



ACCELERATED REVIEW 472

STEEL REINFORCING BAR FROM THAILAND

VISIT REPORT - EXPORTER

NTS STEEL GROUP PUBLIC COMPANY LIMITED

**THIS REPORT AND THE VIEWS OR RECOMMENDATIONS CONTAINED THEREIN
WILL BE REVIEWED BY THE CASE MANAGEMENT TEAM AND MAY NOT REFLECT
THE FINAL POSITION OF THE ANTI-DUMPING COMMISSION**

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CONTENTS

CONTENTS..... 2

1 BACKGROUND..... 3

2 THE GOODS AND LIKE GOODS..... 4

2.1 THE GOODS 4

2.2 LIKE GOODS SOLD ON THE DOMESTIC MARKET 4

2.3 MODEL MATCHING 4

2.4 LIKE GOODS – ASSESSMENT 5

3 VERIFICATION OF EXPORT SALES TO AUSTRALIA..... 6

4 COST TO MAKE AND SELL..... 7

4.1 VERIFICATION OF COSTS TO AUDITED FINANCIAL STATEMENTS..... 7

4.2 VERIFICATION OF COSTS TO SOURCE DOCUMENTS..... 9

4.3 RELATED PARTY PURCHASES..... 9

4.4 COST TO MAKE AND SELL – SUMMARY 9

5 VERIFICATION OF DOMESTIC SALES 10

5.1 VERIFICATION OF DOMESTIC SALES TO AUDITED FINANCIAL STATEMENTS 10

5.2 VERIFICATION OF DOMESTIC SALES TO SOURCE DOCUMENTS 10

5.3 RELATED PARTY TRANSACTIONS 11

5.4 ARM’S LENGTH..... 11

5.5 ORDINARY COURSE OF TRADE..... 11

5.6 DOMESTIC SALES – SUMMARY 12

6 ADJUSTMENTS 13

6.1 CREDIT TERMS 13

6.2 PACKING COSTS 13

6.3 DOMESTIC INLAND FREIGHT 13

6.4 EXPORT INLAND FREIGHT 13

6.5 WHARF HANDLING CHARGES AND STORAGE CHARGES..... 14

6.6 DIFFERENCES IN PHYSICAL CHARACTERISTICS 14

6.7 MASS TOLERANCES 15

6.8 ADJUSTMENTS – CONCLUSION 15

7 NORMAL VALUE..... 16

8 APPENDICES AND ATTACHMENTS..... 17

1 BACKGROUND

On 18 April 2018, the Commissioner of the Anti-Dumping Commission (the Commissioner) gave public notice of his decision to initiate an accelerated review of the anti-dumping measures applying to steel reinforcing bar (rebar) exported to Australia from Thailand, in so far as they relate to a new exporter, NTS Steel Group Public Company Limited (NTS) (Anti-Dumping Notice (ADN) No. 2018/63).

If the Commissioner does not reject an application for an accelerated review, the Commissioner must, no later than 100 days after the application is lodged, provide the Assistant Minister for Science, Jobs and Innovation¹ a report recommending:

- (a) that the dumping duty notice the subject of the application remain unaltered;
or
- (b) that the dumping duty notice the subject of the application be altered so as to apply to the applicant as if different variable factors had been fixed;

and set out the reasons for his recommendation.

The lodgement date of 29 March 2018 is the commencement date of the accelerated review². In relation to this application, the Commissioner's recommendation must be made no later than 9 July 2018³. The review period is 1 January 2017 to 31 December 2017.

NTS submitted a response to the exporter questionnaire (REQ) with relevant attachments on 10 May 2018. The Anti-Dumping Commission (the Commission) reviewed the REQ and considered that it warranted verification.

¹ On 20 December 2017, the Prime Minister appointed the Parliamentary Secretary to the Minister for Jobs and Innovation as the Assistant Minister for Science, Jobs and Innovation. For the purposes of this decision the Minister is the Assistant Minister for Science, Jobs and Innovation.

² Subsection 269ZF(2) of the *Customs Act 1901* states that an application for accelerated review is taken to have been lodged when the application is first received by a Commission staff member doing duty in relation to applications for accelerated reviews. Subsection 269ZF(3) states that the day on which an application is taken to be lodged must be recorded on the application.

