



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

**TRADE AND  
INTERNATIONAL**

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Trade (Anti-dumping and Countervailing Duties) Act 1988

# Dumping Investigation

# GALVANISED WIRE FROM CHINA

# Public Interest Preliminary Findings Report

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February 2021

MBIE/AD/I/2020/002



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## Abbreviations

The following abbreviations are used in this Report:

Act (the)	Trade (Anti-dumping and Countervailing Duties) Act 1988
Bekaert (Qingdao)	Bekaert (Qingdao) Wire Products Ltd
China	The People's Republic of China
EBIT	Earnings Before Interest and Tax
Euro Corporation	Euro Corporation Limited
MBIE	Ministry of Business, Innovation and Employment
Minister, the	The Minister of Commerce and Consumer Affairs
MT	Metric ton/tonne
NZD	New Zealand dollar
Pacific Steel	Pacific Steel NZ Limited
Paul Industries	J&F Holdings NZ Ltd, trading as Paul Industries
PIP Report	Public Interest Preliminary Findings Report
PIPES	Public Interest Partial Equilibrium Simulation
Tianjin Bluekin/Ocean Industries	Tianjin Bluekin Industries Ltd and Ocean King Industries Ltd
USD	United States Dollar
WTO	World Trade Organization

## 1. Proceedings

### 1.1 Summary

1. In May 2020, The Ministry of Business, Innovation and Employment (MBIE) initiated an investigation of dumping of galvanised wire from the People's Republic of China (China) and Indonesia under the Trade (Anti-dumping and Countervailing Duties) Act 1988 (the Act).
2. On 25 August 2020, in accordance with the provisions of section 16 of the Act, the Minister directed the imposition of provisional anti-dumping duties on imports of the subject goods from China.
3. Step 1 of the review has been completed, and on 21 November 2020 the Minister of Commerce and Consumer Affairs (the Minister) determined that, in relation to imports from China, the imposition of anti-dumping duties is necessary to offset dumping and material injury to the domestic industry, Pacific Steel (NZ) Limited (Pacific Steel). Consequently, the Minister determined the rate of the anti-dumping duty in accordance with the Act and directed the chief executive of MBIE to start a step 2 investigation.
4. The Minister determined that in respect of imports from Indonesia, and some imports from China, the goods were not dumped, and consequently the investigation in relation to Indonesia and certain Chinese suppliers was terminated under section 11(1) of the Act.
5. A step 2 investigation under the Act requires MBIE to investigate whether the imposition of the duties is in the public interest. The imposition of the duties determined by the Minister 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.
6. This Public Interest Preliminary Findings Report (PIP Report) is provided in accordance with section 10G(1) of the Act, and sets out the preliminary findings that are 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.
7. Notified parties will have until **15 February 2021** to make written submissions to MBIE on this PIP Report. Submissions will be taken into account in the preparation of the Step 2 Final Report. On the basis of the Step 2 Final Report, the Minister will determine whether imposing the duty is in the public interest.

### 1.2 Legal requirements

8. The requirements for investigations are set out in Part 4 of the Act, and are covered sequentially in this report. The requirements for step 2 of a review (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.*

9. MBIE can also investigate other matters that it considers necessary or that are raised by other parties, provided that those matters are relevant in terms of section 10F(2).

### **1.3 Subject goods**

10. The goods which are the subject of the investigation, hereinafter referred to as galvanised wire, or “subject goods”, are:

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

11. Imports of the subject goods are currently subject to a Free rate of Customs duty<sup>1</sup> if they qualify for preferential entry under the NZ-China Free Trade Agreement. The Normal rate of Customs duty is 5 per cent.

### **1.4 Like goods**

12. 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.
13. To determine whether the goods produced in New Zealand are like goods to the subject goods, MBIE normally considers physical characteristics, function and usage, pricing patterns, marketing and distribution, substitutability and commercial interchangeability, and any other relevant considerations, with no one of these factors being necessarily determinative.

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<sup>1</sup> Customs duty – for the purposes of this report, a duty imposed under the Tariff Act 1988 and collected by the New Zealand Customs Service.

14. In the step 1 investigation MBIE reviewed these considerations and concluded that Pacific Steel produces like goods to the goods imported from China and Indonesia, in that while the goods produced by Pacific Steel may not be identical to all of the goods included in the subject goods description, they are goods that have characteristics closely resembling the subject goods.

## **1.5 Interested parties**

### **New Zealand Industry**

15. 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.
16. Pacific Steel remains the sole manufacturer of galvanised wire in New Zealand and therefore constitutes the New Zealand industry for the purpose of this investigation.
17. MBIE undertook a verification visit to Pacific Steel’s premises during the step one investigation, and a copy of the Verification Report is available on the Public File for this investigation. Pacific Steel also provided a response to the Step 2 Investigation Framework and Questionnaire.

### **Exporters**

18. In step 1 of the investigation, MBIE identified a sample of seven Chinese producers and sent questionnaires to all of the companies concerned. A response was received from Bekaert (Qingdao) Wire Products Ltd (Bekaert Qingdao), but no substantive responses were received from the other producers.
19. No comments were received from exporters on the Step 2 Investigation Framework and Questionnaire.

