costs to downstream industries materially outweigh any such short-term benefits. MBIE does not consider that any costs to consumers as end-users of products incorporating AZ coated steel which might arise from the imposition of anti-dumping duty will be material.

### 5.3 Longer-term considerations

261. In order to determine whether or not the public interest test is met, MBIE needs to consider the effect of the imposition of anti-dumping duty over the whole of the prospective period of its application. While the current market situation indicates that any benefit to the domestic industry provided by the imposition of anti-dumping duty is likely to be materially outweighed by costs to downstream industries, this is likely to be temporary only, and the position could well change, even in the next six month, as the effects of the COVID-19 pandemic diminish.
262. MBIE notes that market conditions changed after the step 1 investigation period, but in light of the context set out in section 3 of this Report, it is difficult to conclude that this change will not be temporary in the sense that it is unlikely to prevail for the full period of the proposed application of the duty, being five years. The analysis of the factors covered in section 4 of this Report takes account of changes in market conditions, and concludes that it is likely that supply and demand in the New Zealand market for AZ coated steel will realign during this period, and importers and downstream industries will have had an opportunity to explore and pursue alternative suppliers. In these circumstances it is likely that the benefit to the domestic industry of imposing the duty will be greater, and will not be materially outweighed by the costs to downstream industries.

### 5.4 Conclusion

263. MBIE's overall conclusion is that while, in the short term, the costs to downstream industries of imposing the anti-dumping duty are likely to materially outweigh the benefits to the domestic industry, taking into account the effects of the imposition of the duty over the whole of its five year period, the longer term outlook is that the costs to consumers and downstream industries will not outweigh the benefits to the domestic industry of imposing the duty.
264. Accordingly, MBIE concludes that, in considering the situation relating to the period 2022-2026, it is in the public interest to impose anti-dumping duty at the rates determined by the Minister in the step 1 investigation. Accordingly, MBIE will recommend that the Minister determines, under section 10H(1) of the Act, that imposing the duty is in the public interest. However, in light of the conclusions reached regarding the short-term effects of the COVID-pandemic, MBIE is of the view that consideration needs to be given to approaches which recognise the short-term effects outlined in this Report. This is discussed further in section 6 below.

## 6. Imposition of anti-dumping duty

### 6.1 Anti-dumping duty

265. The conclusion is that, taking into account the effects of the imposition of the duty over the whole of its five year period, the costs to consumers and downstream industries of imposing the duty will not materially outweigh the benefits to the domestic industry of doing so. The public interest test has been met.
266. In light of this conclusion, the rates of anti-dumping duty to be applied by the Minister under section 13(1) of the Act, as determined in the step 1 investigation, are:

Figure 2: Anti-dumping Duty

	Ad Valorem Duty
<b>Supplier - Korea</b>	
Dongkuk Steel Mill Co (Dongkuk)	2.5%
KG Dongbu Steel Co Ltd (KG Dongbu)	12.6%
Other	2.5%

### 6.2 Suspension or deferral of imposition of duty

267. In light of the effects of the COVID-19 pandemic, as outlined in section 3 of this Report, and addressed throughout section 4, MBIE considers it appropriate that the imposition of the duty should be suspended under section 13B(3) of the Act or deferred under section 13B(1). Section 13B(3) provides for the termination or suspension of the imposition of anti-dumping duty if the Minister considers that the users of the goods subject to the duty have been significantly impacted by a natural disaster or emergency. In such an event, the Minister may terminate or suspend, in whole or in part, the imposition of the duty. Section 13B(1) provides for the deferral of the imposition of a duty, or an election not to impose it, if users of the goods have been significantly impacted by a natural disaster or an emergency.
268. In either case, in order for there to be sufficient grounds to suspend or defer the imposition of the anti-dumping duty on AZ coated steel from Korea, the Minister would need to be satisfied that users of the goods have been significantly impacted by an emergency.

#### Emergency

269. Under section 3 of the Act, “emergency” has the meaning given to it in section 4 of the Civil Defence Emergency Management Act (CEDM) 2002. Under section 4 of the CEDM Act, “emergency” means a situation that:

*(a) is the result of any happening, whether natural or otherwise, including, without limitation, any explosion, earthquake, eruption, tsunami, land movement, flood, storm, tornado, cyclone, serious fire, leakage or spillage of any dangerous gas or substance, technological failure, infestation, plague, epidemic, failure of or disruption to an emergency service or a lifeline utility, or actual or imminent attack or warlike act; and*

*(b) causes or may cause loss of life or injury or illness or distress or in any way endangers the safety of the public or property in New Zealand or any part of New Zealand; and*

*(c) cannot be dealt with by emergency services, or otherwise requires a significant and co-ordinated response under this Act.*

270. The COVID-19 pandemic was declared a Public Health Emergency of International Concern by the World Health Organisation (WHO) on 30 January 2020. On 25 March 2020, the New Zealand Government declared a nationwide State of National Emergency due to the pandemic, which was in place until 13 May 2020. Since that time, the government has implemented a series of measures aimed at limiting and ameliorating the effects of the COVID-19 pandemic, and the government's emergency powers are still in effect. The COVID-19 pandemic is clearly an "emergency" as defined in the CDEM Act and under section 13B of the Act.