³ The due date is 7 July 2018, however as this is a Saturday, the effective due date is the following business day, which is 9 July 2018.

2 THE GOODS AND LIKE GOODS

2.1 The goods

The goods under consideration (the goods) are:

Hot-rolled deformed steel reinforcing bar whether or not in coil form, commonly identified as rebar or debar, in various diameters up to and including 50 millimetres, containing indentations, ribs, grooves or other deformations produced during the rolling process.

The goods covered by this application include all steel reinforcing bar meeting the above description regardless of the particular grade, alloy content or coating.

Goods excluded from this application are plain round bar, stainless steel and reinforcing mesh.

2.2 Like goods sold on the domestic market

NTS sold rebar on the Thai domestic market during the review period. These products:

- were manufactured to comply with Thai Standard TIS 24-2548 (TIS 24-2548) in grades SD40, SD40 (S) and SD50;
- were between 10 mm and 40 mm in diameter;
- were predominately straight in form; and
- had no coating.

NTS provided a domestic sales listing of TIS 24-2548 grade SD50 during the review period in its REQ. The Commission considers that TIS 24-2548 grade SD40 is a like good and asked NTS to provide domestic sales data for this grade during the review period. NTS provided the requested sales data. NTS explained that TIS 24-2548 grade SD40 (S) was a seismic grade.

The verification team considers that the goods manufactured for domestic consumption are identical to, or have characteristics closely resembling, goods that may be exported to Australia, as they:

- are physically alike;
- are produced at the same facilities with similar raw material inputs and manufacturing processes; and
- could be considered functionally and commercially alike.

2.3 Model matching

Australian Standard AS/NZS 4671 (AS/NZS 4671) specifies the chemical composition and the mechanical and geometrical properties of rebar. The standard identifies yield strengths of 250 MPa, 300 MPa and 500 MPa. The Australian industry advised that exports to Australia are likely to be AS/NZS 4671 grade 500N (minimum yield strength 500 MPa). The Commission understands that AS/NZS 4671 grade 500N represents the minimum yield strength for rebar in the Australian market.

PUBLIC RECORD

Both NTS and the Australian industry consider that, of the rebar grades sold domestically by NTS, the most comparable grade for comparison to possible future exports to Australia is TIS 24-2548 grade SD50.

The verification team considers that the most comparable model to AS/NZS 4671 grade 500N is TIS 24-2548 grade SD50. For the purpose of model matching, the verification team used domestic sales of TIS 24-2548 grade SD50 and considers that sales of grade TIS 24-2548 SD40 were not suitable (without an adjustment for physical differences) for comparison because:

- TIS 24-2548 Grade SD40 does not meet the technical and chemical specifications of the Australian standard;
- NTS sold TIS 24-2548 Grade SD50 at a higher price than TIS 24-2548 SD40 in the domestic market for most of the review period; and
- the minimum yield strength of 490MPa for TIS 24-2548 grade SD50 is similar to the minimum yield strength of 500MPa for AS/NZS 4671 grade 500N.

2.4 Like goods – assessment

The verification team considers that rebar sold by NTS in the domestic market of Thailand has characteristics closely resembling those of the goods and is therefore 'like goods' in accordance with subsection 269T(1) of the *Customs Act 1901*.⁴

⁴ References to any section or subsection in this report relate to provisions of the Act, unless specifically stated otherwise.

3 VERIFICATION OF EXPORT SALES TO AUSTRALIA

NTS has not exported rebar to Australia.

The Australasian Certification Authority for Reinforcing and Structural Steels (ACRS) administers a scheme certifying manufacturers and suppliers of reinforcing, prestressing and structural steels to Australian and New Zealand Standards.

NTS has ACRS accreditation for rebar manufactured to comply with AS/NZS 4671 Grade 500N and Grade 500E for;

- rebar straights in diameters 20 mm, 24 mm, 28 mm and 32 mm; and,
- rebar in coil of diameters 10 mm, 12 mm and 16 mm.

NTS does not have certification for rebar of diameter 40 mm.