### **Importers**

20. For the step 1 investigation, New Zealand-based importers were identified from Customs data, and invited to supply information which would identify suppliers in China and information which would assist in identifying imports of subject goods.
21. Questionnaires were sent to importers of goods from the sample producers in order to obtain and confirm information relating to import shipments, and information on the operation of the New Zealand market for the subject goods. Responses were received from eight importers, with a further three importers providing information on invoices. Most of these importers should also be categorised as downstream industries because they import galvanised wire as feedstock for the production of downstream goods.
22. One importer/manufacturer provided a submission on the step 2 investigation in a response that also covered the stage 2 full review of galvanised wire from Malaysia.

### Downstream Industries

23. 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.*
24. MBIE has identified a range of industries that use the dumped goods, or like goods, as an input in production of other goods. The goods MBIE has identified as 'downstream goods', produced from imported or domestic wire, include:
- Wire: coiled , barbed, lacing, tie, cut, fencing, vineyard/orchard, staples;
  - Fencing and accessories: fencing (farm, deer, pool, school, security), fence panels, gates;
  - Netting and mesh: chainlink netting and mesh, hexagonal netting, animal netting, gabion baskets, welded mesh, roll netting;
  - Other manufactured goods: springs, household items, cages, display stands, trolleys, safety guards, baskets and trays.
25. MBIE identified groups representing industries producing or selling downstream goods, and companies, including importers, which are producing or potentially producing, downstream goods from galvanised wire.
26. MBIE sought comments from these parties through a questionnaire designed by MBIE to elicit information from downstream producers, but none provided a response, except for the importer/manufacturer noted above.

### Consumers

27. 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.*
28. MBIE sought comments from bodies representing groups that consume galvanised wire but did not receive any responses. MBIE also sought comments from distributors in the hardware and rural sectors, but did not receive a response from any of those parties. No comments were received from consumers or any other bodies in response to the notice which was published in the *New Zealand Gazette* seeking input from the public on MBIE's public interest investigation.

## 1.6 Findings of the Step 1 Investigation

### Dumping

29. The investigation established that imports of the subject goods from China were dumped, with the exception of imports from Bekaert Qingdao (*de minimis* margin) and Tianjin Bluekin/Ocean King. Imports from Indonesia were not dumped.

### Injury

30. MBIE concluded that the domestic industry is being materially injured by dumped imports of galvanised wire from China. In particular, MBIE considered that:
- There has been an increase in the volume of imports of the dumped goods from China over the period of investigation of injury in absolute terms and in relation to production and consumption in New Zealand.
  - There was evidence that the average prices of dumped imports from China have undercut Pacific Steel's average selling prices; that there was no evidence of price depression; but there was price suppression. MBIE was satisfied that it can be concluded that the dumped Chinese imports are contributing to these price effects.
  - The dumped imports of galvanised wire from China have contributed to an adverse economic impact on Pacific Steel in relation to sales volume and revenue, profits, productivity, capacity utilisation, and cash flow, arising from the volume and price effects of the dumped imports.
  - There is sufficient evidence of a causal link between the allegedly dumped imports from China and the volume and price effects and consequent impact on the domestic industry as set out in this Report, and that with regard to the other causes of injury identified in the Act, injury caused by any other factors has not been attributed to the dumped imports.

## 1.7 Determined duties

31. The Minister determined the following rates of duty in accordance with section 10D(2) of the Act:

Figure 1: Rates of duty

	Duty
<b>Supplier - China</b>	
Beijing Steels Metal Co Ltd	24%
Dingzhou Five Star Metal Wire Mesh Manufactory	36%
Hebei Longsheng Metals and Minerals Co Ltd	30%
Hebei Metals and Minerals Import and Export Corp	29%
Tianjin Huayuan Times Metal Products Co Ltd	27%
All other Chinese suppliers (but see below)	0%
<b>Excluded suppliers:</b> Bekaert (Qingdao) Wire Products Ltd; Tianjin Bluekin Industries Ltd and Ocean King Industries Ltd	

32. In determining the rates of duty, the Minister had regard to the desirability of ensuring that the rate of duty is not greater than is necessary to prevent material injury or a recurrence of material injury, and is no greater than the margin of dumping. The Minister also had regard to New Zealand's obligations as a party to the WTO Agreement.
33. 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. Provisional measures continue to apply in the meantime.

## **1.8 Step 2 Investigation Framework and Questionnaire**

34. Following the Minister's direction to MBIE to undertake a step 2 investigation, MBIE provided interested parties with a Step 2 Investigation Framework and Questionnaire, which outlined MBIE's approach to carrying out a step 2 investigation, and invited parties to lodge submissions. A questionnaire was provided to assist that process.
35. Pacific Steel and Paul Industries were the only parties to provide submissions on the step 2 investigation.