### **Users**

271. The term "user" is not defined in the Act, which contrasts with the public interest test where downstream industries and consumers are both defined and limited in scope. The fact that section 13B of the Act does not limit "users" to a group or sub-group of users, nor does the Act define the term, suggests that "users" could be interpreted more widely. However, the term "users" refers to users of the goods which are the subject of the proposed duty, in this case AZ coated steel, and on that basis MBIE does not consider that the term should be interpreted as capturing users of downstream goods (i.e. goods manufactured with AZ coated steel as an input) described in section 2 of this Report. MBIE notes that it would be inconsistent with the overall scheme of the Act to read in the inclusion of users of downstream goods in this provision. Where the Act intends such treatment they are deliberately included so, by logical inference, where they are not explicitly included they are intended not to be.
272. In this context, therefore, users would include importers and immediate downstream industries who purchase from NZ Steel or import AZ coated steel themselves, or who purchase AZ coated steel from importers or merchants. The term would exclude users of downstream goods which incorporate AZ coated steel, such as builders and roofers and distributors, as well as end users of those downstream goods such as the general public. It would also exclude downstream industries that are not the immediate users of the imported AZ coated steel.

### **Significantly impacted**

273. The term "significantly impacted" is not defined in the Act. The Oxford English Dictionary (OED) definition of "significant" includes "*sufficiently great or important to be worthy of attention; noteworthy; consequential; influential*", while NZ Steel, in its submission of 4 February 2022, noted that the Collins.com dictionary said that "significant" means "*big, major, great, important.*"
274. In terms of what has been significantly impacted, MBIE notes that in general terms users have been significantly impacted by the COVID-19 emergency in that there have been, over the last two years, disruptions to business, and the financial impact of the emergency, in terms of prices, supplies and employment, which are likely to continue for the short-term.

The mid to longer-term outlook is uncertain, but expectations are that the adverse effects of the pandemic and its consequences will ease.

275. MBIE also notes its findings that, in specific terms, the COVID-19 pandemic has affected costs and prices for AZ coated steel as well as supplies and availability. This has arisen through a combination of increases in prices of steel products generally, as well as raw material costs, higher shipping costs and constraints on supply chains, and effects on production and availability of the goods at a time of increasing demand for building materials in New Zealand.

### **Conclusion**

276. In light of the considerations outlined above, MBIE considers it appropriate to recognise that the circumstances affecting the domestic industry, downstream industries and consumers due to the COVID-19 pandemic mean that the users of AZ coated steel have been significantly impacted by an emergency which is likely to be short-term in nature and is not likely to persist throughout the five-year period of the application of anti-dumping duty.

## **6.3 Suspend or defer?**

277. The provisions relating to deferral or non-imposition address the situation where no current duty is in place, whereas suspension or termination can apply where a duty has been imposed. This provision is separate from the application of the public interest test and is based on different considerations.
278. In its submission on the PIP Report, NZ Steel supported a deferral of the duty rather than a suspension, arguing that a duty not yet in force cannot be suspended, and also noting that a deferral would mean that the duty would be collected for a full five-year period.
279. MBIE notes that in view of the findings of the public interest investigation we are recommending that the Minister impose the duty. If this recommendation is accepted, the duty will be in place and can be suspended.
280. If the Minister were to defer imposing the duty, this would have an impact on its duration. The duty would not be imposed for the period of deferral. In this case, for reasons detailed below, the period for which MBIE recommends the imposition of the duty be suspended is six months. If the duty were to be deferred for six months this would mean (assuming no extension of the deferral period) that the duty would apply for five years from the end of the period of deferral, that is, until five years and six months after the Minister's decision that it was in the public interest that the duty should be imposed. On the other hand, if the Minister were to suspend the imposition of the duty, the five years would start when the Minister first imposed the duty as being in the public interest (March 2022) and continue to run, including during any period of suspension, for five years (until March 2026).
281. Under Article 11.3 of the Anti-Dumping Agreement "any definitive anti-dumping duty shall be terminated on a date not later than five years from its imposition". This is reflected in section 13A of the Act, which provides that duty ceases to be payable from the date that is the specified period after the date on which the duty has effect (i.e. five years in this case, in line with Article 11.3 of the Anti-Dumping Agreement).
282. Given the anticipated period of the duty, in carrying out this public interest investigation, MBIE considered the impact of the duty from 2022-2026 and did not look beyond that



period. If the Minister were to defer the duty (rather than suspend it) and, in future, change the period of the deferral, it is conceivable the duty could end up applying into 2027 and beyond, that is, beyond the period that MBIE considered in this investigation.