4 COST TO MAKE AND SELL

4.1 Verification of costs to audited financial statements

In its REQ, NTS provided quarterly cost to make and sell (CTMS) data in relation to its domestic sales of rebar in the review period. This data was provided separately for the TIS 24-2548 grades SD40 and SD50. As NTS has not exported the goods to Australia, it did not provide quarterly CTMS data for exported goods.

The verification team sought to verify the completeness and relevance of the CTMS data by tracing it up through management reports to the audited financial statements, in accordance with ADN 2016/30. During this process, revisions to the CTMS data were required in relation to four matters – two related to the costs of billet (see section 4.1.1); one related to direct labour costs (see section 4.1.2); and the last related to aspects of manufacturing overheads (see section 4.1.3).

In addition, the verification team has recalculated the allocation of selling, general, administration and finance (SGA&F) expenses. It has also allocated certain “other costs” pertaining to the financial year ending March 2017 that were not included in the CTMS data provided by NTS in its REQ – these items are discussed in section 4.1.4).

After correcting the CTMS data for the matters outlined above, the verification team was satisfied that the revised CTMS data was a complete and relevant record of the CTMS for NTS in relation to the production and sale of rebar sold domestically in the review period. As the team focused its verification on the domestic sales of TIS 24-2548 grade SD50, the discussion below refers mostly to the CTMS data calculated for that particular product.

Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

4.1.1 Costs of billet

While seeking to verify the completeness and relevance of the CTMS data, the team noted two issues that it considered were incorrect approaches to calculating the costs of billet, which was used as the basis for calculating the cost of production for the finished goods (TIS 24-2548 grade SD50).

The first issue involved the manner in which the billet costs were absorbed into the production cost of finished goods (TIS 24-2548 grade SD50). NTS had used the cost for billet *produced* rather than the cost of billet *consumed*. NTS agreed with the verification team contention that the latter would be a more accurate measure of the CTMS for rebar in any given period. NTS corrected this to reflect the fully absorbed cost of billet consumed in the manufacture of TIS 24-2548 grade SD50 in each quarter of the review period.

The second issue pertained to the treatment of certain scrap credits in manufacturing billet. The verification team noted that a certain category of scrap credits had been omitted from the calculations of billet cost. NTS revised the data to ensure these scrap credits were captured.

4.1.2 Calculation of direct labour costs

The verification team noted that NTS had calculated these costs as a constant amount per unit for the full review period and it expressed the view that these costs should be calculated separately for each quarter. NTS agreed and revised the figures accordingly.

4.1.3 Calculation of manufacturing overheads

During the process of testing for completeness and relevance, the verification team noted an allocation of manufacturing overheads to an account NTS called "idle costs". The verification team noted these "idle costs" had not been absorbed into the CTMS data. After exploring the reason for recording a certain proportion of manufacturing overheads separately in this manner, the verification team formed the view that such costs should be included. NTS agreed and revised the CTMS data accordingly.

The verification team noted that depreciation costs had, similar to the treatment of labour costs, been calculated as a constant amount per unit for the full review period. The verification team expressed the view that these costs should be calculated separately for each quarter. NTS agreed and revised the figures accordingly.

4.1.4 Calculation of SGA&F expenses and "other costs"

The verification team considered the manner in which NTS allocated selling, general, administrative and finance (SGA&F) expenses (in the calculation of CTMS for grade SD50) and formed the view that those expenses should be reallocated on the basis of sales revenue. The verification team made this calculation and obtained agreement from NTS that the revised approach was reasonable.

The verification team also noted certain "other costs" reported in the audited financial statements for the year ending March 2017 that were not allocated to grade SD50. These "other costs" were explained at Note 21 to the 2017 audited financial statements as comprising two amounts, one for "Loss on diminution in value of inventory" and the other for "Loss from impairment of plant and equipment". Note 21 refers also to Notes 6 and 8, where it is apparent that these charges relate to the mothballing (in 2011) and planned disposal of a mini-blast furnace (MBF) and its related spare parts and supplies.

