



INVESTIGATION 345

**REVIEW OF DUMPING MEASURES ON
HOT ROLLED STRUCTURAL STEEL SECTIONS
EXPORTED FROM TAIWAN**

VERIFICATION REPORT - EXPORTER

TUNG HO STEEL ENTERPRISE CORP.

**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**

June 2016

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ABBREVIATIONS

| | |
|-------------------------|---|
| ABF | Australian Border Force |
| ADN | Anti-Dumping Notice |
| Customs Act | <i>Customs Act 1901</i> |
| Parliamentary Secretary | Assistant Minister for Science and the Parliamentary Secretary to the Minister for Industry, Innovation and Science |
| JIS | Japanese Industrial Standard |
| OCOT | Ordinary course of trade |
| the Commission | Anti-Dumping Commission |
| the Commissioner | Commissioner of the Anti-Dumping Commission |
| the goods | the goods the subject of the application (also referred to as the goods under consideration) |
| THS | Tung Ho Steel Enterprise Corp. (the applicant) |

PUBLIC RECORD

CONTENTS

| | |
|--|-----------|
| ABBREVIATIONS..... | 2 |
| CONTENTS..... | 3 |
| 1 BACKGROUND..... | 4 |
| 2 THE GOODS AND LIKE GOODS..... | 5 |
| 2.1 THE GOODS EXPORTED TO AUSTRALIA | 5 |
| 2.2 LIKE GOODS SOLD ON THE DOMESTIC MARKET | 5 |
| 2.3 MODEL MATCHING | 6 |
| 2.4 LIKE GOODS – PRELIMINARY ASSESSMENT..... | 6 |
| 3 VERIFICATION OF EXPORT SALES TO AUSTRALIA..... | 7 |
| 3.1 VERIFICATION OF AUSTRALIAN SALES TO AUDITED FINANCIAL STATEMENTS | 7 |
| 3.2 VERIFICATION OF EXPORT SALES TO SOURCE DOCUMENTS..... | 7 |
| 3.3 THE EXPORTER | 8 |
| 3.4 THE IMPORTER | 8 |
| 3.5 RELATED PARTY CUSTOMERS..... | 8 |
| 3.6 ARMS LENGTH..... | 8 |
| 3.7 EXPORT PRICE – PRELIMINARY ASSESSMENT | 9 |
| 4 COST TO MAKE AND SELL..... | 10 |
| 4.1 VERIFICATION OF COSTS UP TO AUDITED FINANCIAL STATEMENTS | 10 |
| 4.2 VERIFICATION OF COSTS DOWN TO SOURCE DOCUMENTS | 10 |
| 4.3 VERIFICATION OF SG&A EXPENSES..... | 10 |
| 4.4 COST TO MAKE AND SELL – SUMMARY | 11 |
| 5 VERIFICATION OF DOMESTIC SALES | 12 |
| 5.1 VERIFICATION OF DOMESTIC SALES TO AUDITED FINANCIAL STATEMENTS | 12 |
| 5.2 VERIFICATION OF DOMESTIC SALES TO SOURCE DOCUMENTS | 12 |
| 5.3 RELATED PARTY CUSTOMERS..... | 12 |
| 5.4 ARMS LENGTH..... | 12 |
| 5.5 ORDINARY COURSE OF TRADE..... | 13 |
| 5.6 SUITABILITY OF DOMESTIC SALES | 13 |
| 5.7 DOMESTIC SALES – CONCLUSION..... | 13 |
| 6 ADJUSTMENTS | 14 |
| 7 NORMAL VALUE..... | 15 |
| 8 DUMPING MARGIN..... | 16 |
| 9 APPENDICES AND ATTACHMENTS..... | 17 |

1 BACKGROUND

On 18 April 2016, the Commissioner of the Anti-Dumping Commission (the Commissioner) gave public notice of his decision to initiate a review of the anti-dumping measures applying to certain hot rolled structural steel sections (HRS) exported to Australia from the Taiwan. The Anti-Dumping Notice (ADN) No. 2016/43 provides further information regarding the investigation and is available on the Anti-Dumping Commission's (the Commission's) website www.adcommission.gov.au.