283. MBIE's view, in light of these matters, is that it would be more appropriate to suspend the imposition of the duty rather than defer it.

## 6.4 Period of Suspension

284. MBIE will recommend to the Minister that the anti-dumping duty at the rates determined in the step 1 investigation should be imposed as being in the public interest but that, in accordance with section 13B(3) of the Act, the imposition of the anti-dumping duty should be suspended in whole. This recommendation recognises that users of the goods, as outlined above, are significantly impacted by the imposition of anti-dumping duty.

285. Section 13B(4)(a) of the Act requires the Minister to specify the period of suspension. In light of the considerations set out in this Report, MBIE will recommend to the Minister that if he agrees to a suspension under section 13B(3) then it should be for a period of six months, to 30 September 2022.

286. The proposal for a period of six months is based on consideration of the following factors:

- **COVID-19 developments:** To date, the direct effects of the COVID-19 pandemic and responses to it were seen in lockdowns and travel restrictions. Going forward these effects are more likely to relate to the impact of the Omicron variant on the health and availability of staff involved in the production and distribution of AZ coated steel and downstream goods. Noting that travel restrictions are currently being lifted and in New Zealand the Omicron variant appears to be currently nearing its peak, it seems likely that the worst effects on staff availability will have been worked through in six months' time. Given this, it is appropriate to reconsider the circumstances that gave rise to the suspension of anti-dumping duties in six months' time.
- **International steel prices:** International steel prices rose sharply in the second half of 2020 and remained high through most of 2021 before starting to ease. While global steel prices are likely to remain higher than pre-COVID-19 levels for some time, the situation remains volatile and in such a situation it would not be appropriate to limit the ability to respond to events by stretching out the suspension period.
- **Supply chain issues:** The outlook for supply chain issues remains uncertain and volatile. The bottlenecks in supply chains may ease later in 2022 as consumer demand normalises, while shipping congestion should be less acute as capacity increases. While the potential impact of the Omicron variant creates some uncertainty, the fact that in New Zealand the current outbreak is reaching its peak suggests that the impact on domestic supply chains may have eased in six months' time. Again, in light of the volatility and uncertainty of this situation, it would not be appropriate to limit the ability to respond to events by stretching out the suspension period.
- **Finding alternative suppliers:** Interested parties have noted that it takes time to confirm alternative suppliers since it is necessary to ensure that they can meet the standards and specifications required. Comments from importers and downstream

industries have indicated varying timeframes needed to complete the process of establishing new suppliers, ranging from six months to the four years required to complete corrosion testing. It was also noted that the travel restrictions under COVID-19 hindered the ability to complete any new supply arrangements. Travel restrictions are now being lifted so this is no longer a factor, and MBIE has taken the six month period noted by an interested party as providing an indicator of the minimum time that might be required to find alternative suppliers. On this basis, and given movements in the other factors discussed above, MBIE considers a six month suspension period appropriate.

- **Demand developments in New Zealand:** The general outlook for construction activity is one of continued growth, although currently the Omicron outbreak is affecting the level of activity in the construction industry as staff shortages in both suppliers and builders start to have an impact. However, these effects may have eased in six months' time. MBIE considers that would be an appropriate point to take a stock of how NZ Steel has been able to respond to the increased demand for AZ coated steel, and the extent to which users will be reliant on imports.

287. In light of the likely evolution of these factors, MBIE considers an initial period of six months appropriate, bearing in mind that section 13B(4)(b) of the Act provides for the Minister to change the period of suspension if the expected evolution of the above factors does not eventuate or differs to what has been anticipated.

288. In considering these matters, MBIE has been aware of the degree of uncertainty involved in trying to gauge the future, but believes that in the face of such uncertainty and volatility it is best not to limit the ability to respond to events by stretching out the suspension period.

### **Changes to the period of suspension**

289. Section 13B(4)(b) of the Act provides that the Minister may, by notice, change the period of suspension.

290. This Report considers that short-term effects of the COVID-19 pandemic have contributed to rising global prices for steel products and raw materials for steel-making, freight rates had increased and supply chains were congested, and there were imbalances between supply and demand in both New Zealand and international markets. On this basis, the suspension, if implemented, will be because the Minister considered that the users of the goods subject to an anti-dumping duty had been significantly impacted by an emergency, in this case the COVID-19 pandemic and related effects.