## 2. Public interest investigation

36. In undertaking a step 2 investigation, MBIE assesses each factor set out in section 10F(3) of the Act, and can consider any other relevant factors. In doing so, MBIE has taken account of the context of importations of the dumped goods, and in particular the point that for the most part importers of the dumped goods are themselves downstream industries using imported or domestic wire as feedstock for the production of fencing and other wire products.

### 2.1 Effect of the duty on the prices of the dumped goods

37. MBIE is required to consider the effect of the duty on the prices of the dumped goods. This includes consideration of past experience of the imposition of anti-dumping duties on the subject goods; the extent to which duties 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 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.

38. In considering the effect of the duties, MBIE notes that the determined duties range from 24-36 per cent of the export price for the designated suppliers. These are significant levels in terms of the potential impact on prices for galvanised wire in the New Zealand market, while the significance for wire products will depend on the contribution that wire costs make to selling prices for products using imported dumped galvanised wire. Based on 2019 imports from China, the average rate of duty for dutiable imports is 30 per cent, representing an average value of nearly New Zealand dollar (NZD) 390/metric ton (MT) for imports valued at nearly NZD800,000, and impacting primarily on a limited number of importers, including manufacturers of wire products.

#### 2.1.1 Pass on of price increases

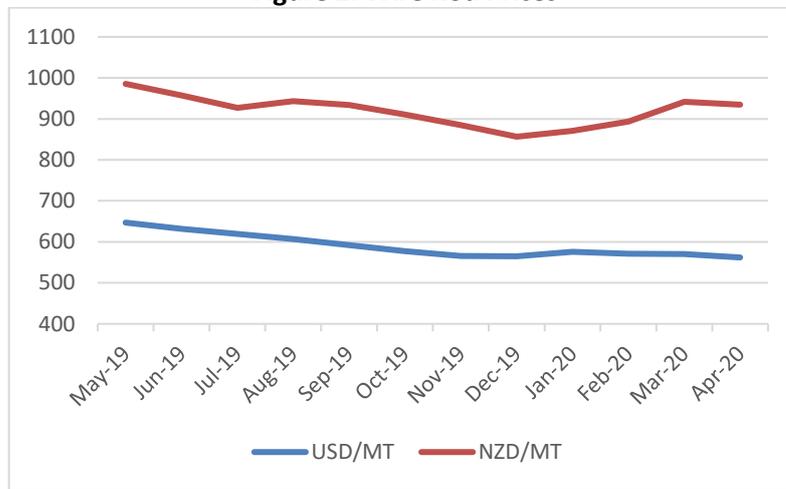
39. The imposition of the duty is likely to increase the price that importers have to pay for the subject goods, and given that most importers are themselves downstream industries, the effect of the duties is likely to be immediately passed on to them. MBIE has also had regard to the extent to which importers, as downstream industries, are likely to pass on the duty through an increase in prices of wire products.

40. During the step 1 investigation, importers suggested that their customers are sensitive to price increases. In this situation, price increases caused by the imposition of anti-dumping duties may lead to a loss of sales, and also to the importation of downstream goods by importers or their customers directly. In effect, it is likely to be difficult to pass on price increases and maintain sales volumes. This does not mean that buyers of imported goods will not try to pass on at least some of the additional costs, and the likely impact of duties is that there may be price increases for wire products which otherwise would not have occurred.

**2.1.2 Price Factors**

- 41. 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. Such factors include the price of wire rod, an indicator of wire manufacturing costs, and movements in exchange rates. Imports from China in 2019 were all invoiced in United States dollars (USD), so MBIE has taken into account the movement of the NZD against the USD.
- 42. Information on average Asian carbon steel prices<sup>2</sup> for the period May 2019-April 2020 indicates that wire rod prices in USD/MT were trending down over this period, although any consequent effects for prices paid by New Zealand importers of galvanised wire would have been partly negated by movements in exchange rates.

**Figure 2: Wire Rod Prices**



**Figure 3: Daily Exchange Rates – USD-NZD Indexed, 1/1/2016=1000**



<sup>2</sup> <https://worldsteelprices.com/> sourced from MEPS International Steel Review, © 2020. Prices are ex-mill derived from an arithmetic average of the low transaction values identified in Japan, Taiwan, South Korea and China – collected in national currencies and converted into US dollars using currency exchange rates effective at the start of each month to provide a basis for comparisons.

43. The information on exchange rate movements indicates that since 2016 the relative values have fluctuated within a band of plus or minus 10 per cent of the value at the beginning of the period, with the minuses tending to come in the second half of this period. This suggests any impact of exchange rate movements came in 2018-2019 when imports in USD would have been more expensive in NZD. The COVID-19 pandemic has affected currency values in 2020, but following an increase in the value of the USD against the NZD in the first half of the year, the USD has since declined in value against the NZD, reducing the cost in NZD.
44. The combination of movements in raw material prices and exchange rates has not contributed to any significant trends in prices to the New Zealand market in terms of NZD values. The impact of anti-dumping duties is likely to be maintained irrespective of movements in raw material costs or exchange rates, although these factors can work to reduce the impact of the duties on prices of wire as a feedstock.