As NTS recorded such expenses in its audited financial statements for the year ending 31 March 2017, the verification team enquired as to why such costs were not allocated to the CTMS for TIS 24-2548 grade SD50. NTS claimed that it was not appropriate because the MBF was used for the manufacture of special steel products. NTS provided a confidential document outlining the original business case for the MBF. The verification team notes from the document that one of the aims of the MBF project was to produce high quality steel products. However, it appears the project was also aimed at achieving additional steel making and billet making capacity. It is not clear from the document that such additional steel and/or billet was to be confined to the production of special steel products. The team is not satisfied that the MBF costs were completely unrelated to the costs of grade SD50 produced in the review period and considers it is reasonable to allocate those additional costs in the first quarter of 2017. Such an allocation is included in the revised CTMS data relied upon by the verification team.

4.2 Verification of costs to source documents

The verification team verified the accuracy of NTS' revised CTMS data by reconciling the costs to source documents in accordance with ADN No. 2016/30.

The verification team did not identify any issues. Details of the verification process are contained in the verification work program, and relevant attachments, at **Confidential Attachment 1**.

4.3 Related party purchases

Based on the company's REQ and documentation supplied for the purpose of verification, the verification team did not identify any suppliers that might be related to NTS.

4.4 Cost to make and sell – summary

Having verified NTS' revised CTMS data by reconciling that data to audited financial statements and to source documents, the verification team is satisfied that the revised CTMS data is complete, relevant, and accurate.

NTS's revised CTMS data is at **Confidential Appendix 1**.

5 VERIFICATION OF DOMESTIC SALES

5.1 Verification of domestic sales to audited financial statements

The domestic sales listing originally provided by NTS did not include inland freight or sales of grade SD40. The Commission requested that NTS provide this data and NTS provided the additional sales information prior to the visit. The verification team noted that the quantity and value of domestic sales of TIS 24-2548 grade SD50 during the review period remained unchanged.

The verification team verified the completeness and relevance of NTS' domestic sales listing by reconciling it to audited financial statements in accordance with ADN No. 2016/30. The verification team observed the various product codes in NTS' accounting system and was satisfied that the various products manufactured by NTS, including TIS 24-2548 grade SD50 rebar, could be separately identified. The verification team did not identify any issues during this process. Details of the verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

5.2 Verification of domestic sales to source documents

Prior to the visit the verification team asked NTS to provide documents supporting a number of selected transactions in the domestic sales listing. NTS provided the documents prior to the visit.

The verification team verified the accuracy of NTS' domestic sales listing by reconciling the selected transactions to source documents in accordance with ADN No. 2016/30. The verification team noted that the selected invoices clearly identified each model sold. NTS provided revised information on inland freight prior to the visit. The only issue identified by the verification team was that the selected samples included actual freight costs while the sales listing included freight costs booked at the time the sale was made. The verification team reviewed NTS' accounting system and confirmed that freight was booked according to rules based on the size of the shipment. The verification team confirmed that booked and actual freight costs for the selected samples were similar. The verification team did not identify any further issues.

The verification team considers that the most comparable model to AS/NZS 4671 grade 500N is TIS 24-2548 grade SD50. The verification team ensured that the domestic sales listing for grade SD50 only included sales of prime grade SD50 rebar and did not include rebar that had been cut and bent.

The verification team reviewed transactions with negative and zero values in NTS' accounting system and did not identify any issues.

The verification team reviewed mill certificates for the selected samples and noted each certificate stated that the rebar was produced by the thermal mechanical treatment process.

Details of the verification process are contained in the verification work program, and relevant attachments, at **Confidential Attachment 1**.

5.2.1 Packaging

NTS did not provide any information on packing in the REQ. The company stated that there were no significant differences in packing costs. The verification team reviewed the packing process in the plant and accepted NTS' explanation.

5.2.2 Inland freight

The verification team verified inland freight costs for the selected samples.

5.3 Related party transactions

The verification team noted that NTS sold a very small volume of rebar to related customers during the review period. The verification team did not identify any additional domestic customers that might be related to NTS, based on the REQ, the sales data provided and audited financial statements.

5.4 Arm's length

The verification team has compared the weighted average prices for related and unrelated customers, and considers that prices to the company's related customers during the review period were reasonable.