291. In considering whether the period of suspension should be changed, and on what basis, the Minister will need to evaluate whether the effects of the COVID-19 pandemic have been ameliorated such that the conditions for the suspension of the duty no longer apply or, if they continue to apply, then what changes to the period of suspension should be put in place.

292. At this stage MBIE anticipates that the process for the Minister to consider changing the period of suspension will include the following:

- a. No later than one month before the expiry date for the period of suspension, MBIE will advise interested parties of the upcoming expiry, seek their views on whether

the period of suspension should be changed and, if so, the proposed duration of that change.

- b. The period allowed for the preparation of submissions on these matters is likely to be ten working days.
- c. MBIE will review any submissions and take them into account as appropriate in advising the Minister on whether to change the period of suspension.
- d. The Minister's decision will be communicated by notice.

## 7. Conclusions

293. Section 10H of the Act requires that the Minister must, within 90 days of the start of a step 2 investigation, determine whether imposing anti-dumping duties is in the public interest. If the Minister determines that it is in the public interest to impose the duty, he must do so under section 13(1) of the Act. However, section 13B(3) provides that, in the circumstances set out in that provision, despite section 13(1) the Minister may by notice suspend the imposition of the duty.
294. MBIE’s conclusions on the matters on which the Minister is required to make determinations and will be asked to make related decisions under sections 10F(4), 10H(1), 13(1) and 13B(3) of the Act are that:
- a. For the purposes of the present step 2 investigation, the “affected parties” described in Section 2 of this Report should be included as “downstream industries” and “consumers” under section 10F(4) of the Act.
  - b. Imposing an anti-dumping duty for the period 2022-2026, at the rates determined during the step 1 investigation (set out in Figure 3 below) is in the public interest in that the cost to downstream industries and consumers is not likely to materially outweigh the benefits to the New Zealand industry of imposing the duty.

**Figure 3: Anti-dumping Duty**

<b>Supplier - Korea</b>		<b>Ad Valorem Duty</b>
Dongkuk Steel Mill Co (Dongkuk)		2.5%
KG Dongbu Steel Co Ltd (KG Dongbu)		12.6%
Other		2.5%

- c. The anti-dumping duty should be imposed on imports of the subject goods from Korea on the basis set out above.
- d. However, in light of the findings regarding the short-term impact of the emergency created by the COVID-19 pandemic, there are grounds for the Minister to suspend or defer the imposition of the duty for a period of six months, with any change in the period of suspension or deferral being subject to developments in the impact of the COVID-19 pandemic on the matters set out this Report. The imposition of the duty should be suspended until 30 September 2022.

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## ANNEX: Submissions received on the Step 2 PIP Report

Comments on the Step 2 PIP Report were received from:

- A. Fletcher Steel
- B. Metals New Zealand
- C. New Zealand Steel
- D. RoofTG

Submissions	MBIE Comments
<b>A. Fletcher Steel</b>	
<p><b>Summary</b></p> <p>Fletcher Steel disagrees with MBIE’s recommendation in the step 1 investigation that an anti-dumping duty is justified, and stands by its previous submissions setting out its rationale for that view.</p> <p>Fletcher Steel submits that if MBIE is committed to recommending that the Minister impose the duty, the suspension proposed should be on a six month rolling basis as opposed to an arbitrary six month period.</p>	<p>The matters raised by Fletcher Steel are addressed below.</p>
<p><b>Six month rolling basis</b></p> <p>Fletcher Steel notes that it is unclear how long the impact of the COVID-19 pandemic will continue to affect the domestic industry, downstream industries and consumers, and therefore submits that an arbitrary timeframe of six months does not provide sufficient flexibility to deal with the ever-evolving supply chain issues resulting from COVID-19.</p> <p>Further, in view of the length of lead times present in the industry, Fletcher Steel submits that a rolling basis would allow industry participants</p>	<p>In the PIP Report, at paragraph 258, MBIE noted that section 13B(4)(a) required the Minister to specify the period of suspension, and MBIE was considering a recommendation that this period should be six months. MBIE also noted that section 13B(4)(b) provided that the Minister may, by notice, change the period.</p> <p>In this Report, MBIE has provided further elaboration of the basis for deciding on six months as the recommended period of suspension. MBIE</p>