### 2.1.3 Previous proceedings relating to China

45. A dumping investigation of imports of galvanised wire from China was terminated in April 2004 on the grounds that there was insufficient evidence of dumping. There have been no other proceedings involving galvanised wire from China.

### 2.1.4 Other proceedings

46. Anti-dumping duties have previously been imposed on galvanised wire from Malaysia and from South Africa.
47. The anti-dumping duties on galvanised wire from South Africa were originally imposed in 2002, were extended following a sunset review in 2008, and lapsed in 2013 when the New Zealand industry did not seek a sunset review.
48. The anti-dumping duties on galvanised wire from Malaysia were originally imposed in 2004 (the investigation initially included China), and were continued following sunset reviews in 2009, 2014 and 2020.
49. In the 2020 full review of anti-dumping duties on galvanised wire from Malaysia, MBIE noted that prior to the imposition of anti-dumping duties, there were large volumes of imports of galvanised wire from Malaysia at relatively low prices. Reference price anti-dumping duties were imposed in May 2004, which resulted in prices increasing (likely to avoid payment of the duty as reference prices are designed to encourage export price increases on shipments to New Zealand to non-dumped levels), and only a low number of shipments actually paid the anti-dumping duty. A relatively large volume of galvanised wire from Malaysia was still being imported. In 2009 the reference prices were reassessed to *ad valorem* rates, and the annual weighted average unit import values began to decrease, the number of shipments decreased, and the portion of shipments paying the duty increased. Since 2012, import prices for galvanised wire from Malaysia have remained relatively stable while subject to *ad valorem* rates of duty.

### 2.1.5 Conclusion

50. MBIE considers that the imposition of *ad valorem* duties at the rates proposed is likely to result in higher prices for the dumped subject goods imported from China. The key question is whether and to what extent the higher cost of imports will be passed on by the importers/manufacturers in prices of wire products manufactured from the dumped imports, and by distributors of these goods to consumers. If prices cannot be passed on, then it is likely that importers/manufacturers will switch sources of wire feedstock to the domestic manufacturer or to alternative international sources.
51. On this basis, MBIE considers that the imposition of the duty is likely to increase prices paid for the dumped goods, and it is likely that the increases will be passed on in the form of increased prices of finished goods using galvanised wire. The impact of any such price increase will depend on the extent to which alternative non-dumped goods are available from international or domestic sources to replace the dutiable goods.

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

52. 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 responding to market factors. 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 duties. The use of the model is dependant on the availability of sufficient useful data.

### 2.2.1 Substitutability

53. Pacific Steel's current production is only of galvanised wire that has a coating of 95% zinc and 5% aluminium (95/5). The bulk of imports from China that could be subject to anti-dumping duties are coated with 100% zinc, with a much smaller share of 90% zinc 10% aluminium (90/10), and only minimal volumes of 95/5. MBIE has concluded that all of these goods are like each other, so there is a degree of product substitutability between the imported subject goods and like goods produced in New Zealand.
54. Pacific Steel considers that the products it produces can easily be substituted for the subject goods imported from China.
55. Paul Industries has indicated that its customers are unaware of the source of its wire. Paul Industries substitutes raw wire between manufacturers with no pricing difference. This suggests that the wire purchased from China is substitutable for wire purchased from other sources.
56. Euro Corporation did not import subject goods from China during the period of investigation of dumping, but in its step 1 questionnaire response, noted that Pacific Steel could not supply all grades and sizes required, and that there were problems with the quality of Pacific Steel products and the reliability of delivery.

### **2.2.2 Economic Assessment**

57. MBIE has not used the PIPES model to assess the effect of the imposition of anti-dumping duties, as there is insufficient data available due to the lack of cooperation from the exporters to which duties would apply.
58. Nevertheless, MBIE has been able to assess the sensitivity of the market to a change in prices. By relying on regression techniques, MBIE has determined that the New Zealand market for galvanised wire is very price sensitive.<sup>3</sup> This means that a price change is likely to cause a change in consumer behaviour by reducing demand.
59. It is reasonable to expect a price response from Pacific Steel if duties are imposed on galvanised wire from China, as its prices will no longer be suppressed due to injurious dumping. However, as the market is highly price elastic, it is likely that if Pacific Steel increases its prices, demand for its goods may decrease.

### **2.2.3 Price Factors**

60. 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.
61. As outlined in the Pacific Steel Verification Report, Pacific Steel competes with prices at which its customers buy imported goods, and has to compete with the global market price. Its pricing approach is based on import parity pricing but also includes a premium for local goods, as having a local supplier provides customers with timeliness, the ability to get emergency supplies, credibility of testing, and the ability to have a technical person from the company involved to resolve issues. Movement in prices of internationally traded steel, world scrap prices, and import offers, are used by independent customers to negotiate prices in interactions with Pacific Steel.
62. The low volumes for dumped imports from China of galvanised wire with coatings of aluminium-zinc alloys make it difficult to establish meaningful conclusions regarding price relationships, but there are indications that there is a pattern of increasing prices as the proportion of aluminium in the coating increases. This was confirmed by Paul Industries in its step 1 questionnaire, when it noted that it could not compete selling 90/10 wire at 95/5 prices.
63. The step 1 investigation of price undercutting also confirmed that imports from China, primarily of 100% zinc-coated wire, had a considerable price advantage over Pacific Steel's prices and also over imports of primarily 90/10 wire from Indonesia.