The background relating to the initiation of this investigation is contained in Consideration Report number 345 (CON 345).

Following this initiation, the Commission wrote to Tung Ho Steel Enterprise Corp. (THS) inviting it to respond to the Exporter Questionnaire. THS cooperated by submitting a completed exporter questionnaire response (EQR) and relevant attachments within the required legislative timeframe.

2 THE GOODS AND LIKE GOODS

2.1 The goods exported to Australia

For the review period eight distinct models of HRS sections were exported to Australia, all categorised as 'General Structure' of 'Carbon Steel' grade.

| Universal Beam | Universal Column | Channels |
|-----------------------|-------------------------|-----------------|
| 31b12 | 31b32 | 55152 |
| 32b12 | 32b32 | 55252 |
| 34b12 | | |
| 36b12 | | |

All HRS sections produced by THS for its Australian customer were made to order, and therefore no stock was kept on site.

THS advised that the universal beams, columns and channels produced by the company were made to Japanese Industrial Standards (JIS) and hence put equal emphasis on tensile strength and yield strength, in line with the stringent building code to withstand the earthquake conditions found in that region. THS stated that the company focus on minimising the yield strength to tensile strength ratio, to meet the high standards required as per JIS certification.

THS advised that it is uneconomical for the company to periodically change the chemical composition and strength characteristics to suit different individual export market requirements. THS groups similar models together and stated that comparable domestic models and the goods are produced from the same steel. Hence the company produces steel to high JIS standards, meeting the Australian standards, for both domestic and Australian consumption.

THS competes with Japanese and Korean Steel manufacturers in its domestic market. To compete effectively with the overseas suppliers, THS manufactures its sections with higher actual weights than the required by regulation. Hence, domestically sold sections have a higher 'Actual weight' as compared to 'Theoretical weight' as do the sections exported to Australia. However this difference between 'Actual' and 'Theoretical' weight was only marginal in Australian Sales.

The visit team reviewed mill test certificates for selected domestic sales transactions and observed that the yield strength and chemical composition of the SS400 grade was comparable to that of the AS300 standard. The visit team also reviewed mill certificates for selected domestic sales of the higher SN490 grade. The visit team observed that the SN490 contained additional alloys and was unsuitable for comparison with exports to Australia.

2.2 Like goods sold on the domestic market

In its EQ Response, THS stated that it produced goods that are like those goods exported to Australia and sold the same models in the domestic market during the review period. THS produces a much wider range of sections than the ones exported to Australia. Further, identical models to all the export sales models are also sold in the domestic market. Domestic sales of comparable models are made to Japanese standard JIS 3101.

2.3 Model matching

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

- do not appear to be distinguished from the exported goods during production;
- are produced at the same facility and with the same raw material inputs and manufacturing processes; and
- can be considered functionally and commercially alike.

The visit team noted that one model exported to Australia did not have enough domestic sales volume to meet the sufficiency test. After consultation with THS the visit team used the normal value of a model of similar size and shape.

2.4 Like goods – preliminary assessment

The visit team considers that comparable models of HRS sections produced and sold domestically by THS have characteristics closely resembling those of the goods exported to Australia and are therefore “like goods” in terms of section 269T (1) of the *Customs Act 1901*.¹

¹ References to any section or subsection of legislation are references to the *Customs Act 1901* unless otherwise specified.

3 VERIFICATION OF EXPORT SALES TO AUSTRALIA

3.1 Verification of Australian sales to audited financial statements

The visit team verified the completeness and relevance of THS's export sales listing by reconciling it to audited financial statements in accordance with ADN No. 2016/30. Details of this verification process are contained in the verification work programme, and its relevant attachments, at **Confidential Attachment 1**.

The visit team is satisfied that the Australian sales data provided by THS is the complete record of its export sales to Australia during the period under review.

3.2 Verification of export sales to source documents

The visit team verified the accuracy of THS' export sales spreadsheet by reconciling it to source documents in accordance with ADN No. 2016/30. Details of the verification are contained within the verification work program at **Confidential Attachment 1**.