<p>to make informed decisions around their purchasing. Fletcher Steel provided further comment on the difficulties faced as a result of uncertainty around the availability of AZ coated steel.</p>	<p>has also set out the process for the Minister to make a decision as to whether or not the period of suspension should be changed, noting that such a decision would be taken in light of the evolution of the factors that provided the basis for the original decision to suspend the imposition of the duty.</p>
<p><b>B. Metals NZ</b></p>	
<p>Metals NZ advised that it is of the opinion that it would be in the public interest to impose anti-dumping duty at the rates determined by the Minister in the step 1 investigation. While protecting domestic industries from dumped or subsidised imports should always be of primary consideration, Metals NZ acknowledges the effects of the COVID-19 pandemic on the domestic industry, downstream industries and consumers.</p>	<p>MBIE notes the submission.</p>
<p><b>C. NZ Steel</b></p>	
<p><b>Summary</b></p> <p>NZ Steel notes that it supports and endorses MBIE’s primary conclusion that it would be in the public interest to impose anti-dumping duty. NZ Steel also acknowledges the circumstances arising from the COVID-19 pandemic circumstances, and while disappointed that a delay in the imposition of the duty is proposed, NZ Steel concurs that in the circumstances it might be warranted.</p> <p>However, NZ Steel considers that there should be a deferral not a suspension, and the bulk of the submission addresses this point in terms of the legal basis, and the need for certainty (no extension). NZ Steel notes that the approach suggested by MBIE is similar to that adopted by the EU</p>	<p>The matters raised by NZ Steel are addressed below.</p>

<p>in its <i>Aluminium Converter Foil and Fasteners</i> investigations.</p> <p>NZ Steel also raises a small number of detail-related issues, and makes a policy-related suggestion regarding upstream industries.</p> <p>The references after the headings in the following sections refer to paragraphs in the PIP Report.</p>	
<p><b>Deferral versus Suspension</b></p> <p>NZ Steel notes that the conditions set out in section 13B regarding deferrals and suspensions apply equally in that both relate to circumstances where users of goods are significantly impacted by an emergency or natural disaster.</p> <p>However, NZ Steel considers that MBIE’s proposal is possible only under a deferral because a duty cannot be suspended if it does not exist - to suspend something is to discontinue it but with an expectation of resumption, but it is not possible to resume something that hasn’t started.</p> <p>NZ Steel notes that in the Parliamentary debate on the First Reading of the Trade (Anti-dumping and Countervailing Duties) Amendment Bill in 2016, the sponsoring Minister noted that the Bill treated a power to suspend or terminate duties, or defer or not impose new duties on products where users have been affected by a natural disaster, and went on to note that this provision was not tied to the public interest test.</p> <p>NZ Steel also refers to the temporary suspension of anti-dumping duties on residential building materials that was introduced in 2014 as relating to duties that had been in place for some time.</p> <p>In its summary section, NZ Steel notes that a deferral would mean that the full five-year period of relief would be provided. NZ Steel also notes that the reference to a possible further extension beyond six months creates</p>	<p>Section 6.3 of this Report outlines MBIE’s consideration of this issue. MBIE considers that a suspension is appropriate because, on the basis of the recommendations arising from this Report, the duty will have been put in place by the Minister as the outcome of the step 2 investigation. The Minister will then immediately suspend its application for the period proposed.</p> <p>The temporary suspension of existing anti-dumping duties in 2014 was specifically intended to suspend the application of existing duties on residential building materials, whereas the provisions of section 13B were intended to provide longer-term responses to the issue of anti-dumping duties being applied in times of emergency or natural disaster.</p> <p>It is intended that where there is a suspension of a duty put in place by the Minister the overall length of the period of the duty is five years, including any period of suspension. A pushing-out of the five year period if that is the outcome of a deferral, would effectively extend the period of the duty beyond the five years.</p> <p>MBIE has recognised the need to address uncertainty, and also recognises that the short-term situation envisaged as the rationale for the suspension of the duty may not have changed in six months. Accordingly, MBIE has set out in this Report the process that will be followed in considering whether any change should be made to the period of suspension. This process will</p>