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<sup>3</sup> Regression is a statistical method that determines the relationship between two (or more) variables. In this case, Customs data was used to assess the relationship between import volumes and unit prices.

## 2.2.4 Conclusion

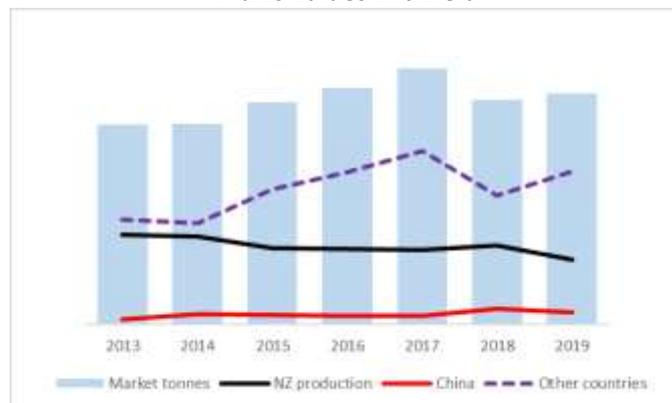
64. MBIE considers that the imposition of duties is likely to result in higher prices for Pacific Steel's goods than if there were no duties in place, and is likely to lead to some increased demand for Pacific Steel's goods due to consumers substituting the dumped goods for Pacific Steel's goods. However, the extent of any price increase will depend on the extent to which purchasers of wire turn to alternative international sources. MBIE additionally considers that through import parity pricing the prices set by Pacific Steel are responsive to market forces.

## 2.3 Effect of the duty on the choice or availability of like goods

65. 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 anti-dumping duties 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.

66. The market for galvanised wire in New Zealand is made up of domestically-produced and imported goods. Figure 4 indicates that domestic production covers a significantly larger share of the market than Chinese imports. The largest share of the market is taken by galvanised wire from other international sources to satisfy demand in the New Zealand market.

**Figure 4: Market Share 2013-2019, MT**  
*Y-axis values withheld*



67. Theoretically, two extremes relate to the effect of duties on the choice or availability of goods.

- If duties are imposed, and the import market is highly price sensitive, the extreme effects of an increase in the price of the imported goods may be that importers stop purchasing from the dumping source. This could result in a decrease of supply of the internationally produced good, and a restriction on the range of goods available in the domestic market. Also, it could result in the increased importation of finished goods using galvanised wire as feedstock, which would reduce demand for both domestic and imported wire feedstock.

- If duties are not imposed, and the domestic industry continues to be materially injured by the dumped goods, the extreme effect may be the exit from the market of the domestic industry.
68. MBIE has assessed the prices and quantities of all imports of galvanised wire to New Zealand, and determined that they are price elastic. Demand is sensitive to a change in the price of imports, and importers may seek a lower priced alternative should the price to obtain goods from China increase. However, as the domestic industry sells goods at a higher price than international prices, the importers are incentivised to remain in the market to supply the excess demand by sourcing goods globally.
69. On the other hand, the counterfactual situation may be harmful. MBIE has already determined that there is material injury to the domestic industry caused by the dumped goods, with Pacific Steel facing negative economic impacts in terms of price effects, sales revenue and earnings before interest and taxation (EBIT). If duties are not imposed, the domestic industry will likely be materially injured by the dumped goods, and the theoretical extreme is that it may be forced to exit the market. If a situation like this was to unfold, choice of galvanised wire would be restricted by the loss of the domestic goods from the market, and only internationally produced goods would be available to consumers.
70. Additionally, MBIE notes that the imposition of anti-dumping duties will not apply to some Chinese suppliers, leaving open a channel of imports free from anti-dumping duties from China for importers who wish to supply varieties of galvanised wire from China to New Zealand without paying an anti-dumping duty. There are also several other international markets available to supply the New Zealand market, as explained in section 2.7 below.

### **2.3.1 Conclusion**

71. MBIE considers that even if anti-dumping duties are imposed for most suppliers from China, New Zealand importers are incentivised to remain in the market to supply the excess demand by sourcing goods globally, which is likely to maintain the availability of goods in the market. MBIE also considers that the imposition of anti-dumping duties is likely to prevent negative economic impacts that the domestic industry may otherwise face, which could in an extreme scenario result in domestic production ceasing.
72. MBIE therefore concludes that the choice and availability of like goods is likely to remain unchanged after the imposition of anti-dumping duties.

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

73. 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 Chinese suppliers, and any other relevant considerations.
74. Customer perceptions of quality appear to relate to the level and type of coating, and the consequent level of corrosion-resistance of the wire, as well as the performance of the

wire in machines used to produce wire products, and the level of customer service provided by the supplier.