In respect of domestic sales of rebar made by NTS to both related and unrelated customers during the review period, the verification team found no evidence that:

- there was any consideration payable for, or in respect of, the goods other than its price; or
- the price was influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- the buyer, or an associate of the buyer, was directly or indirectly reimbursed, compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.

The verification team therefore considers that all domestic sales made by NTS during the review period were arm's length transactions.

5.5 Ordinary course of trade

Section 269TAAD provides that if like goods are sold in the country of export at a price less than the cost of such goods, and are unrecoverable within a reasonable period, then they are taken not to have been sold in the ordinary course of trade (OCOT).

The verification team compared the revenue for each domestic sale of rebar to the corresponding quarterly domestic CTMS to test whether those sales were profitable.

Where the volume of unprofitable sales exceeded 20% for a particular model, the verification team tested the recoverability of the unprofitable sales by comparing the revenue for each transaction to the corresponding weighted average CTMS over the review period. Those sales found to be unrecoverable were considered not to be in the OCOT.

PUBLIC RECORD

The verification team noted NTS sold rebar manufactured by a related company, Siam Construction Steel Co., Ltd (SCSC). The verification team found that sales of product manufactured by SCSC were readily identified in NTS' accounting system. In determining whether these goods were sold in the OCOT, the team used the verified CTMS for SCSC for grade SD50 plus NTS' SGA&F expenses.

5.6 Domestic sales – summary

The verification team is satisfied that the domestic sales listing is complete, relevant and accurate, and can be used for assessing normal value under subsection 269TAC(1). The domestic sales listing is at **Confidential Appendix 2**.

6 ADJUSTMENTS

To ensure the normal value is comparable to the export price of goods that may be exported to Australia at free-on-board (FOB) terms, the verification team has considered the following adjustments in accordance with subsection 269TAC(8).

While NTS has not exported rebar to Australia, these adjustments are considered appropriate to establish a normal value for grade 500N grade, as if those goods were exported to Australia in the review period.

6.1 Credit terms

The verification team considers that a downward adjustment to the normal value for domestic credit is necessary to ensure a fair comparison to FOB export prices. The verification team has applied this adjustment based on the number of credit days listed for each domestic transaction in the domestic sales listing and the rate for short term borrowings from financial institutions identified in Note 16 to the audited financial statements.

6.2 Packing costs

As noted in section 5.2.1, the verification team is satisfied there is no difference in packaging costs between domestic sales of TIS 24-2548 grade SD50 and possible exports to Australia of grade 500N.

6.3 Domestic inland freight

The verification team considers that a downward adjustment for domestic inland freight is required, to ensure a fair comparison to an FOB export price. The verification team used the verified domestic inland freight expense identified in the domestic sales listing.

6.4 Export inland freight

The verification team considers that an upward adjustment for export inland freight expenses is required, to ensure a fair comparison to an FOB export price.

As NTS had not exported to Australia in the review period the verification team looked to third country exports for a measure of export inland freight. NTS explained that its only exports of like goods to third countries in the review period were by road transport and not by ship. As a result, it could not provide evidence of inland transport charges to a relevant port that were incurred in the review period. However, NTS provided evidence to support the cost of inland transport to the port near Rayong in relation to a shipment exported to a third country in early 2018. NTS considered this a suitable basis for inland transport charges as it was likely to transport its product to that port for export to Australia. NTS further explained those logistics (rather than use the port closer to NTS) would be justified because of the ability to consolidate NTS shipments and SCSC shipments to Australia. The verification team did not consider it reasonable to use the cost of export inland freight incurred by related party SCSC in the review period (for shipments of like goods to third countries) because of the close proximity of SCSC to the port near Rayong.

PUBLIC RECORD

The verification team considered the evidence was relevant and reliable for the purpose of estimating export inland freight. The verification team calculated a weighted average cost per tonne for export inland freight and considers this amount should be included in calculating a normal value expressed at FOB delivery terms.

6.5 Wharf handling charges and storage charges

The verification team considers that an upward adjustment for wharf handling charges and storage charges is required to ensure a fair comparison to an FOB export price.