<p>uncertainty.</p>	<p>be based on assessing whether the situation giving rise to the suspension has ameliorated, or not, and will take account of submissions from interested parties.</p>
<p><b>Benefit [160, 177, 236]</b></p> <p>NZ Steel notes that at various points the PIP Report suggested that in the short term the duty would not produce a material benefit, and was unclear how the position was established.</p>	<p>In paragraph 160 of the PIP Report, which examined the availability of goods, MBIE noted that any increases in NZ Steel’s prices to reflect the anti-dumping duty would be outweighed by increases in response to other market factors, such that any increase reflective of the anti-dumping duty would not, in itself, contribute a material benefit to the New Zealand industry. It was also noted that in the longer term, as the effects of the COVID-19 pandemic ameliorated, the impact of anti-dumping duties on NZ Steel’s prices would become more likely to have a material effect because the relative price effects of other market factors would have decreased. These conclusions followed MBIE’s assessment of the effect of the duty on prices of the like goods produced in New Zealand, which examined substitutability, price movements, and market factors.</p> <p>In paragraph 177 of the PIP Report MBIE noted that the imposition of the anti-dumping duty could, in the short-term, impose costs on downstream industries without providing any clear benefit to the domestic industry. However, it was noted that in the longer term the impact of the anti-dumping duty would be more marked, and the costs to downstream industries would not materially outweigh the benefits to the New Zealand industry over the whole of the period of the duty. These conclusions followed MBIE’s assessment of the effect of the duty on the choice and availability of domestic and imported goods, which examined the availability of like goods in terms of prices, availability and imports of downstream goods, as well as domestic production.</p> <p>These views were further summarised in paragraph 236 of the PIP Report.</p>



	MBIE is satisfied that the conclusions reached reflected its examination of the relevant factors set out in section 10F(3) of the Act.
<p><b>Residential Shed [138]</b></p> <p>NZ Steel clarified that its references to a residential shed did not mean a residence but was intended to relate to a backyard garden-type shed.</p>	MBIE has noted the clarification and has adjusted the text accordingly.
<p><b>Meet Requirements [153]</b></p> <p>NZ Steel has suggested that the reference to NZ Steel being unable to meet the requirements of customers should refer to “all” of their requirements.</p>	MBIE does not propose to change the text, which reflects comments from parties, and the additional language proposed by NZ Steel would change the sense of the words.
<p><b>100% Fulfilment [207]</b></p> <p>NZ Steel seeks clarification of whether the reference is to domestic or foreign supply or both, and what analysis is referred to in the last sentence of paragraph 207 of the PIP Report.</p>	The quoted paragraph relates to the consideration of demand in assessing whether there is an alternative supply (domestically or internationally) of like goods available. NZ Steel may not be required to meet all domestic demand, but it may not be able to meet the requirements of its customers in terms of prices that reflect market conditions (including the availability and prices of imported goods). The analysis referred to is the assessment of the extent to which ability to supply (relating to both imported and domestic goods) might be relevant to assessing matters under section 10F(3)(g), and necessarily took account of prices and availability of alternative supplies (as addressed in the following paragraphs of the PIP Report).
<p><b>Alternative Supply [210, 211]</b></p> <p>NZ Steel endorses MBIE’s analysis relating to the possible effects of the findings of the AADC, and the availability of goods from Taiwan.</p>	Noted.

<p><b>Query – Alternative Supply [224]</b></p> <p>NZ Steel is unsure how MBIE can be satisfied of the alternative supply view in paragraph 224, since it notes fluctuations in monthly import volumes by country, which suggests supplier change. NZ Steel also notes MBIE’s analysis in paragraphs 210 and 211 which indicates that alternative supplies of goods suitable for the New Zealand market are available.</p>	<p>The discussion in paragraph 224 related to the assessment of the factors essential to ensure the existence of competition in the market (section 10F(3)(h)), and was considering factors affecting supply. Most of the paragraph summarises points put forward by interested parties, with MBIE concluding that, given the likely effect on prices of both imported and domestic goods, the imposition of the duty, on its own, was unlikely to have an impact on the existence of competition in the New Zealand market. This conclusion is not at odds with the view from paragraph 211 that undumped supplies from Taiwan might be available, or supplies from Dongkuk diverted from Australia.</p>
<p><b>PIT Set-aside Rates {233, 234}</b></p> <p>NZ Steel agrees that “set-aside” rates are not provided for in the Act, but reiterates its previous submissions that when the public interest test was enacted Parliament was told that it was similar to the public interest tests of Canada and the EU. According to NZ Steel this means that their set-aside rates are not irrelevant and provide a litmus test of how similar, or different, New Zealand’s public interest test will become to those cited to parliament.</p>	<p>Paragraph 234 of the PIP Report notes that the similarity of the public interest tests of New Zealand, Canada and the EU derived from their assumption that duties will apply unless there is clear evidence that it is not in the public interest to apply them. It was also pointed out that the “set-aside” rates of other jurisdictions are not relevant to the situation of a particular New Zealand investigation or to New Zealand’s investigation of the matters provided for in the Act.</p> <p>MBIE sees no reason to change its position on this matter.</p>
<p><b>Query [258]</b></p> <p>NZ Steel identified a typo.</p>	<p>MBIE agrees that the word should be “suspension” and has ensured that the word is correctly presented in this Report.</p>
<p><b>Suggestion: Upstream Industries</b></p> <p>NZ Steel makes a suggestion that the public interest test should be</p>	<p>MBIE notes that this proposal is not relevant to the current investigation.</p>