#### **2.4.1 Characteristics of the goods**

75. As addressed in section 2.3 of the Step 1 Final Report, there are some differences between Pacific Steel's galvanised wire and Chinese galvanised wire in respect to the coating, affecting the level of protection from corrosion, and there may be some differences in respect to the composition of the steel wire (for example the amount of vanadium), affecting tensile strength. The differences in coating and steel composition represent a spectrum across galvanised steel wire types.
76. The relevant standard, AS/NZS 4534:2006, specifies requirements for the mass, quality and testing of zinc coatings and zinc/aluminium coatings on steel wire of circular or non-circular (shaped) cross-section. The Standards set out standard coating mass classes and a range of special coating mass classes, with the latter specifically designed to provide acceptable durability under severe to extreme service conditions. Matters not related to coating are outside the scope of the Standard.
77. Paul Industries stated that it imports 90/10 zinc aluminium wire "due to no one producing this specification in the NZ market and with harsh coastal conditions this outperforms the 95/5 zinc-aluminium wire." Pacific Steel claimed that 95/5 zinc-aluminium wire had superior corrosion resistance to 90/10 zinc-aluminium wire based on in-situ atmospheric testing, challenging the salt spray testing that might lead to claims of superior corrosion resistance for 90/10 zinc-aluminium wire.
78. In its step 1 questionnaire response, Euro Corporation indicated that high quality wire products are a feature of the New Zealand wire-using industries, especially for rural use. It considers that the New Zealand market demands high quality products, and Pacific Steel's feedstock is classed as a high quality feedstock and is used in the production of high quality products. Euro Corporation indicated that there are only a relatively small number of mills globally producing bulk wire feedstock of a sufficient quality to compete with Pacific Steel in this market, and that it can use it to manufacture its finished products.
79. Euro Corporation indicated that the international market for inferior quality wire products is very different, and the products are available for import at significantly lower prices from many sources, and these imports do not compete with Pacific Steel. Euro Corporation concludes that the industry of interest for this review is therefore the high quality industry.

#### **2.4.2 Conclusion**

80. Although MBIE notes some differences in the physical characteristics between the New Zealand produced and imported wire, whether from China or other global sources, no differences appear to be significant enough to impact the product quality available in New Zealand.
81. MBIE has no reason to believe that there will be any adverse impacts on product or service quality in New Zealand resulting from the imposition of anti-dumping duties on the dumped goods.

## 2.5 Effect of the duty on the financial performance of the domestic industry

82. 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 current financial state of the domestic industry, the impact of imposing the duties and whether any effects, other than those intended, could arise from the imposition of duties.

83. In step 1 of the investigation, MBIE assessed the likely financial impact on Pacific Steel of dumping of the subject goods from China, and found that it was suffering material injury. MBIE has taken this injury analysis as the basis for assessing the effect of the duty on financial performance of the domestic industry for step 2 of the investigation. The relevant financial effects considered by MBIE are summarised below.

### Assessment of injury factors

#### *Volume effects*

84. Imports of dumped goods from China increased over the period of investigation in absolute terms and in relation to production and consumption in New Zealand.

#### *Price effects*

85. MBIE's overall conclusion in the Step 1 Final Report regarding price effects was that the average prices of dumped imports from China had undercut Pacific Steel's average selling prices; that there was no evidence of price depression; but there was price suppression. It was found that these price effects contributed to the injury experienced by Pacific Steel.

#### *Sales volumes and revenue*

86. In the injury analysis in step 1 of the investigation, MBIE concluded that there was evidence that Pacific Steel had experienced a decline in sales volume while sales revenue had been static.

#### *Market share*

87. As noted in the Step 1 Final Report, MBIE reviewed evidence relating to market share in the context of movements in imports from other sources and their impact on the size of the market. MBIE concluded that there was evidence of a decline in the industry's market share but that could not be attributed to dumped imports from China.

#### *Profits*

88. In the injury analysis in step 1 of the investigation, MBIE also assessed the impact of dumped imports from China on profits. MBIE was satisfied that over the period of the investigation Pacific Steel suffered adverse effects through a decline in profits, and that in part, that impact could be attributed to dumped imports from China.

#### *Other financial indicators*

89. In its Step 1 Final Report, MBIE also concluded that dumped imports from China had contributed to declines in productivity and capacity utilisation. Dumped imports had an adverse impact on factors affecting domestic prices, and the magnitude of the margin of

dumping had contributed to the adverse price effects identified by MBIE. MBIE also found that there could be potential negative effects, due in part to dumping, on cash flow and employment.

### **Conclusion**

90. MBIE concludes that the financial performance of the industry will likely be adversely affected if anti-dumping duties are not imposed. The imposition of the duties will remove potentially significant effects on the financial performance of the domestic industry that are due to dumping of imports from China.

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

91. 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 duties would likely affect levels of employment in the domestic industry and in downstream industries.