The documents provided by NTS in relation to the shipment of like goods to a third country in early 2018 did not include evidence of amounts for wharf handling charges and storage charges. Therefore, the verification team used the evidence provided by related party SCSC that included evidence of such charges incurred in relation to exports of like goods to third countries during the review period. The verification team has calculated weighted average costs (per tonne) for these expenses and considers these amounts should be included in calculating a normal value expressed at FOB delivery terms.

6.6 Differences in physical characteristics

NTS plan to export grade 500N rebar compliant to AS/NZS 4671 to Australia. NTS acknowledges that, when compared to grade SD50 compliant to Thai Standard TIS 24-2548, the different composition and quantity of alloys required to manufacture grade 500N will incur an additional cost of production per tonne. NTS confirmed that the different composition and quantity of alloys is required, in part, to achieve the lower carbon equivalent required of AS/NZS 4671 Grade 500N.

The team considers it is reasonable to adjust for these differences in physical characteristics, and is of the view that a price difference can be estimated reasonably with reference to the difference in production costs. Further, in order for the adjustment calculation to reflect a market value of the differences, the team has added a gross margin to the production cost difference.

NTS provided evidence of the production cost differences between TIS 24-2548 grade SD50 and AS/NZS 4671 Grade 500N, based on standard costs. In order to be satisfied that such differences reasonably reflect the likely actual cost differences, the verification team also compared these cost details (including alloy purchase prices and usage rates) to the bill of materials for another product exported to a third country. This allowed the team to compare and contrast the different standard usage rates, and differences in standard costs generally, among various models. Having regard to the evidence of differences in standard costs, the verification team is of the view that it provides sufficient basis for estimating a difference in actual costs between TIS 24-2548 grade SD50 and AS/NZS 4671 Grade 500N and therefore is a reasonable basis for an adjustment.

The verification team also added an amount for gross profit that was based on the domestic sales TIS 24-2548 grade SD50 in the review period. The resulting amount per tonne was used as the basis of an upwards adjustment in calculating a normal value for exports of AS/NZS 4671 Grade 500N.

6.7 Mass tolerances

The verification team noted that the mass tolerances were similar for the Thai and Australian standards. Further, NTS advised there is no difference in the rolling process for the Thai and Australian standards. The verification team has not made an adjustment for any differences in mass tolerances.

6.8 Adjustments – conclusion

The verification team is satisfied that there is sufficient and reliable information to justify the following adjustments, in accordance with subsection 269TAC(8), and considers these adjustments are necessary to ensure a fair comparison of normal values and export prices:

Adjustment Type	Deduction/addition
Domestic credit	Deduct the cost of domestic credit charges
Domestic inland freight	Deduct the cost of domestic inland freight
Export inland freight	Add the cost of export inland freight
Export wharf handling and storage	Add the cost of export wharf handling and storage
Differences in physical characteristics	Add the difference in price attributable to the different physical characteristics of the Australian AS/NZS 4671 Grade 500N compared to TIS 24-2548 grade SD50

The verification team's adjustment calculations are included in normal value calculations at **Confidential Appendix 3**.

7 NORMAL VALUE

The verification team is satisfied that it found sufficient volumes of domestic sales of rebar TIS 24-2548 grade SD50 that were arms' length transactions at prices that were in the OCOT. The verification team is therefore satisfied that the prices paid in respect of domestic sales of TIS 24-2548 grade SD50 rebar are suitable for establishing normal value under subsection 269TAC(1). The verification team calculated a weighted average normal value using domestic sales, have regard to models which correspond to NTS' ACRS accreditation⁵, manufactured to TIS 24-2548 grade SD50 that were in the OCOT, excluding sales of rebar with a diameter of 40 mm as NTS is not certified to export this size to Australia.

In using domestic sales as a basis for normal value, the verification team considers that certain adjustments, in accordance with subsection 269TAC(8), are necessary to ensure fair comparison of normal values with export prices, as outlined in Section 6.

The verification team's normal value calculations are at **Confidential Appendix 3**.

⁵ Section 3 refers.

PUBLIC RECORD

8 APPENDICES AND ATTACHMENTS

Confidential Appendix 1	Revised and amended CTMS
Confidential Appendix 2	Domestic sales
Confidential Appendix 3	Normal value
Confidential Attachment 1	Verification work program, with attachments