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<p>extended to upstream industries, and any review of the legislation should consider this.</p>	
<p><b>D. RoofTG</b></p>	
<p><b>Summary</b></p> <p>RoofTG’s submission notes that MBIE’s findings in the PIP Report are that it is not in the public interest in the short term to impose anti-dumping duties; it is in the public interest in the longer term; and that the duty should be suspended for an initial period of six months.</p> <p>RoofTG outlines its serious concern about the investigation and requests that, as its preferred option, the analysis be reconsidered and a final determination be made that the imposition of anti-dumping duty is not in the public interest.</p> <p>As a second-best option, RoofTG urges MBIE to modify the suspension to make it more commercially workable and to link changes to the suspension period to changes in market circumstances, rather than to New Zealand’s public health status as has been proposed.</p>	<p>The matters raised by RoofTG are addressed below.</p>
<p><b>Imposition of duty not in the public interest for 2022-2026</b></p> <p>RoofTG disagrees with MBIE’s finding that the imposition of duty is in the public interest in the longer term. RoofTG considers that this conclusion is not grounded in facts or market forecasts and conflicts with the extensive market intelligence presented by RoofTG throughout the investigation.</p> <p>RoofTG considers that the imposition of the duty is not in the public interest, either in the short term, as confirmed by the PIPES model, or in the longer term.</p>	<p>As noted above, MBIE’s finding is that in the context of the period 2022-2026, imposing the anti-dumping duty is in the public interest, in that the cost to downstream industries and consumers is not likely to materially outweigh the benefits to the New Zealand industry of imposing the duty. This finding was based on MBIE’s overall conclusion is that while, in the short-term, the costs to downstream industries of imposing the anti-dumping duty are likely to materially outweigh the benefits to the domestic industry, taking into account the effects of the imposition of the duty over the whole of its five year period, the longer term outlook is that</p>

	<p>the costs to consumers and downstream industries will not materially outweigh the benefits to the domestic industry of imposing the duty.</p> <p>MBIE’s conclusions were based on its examination of the information available, including the market forecasts and other information provided by RoofTG.</p> <p>As noted in the PIP Report (paragraphs 123-125) the application of the PIPES model showed that the imposition of duty would lead to a cost to immediate downstream industries that exceeded the benefit to the domestic industry, which supported MBIE’s conclusions regarding the short-term effects of the imposition of the duty. However, the analysis could not be applied to other downstream industries or to consumers because of a lack of information of relevant prices and volumes of sales. It is therefore incorrect to suggest that the PIPES model confirmed that imposition of the duty was not in the public interest in the short term.</p>
<p><b>Long-term supply situation</b></p> <p>Given their monopoly position NZ Steel’s limitations on volumes leaves RoofTG with no option but to import more AZ coated steel.</p> <p>RoofTG considers that it will be more problematic to import more AZ coated steel because imports will be scarcer, as KG Dongbu is likely to exit the New Zealand market, and it is highly unlikely that other foreign suppliers would be willing or able to replace this source of supply in the short to medium term</p> <p>RoofTG notes that current world prices are at historic highs and are still rising with no indication that prices will return to pre-pandemic levels. Increasing raw material prices will continue to put upward pressure on steel prices (and RoofTG provides evidence of current increases in iron ore prices, and notes the likely effect of the Russia-Ukraine war). International</p>	<p>MBIE has assessed relevant information relating to the supply situation in reaching its conclusions on the public interest investigation. The difficulties of predicting future events with any certainty is illustrated by the matters referred to by RoofTG, which indicate the likely evolution of events in the short to medium-term. MBIE’s consideration of the public interest over the period of application of any duty (2022-2026) took into account the relative significance of the effect of the imposition of the duty relative to the effect of other market factors. This is all outlined in section 3 of this Report.</p>