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

92. In step 1 of the investigation, MBIE concluded that, to the extent that any decline in employment numbers and wage levels has resulted from profitability pressure from dumped imports, dumped imports from China will have a negative effect on employment and wages if anti-dumping duties are not imposed.
93. As noted above in section 2.3, one of the extreme theoretical possibilities is that Pacific Steel could cease production of galvanised wire covered by the subject goods. Since this production is integrated into wire-production generally it would affect the viability of the wire mill and the employment it provides, with potential impacts on Pacific Steel's operations generally.

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

94. Pacific Steel indicated that the anti-dumping duties will underpin the domestic industry's ability to maintain its contribution to New Zealand employment, society, and the national and local South Auckland economy. Additionally, Pacific Steel considers that reliable locally-manufactured supply of assured quality goods, fit for purpose and New Zealand conditions, to the benefit of New Zealand wire consumers and the wider economy, is also materially assisted, although Pacific Steel did not provide evidence to support this general claim.
95. Importers, including those which produce downstream goods, have indicated that the imposition of anti-dumping duties could impact on employment. In particular, Paul Industries has indicated that if it is unable to source competitively-priced goods of the required quality, it may need to cease production of some lines, with consequent impacts on employment. However, MBIE notes that the views expressed by importers in their step 1 questionnaire responses were in relation to the possibility of anti-dumping duties being imposed on imports from both Indonesia and China. Since the anti-dumping duties under consideration apply primarily to some suppliers of 100% zinc-coated imports from China, and since alternative suppliers of such goods are available from other international

suppliers, the likelihood of significant adverse effects on employment in downstream industries is reduced.

96. As concluded in section 2.1, MBIE considers that the imposition of duties is likely to increase the cost of dumped goods from the price that would apply if there was no duty in place, which is likely to reduce imports of such goods, or to force importers and downstream industries to find alternative supplies from international sources or from the New Zealand industry. To the extent that downstream industries require 100 % zinc-coated feedstock, these supplies are likely to come from other international sources.

### **2.6.3 Conclusion**

97. MBIE concludes that if anti-dumping duties are not imposed and if the domestic industry closes down, a significant loss of employment and wages would arise for Pacific Steel. On the other hand, the likelihood that the imposition of duties would have significant employment effects on downstream industries is not high.

## **2.7 Alternative supply (domestically or internationally) of like goods available**

98. 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 and whether there are any alternative sources of supply, competitive in price and quality, capable of accommodating additional demand.

### **2.7.1 Domestic demand**

99. As noted in section 2.3, domestic production of galvanised wire covers a significantly larger share of the market than Chinese imports. However, large additional volumes of goods are sourced from other international markets to satisfy demand in the New Zealand market.
100. Pacific Steel considers that it is able to supply the entire New Zealand galvanised wire market, as it considers that its wire mill and its operations can be reconfigured for more capacity if demand is placed on it.
101. MBIE notes that if the market requirements are considered to include galvanised wire with coatings currently available from other countries, Pacific Steel would be required to virtually triple its production, and to provide wire with coatings of 100% zinc and 90/10 zinc-aluminium as well as the current 95/5 wire currently produced. Pacific Steel did not comment on how this could be achieved in the short to medium term while remaining competitive with imports from Australia or undumped sources.

### **2.7.2 Alternative supply**

102. The global market for galvanised wire provides sources of alternative supply of like goods for New Zealand importers. These sources are competitive in price and quality, and are capable of accommodating additional demand. MBIE also notes that while the applied Customs rate of duty is 5 per cent, the availability of preferential rates at Free means that for many potential sources of the subject goods there are no tariffs.

103. Anti-dumping duties do not apply to galvanised wire from Indonesia, which is a significant global supplier of galvanised wire, nor to Australia, Canada, Korea, Thailand and Taiwan, which also provide significant alternative sources of supply.
104. The imposition of anti-dumping duties does not mean that importing from China will be untenable. The proposed anti-dumping duties will remove the price undercutting attributable to dumped Chinese imports. MBIE notes that anti-dumping duties have been in place on Malaysian galvanised wire since 2004, yet Malaysia has remained a source of supply of galvanised wire for New Zealand importers, which shows that the continued imposition of anti-dumping duties does not necessarily eliminate a viable supplier. The proposed duties apply to major suppliers from China, but not to all suppliers, allowing for the supply of galvanised wire from some suppliers in China free from anti-dumping duties.
105. One consequence of the imposition of anti-dumping duties could be a move to the importation of finished products rather than using galvanised wire as the feedstock for production in New Zealand. In this situation, the market for galvanised wire as feedstock would face reduced demand, and the manufacturing operations of downstream industries would face challenges. There may be benefits to consumers if prices were reduced, but equally, there could be costs in terms of product quality and responsiveness to consumer requirements. However, this situation might be a consequence of the wider imposition of anti-dumping duties beyond those currently under consideration, but that is not the case here.

### **2.7.3 Conclusion**

106. MBIE has noted that there are several other markets available to supply galvanised wire to the New Zealand market, and the domestic industry has indicated that it is able to increase supply if necessary. Indonesia, Australia, Canada, Korea, Thailand and Taiwan are all additional exporting countries that do not have duties imposed and are able to supply the New Zealand market.
107. MBIE concludes that the proposed duties are not likely to have a significant effect on alternative sources of supply of like goods.