<p>shipping costs are not expected to return to traditional levels within the coming three years, and COVID-19-related supply chain disruptions are expected to persist at least through to 2023. RoofTG also notes the effects of the Chinese Government’s Zero COVID policy on supply and prices of steel and aluminium, and on shipping, and the uncertainty created, and notes the impact of the Russian invasion of Ukraine on the global steel market and the effect on freight and supply chains.</p>	
<p><b>Longer term New Zealand demand situation</b></p> <p>RoofTG notes that globally the implementation of post-COVID-19 economic recovery plans means that construction is booming. World steel prices are at record levels and domestic demand for steel far exceeds NZ Steel’s capacity to supply. New Zealand has historically high levels of building consents and there is a positive future outlook for the construction sector, which is expected to continue for some time.</p> <p>Given the high demand, RoofTG expects that NZ Steel’s financial position will remain exceptional or well above average through 2022-2026.</p>	<p>MBIE’s examination of the factors set out in the Act that it is required to investigate included matters relating to supply and demand in New Zealand, and NZ Steel’s financial performance. As noted above, it is difficult to predict future events with any certainty, but MBIE’s consideration of the public interest over the period of application of any duty (2022-2026) took into account the relative significance of the effect of the imposition of the duty relative to the effect of other market factors, including the demand situation in New Zealand. This is outlined in section 3 of this Report, while the impact on the financial situation of the New Zealand industry is specifically addressed in section 4.5.</p>
<p><b>Proposed suspension is unworkable</b></p> <p><i>Period of suspension</i></p> <p>RoofTG considers that the proposed six month duration is too short, and does not provide business with certainty in the current climate of disrupted shipping and extremely high steel prices. The lack of clarity as to how and under what circumstances the suspension may be extended or terminated creates untenable commercial uncertainty for downstream industries that are already facing dire economic circumstances.</p> <p>RoofTG notes that participation in the investigation process has been time</p>	<p>MBIE has set out in section 6.3 of this Report the basis for its recommendation of an initial six month period of suspension. MBIE has noted the points made by RoofTG regarding a longer period. MBIE remains of the view, however, that the six month period proposed is reasonable given its assessment of all of the considerations involved, and in particular when taken with the proposed process for considering any change to the suspension period.</p>

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<p>consuming and expensive, and a requirement to make further submissions in six months' time will incur further costs and is not justifiable when it is almost certain that the current economic situation will not have improved by that point.</p> <p><i>Conditions for suspension</i></p> <p>RoofTG considers that the current economic conditions are almost certainly going to sustain throughout 2022 and for several years to come. There is no indication that the global shipping crisis will ease or that demand side pressure will ease. While there are some suggestions that world steel prices will ease over the coming months, RoofTG submits that they will certainly not fall to pre-pandemic levels, and given increasing raw material costs are likely to rise further. RoofTG considers that the adverse economic conditions impacting on downstream industries will persist beyond the next six months will not simply improve as and when the New Zealand Government ends the current COVID-19 emergency powers.</p>	<p>MBIE agrees that any process of reviewing the period of suspension should take account of any change (or lack of change) in the conditions which led to the suspension. The question of whether there is still an emergency, in terms of section 13B of the Act, will also be highly relevant, since any suspension is conditional on an emergency which may have significantly impacted users of the goods subject to the duty. MBIE does not consider that the existence of any declaration of national emergency or termination of any emergency powers will necessarily remove the basis for suspending duties under section 13B, if the impact of the pandemic on the users of the goods is continuing.</p>
<p><b>Proposed modifications to suspension</b></p> <p>RoofTG proposes that if the suspension is to apply, it should be modified to make it commercially workable and linked to changes in market circumstances rather than to New Zealand's public health status.</p> <p><i>Extension to one year</i></p> <p>RoofTG proposes that the suspension should be for one year, which would provide importers, downstream industries and consumers with increased certainty and would allow a sufficient time to meaningfully assess any changing economic conditions.</p>	<p>As noted above, MBIE is satisfied that the proposed period of suspension is reasonable in the circumstances of this investigation. MBIE has elaborated in this Report on the basis for its conclusion that a six month suspension is appropriate.</p>

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<p><i>Clear direction on the process ending or extending the suspension</i></p> <p>RoofTG notes that it is the challenging market conditions rather than the existence of a public health emergency that give rise to the need to suspend the imposition of duty. This means that future decisions to extend or terminate the suspension should be based on a careful assessment of factors which should be found to have changed significantly before a decision to end the suspension period is taken. These factors include NZ Steel’s ability to supply the domestic market; world market prices for AZ coated steel; Korea-NZ shipping costs and supply chain disruptions; alternative sources of supply; and domestic demand for AZ coated steel.</p> <p><i>Consultation</i></p> <p>RoofTG proposes that interested parties should be provided with an opportunity to present relevant facts to inform decisions about the termination or extension of a suspension.</p>	<p>As also noted above, MBIE agrees that any decisions on the extension or termination of a suspension should be made on the basis of changes in the conditions which justified the suspension. This approach is reflected in the process described in section 6.3 above, which includes inviting interested parties to provide submissions. MBIE notes, however, that the power to suspend in section 13B has as a prerequisite that users of the goods have been significantly impacted by an emergency. It is through that lens that the Minister can take market conditions into consideration in deciding whether to suspend duties and whether to change the period of any suspension.</p> <p>As set out in this Report, the anticipated process for reviewing the period of suspension includes seeking submissions from interested parties.</p>
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