## **2.8 Other factors essential to ensure the existence of competition in the market**

108. 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, whether there is risk of monopolisation; how accessible the market is to new entrants; and any existing protection of the domestic industry.

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

109. Pacific Steel is the sole manufacturer of galvanised wire in New Zealand. If New Zealand was not open to trade, Pacific Steel would be a pure monopoly of 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.

110. Although Pacific Steel is the sole domestic producer, New Zealand is a small open economy, and competition is introduced to the market through international trade. As mentioned in section 2.2, Pacific Steel does not set monopolistic prices, as importers compete by sourcing the subject goods internationally. Additionally, Pacific Steel indicated that it competes with prices at which its customers buy imported goods.
111. If anti-dumping duties were to discourage importation of galvanised wire, there could be a risk of monopolisation of the New Zealand market for galvanised wire. However, anti-dumping duties apply only to suppliers found to be dumped, and are intended to remove the material injury caused by dumping. Anti-dumping duties are not intended to discourage importation of goods at prices that do not result in injury attributable to dumping. MBIE notes that apart from some imports from Malaysia, galvanised wire from the rest of the world can enter free of anti-dumping duty. In particular, under the Closer Economic Relationship (CER) agreement with Australia, imports from that country cannot be subject to anti-dumping duties.
112. The imposition of anti-dumping duties on imports of galvanised wire from certain suppliers in China at the rates determined by the Minister is not intended to divert trade away from this source, but to address the material injury caused by dumping.
113. MBIE considers that there is no risk of monopolisation of the New Zealand market for galvanised wire arising from the imposition of anti-dumping duties on galvanised wire from China..

### **2.8.2 Market accessibility**

114. 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 freely enter the market.
115. Comments from importers suggest that it would be relatively easy for established exporters and importers to increase their volumes and product range due to established relationships and understanding of import procedures. However, a new entrant would need to meet the quality and standards required by New Zealand customers, and have access to distribution networks and market channels, including to a manufacturing facility that uses bulk wire coils as feedstock.
116. Pacific Steel has noted that a South African supplier entered the New Zealand market for galvanised wire in 2001, Malaysia commenced supply in 2002, and new suppliers have also entered the market from China. MBIE notes that the South African and Malaysian examples are now dated, and that the more recent Chinese suppliers have sold to established buyers.
117. Although entry to the market for a new entrant may not be easy, MBIE considers that it does remain possible for a new player to enter the market should it see a market opportunity to do so.

### **2.8.3 Existing protection of domestic industry**

118. The Normal rate of Customs duty for galvanised wire is set at 5 per cent, but many current or potential sources of imports have preferential access free of duty under the relevant free trade agreements.
119. The recent decision on the review of anti-dumping duties on galvanised wire from Malaysia has resulted in continuing anti-dumping duties on some, but not all, imports from Malaysia.

### **2.8.4 Conclusions**

120. The imposition of anti-dumping duties will address the injury attributable to dumping of galvanised wire from China, which will allow the domestic industry to continue production, but it is not likely to result in any significant decrease of overall imports of galvanised wire. The presence of importers, including downstream industries, in the market maintains competition, and there remains the potential for new entrants to enter the market. This reflects the fact that there are several sources of supply of galvanised wire that are not subject to anti-dumping duties, and imports from a major supplier, Australia, cannot be subject to anti-dumping duties.
121. MBIE therefore concludes that the imposition of anti-dumping duties is unlikely to reduce competition in the New Zealand market for galvanised wire.

### 3. Public interest preliminary findings

122. As set out in the Act, 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. MBIE has assessed each factor set out in section 10F(3) of the Act. MBIE considers that there are no additional matters that would affect this assessment.
123. MBIE identified several companies and organisations making up downstream industries, but none responded to MBIE's questionnaire. MBIE also sought input from consumers and consumer groups but no response has been received.
124. MBIE has found that consumers and downstream industries are likely to face higher prices for galvanised wire sourced from China and produced domestically than they otherwise would if anti-dumping duties were not imposed. However, as the goods are considered to be highly substitutable, should consumers and downstream industries wish to purchase the goods from other sources, several other sources of supply remain open, free of anti-dumping duties.
125. MBIE has found that the determined anti-dumping duties are likely to benefit the domestic industry. More specifically, MBIE considers that the imposition of the duties is likely to remove the injurious effects attributable to dumped imports from China that would otherwise adversely impact on Pacific Steel's financial performance, will allow it to maintain production of galvanised wire, and is likely to ensure that there are no adverse impacts on employment.
126. MBIE's preliminary finding is that consumers and downstream industries will incur the cost of the imposition of the duty but will continue to have access to alternative supplies not subject to anti-dumping duties, and this cost **is not** likely to materially outweigh the benefit to the domestic industry of imposing the duty. MBIE's preliminary finding is that imposing the anti-dumping duty **is in the public interest**.
127. Interested parties are invited to make written submissions to MBIE on this PIP Report. The submissions received will be taken into account in the Final Report. The deadline for submissions is **15 February 2021**.