3.2.1 Packing cost

THS provided an internal packing cost allocation list, which allocated the material and labour cost incurred for packing for every month of calendar year 2015 for each of the key markets; Domestic; Australian export; and third country export. However, the company did not provide source documents showing the calculation for, or allocation of, these costs.

3.2.2 Inland transport cost

THS invoiced each of the consignments of Australian sales for inland transport cost as per the actual costs incurred. The visit team verified these costs with the internal source documents for the sample transactions and found them to be accurate.

3.2.3 Other Costs related to Export

THS included a number of export related costs in its Exports Sales, such as:

- Customs broker's fees;
- Bank charges & Letter of credit fees;
- Export inspection charges;
- Trade promotion services fees;
- Pier through fees;
- Bank charges; and
- Post services charges.

Each of the above costs were allocated to each consignments in the sample transactions on a weighted average basis. The visit team verified each of the above costs against source documents including proof of payment and found no discrepancies.

PUBLIC RECORD

3.2.4 Credit costs

THS calculated credit costs based on the number of days between the actual invoice date and payment date. THS used the short-term USD borrowing rate to calculate the credit costs on export sales. The visit team has confirmed the borrowing rate from the source documents consisting of offer rates from THS' bank.

3.3 The exporter

For all export sales during the review period the visit team considers THS to be the exporter of the goods.²

3.4 The importer

The visit team considers that, in relation to the goods exported by THS during the review period, its Australian customers listed in the Australian sales listing as the beneficial owners of the goods at the time of importation and therefore was the importer of the goods.

3.5 Related party customers

The visit team did not identify any Australian customers that were related to THS.

3.6 Arms length

In respect of export sales of HRS sections to Australia by THS 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 their 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 received a benefit for, or in respect of, the whole or any part of the price.

The visit team therefore considers that all export sales of HRS to Australia by THS during the review period were arms-length transactions.³

² The Commission generally identifies the exporter as a principal in the transaction, located in the country of export from where the goods were shipped, who gave up responsibility by knowingly placing the goods in the hands of a carrier, courier, forwarding company, or their own vehicle for delivery to Australia; or a principal in the transaction, located in the country of export, who owns, or previously owned, the goods but need not be the owner at the time the goods were shipped.

³ Section 269TAA of the Act outlines the circumstances in which the price paid or payable shall not be treated as being at arms length. These are where: there is any consideration payable for or in respect of the goods other than price; the price is 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 in the opinion of the Parliamentary Secretary, the buyer, or an associate of the buyer, will, directly or indirectly, be reimbursed, be compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.

PUBLIC RECORD

3.7 Export price – preliminary assessment

The visit team is satisfied that the export sales data is complete, relevant and accurate.

In relation to the goods exported by THS, the visit team recommends that export price be determined under section 269TAB(1)(a), as the price paid by the importer less transport and other costs arising after exportation.

The preliminary export price calculations are at **Confidential Appendix 1**.

4 COST TO MAKE AND SELL

4.1 Verification of costs up to audited financial statements

The visit team verified the completeness and relevance of THS' cost to make and sale (CTMS) spreadsheet by reconciling it to audited financial accounts in accordance with ADN 2016/30. Details of the verification are contained within the verification work program at **Confidential Attachment 1**.

THS provided cost centre reports for steel making. The visit team verified the unit costs of direct labour and manufacturing overheads in the CTMS spreadsheets. The team reconciled raw material costs to the audited financial statements by tracing costs through relevant accounts. THS also provided cost centre reports for rolling that identified direct labour and manufacturing overheads. The team verified the unit cost of direct labour and manufacturing overheads for the combined rolling cost centres. The team verified that the cost of semi-finished goods used in the production of HRS is the actual cost of production.

Having regard to the above, the team considers the cost data provided by THS is a complete and relevant account of the cost of the goods during the review period. The visit team did not identify any issues during the upwards verification of CTMS.

4.2 Verification of costs down to source documents

The visit team verified the accuracy of THS' cost to make and sell spreadsheet by reconciling it to source documents in accordance with ADN 2016/30. Details of the verification are contained within the verification work program at **Confidential Attachment 1**.

The team verified scrap costs through relevant inventory accounts. The team selected four manufacturing overhead costs for verification. Expenditure was traced from the trial balance through to supplier invoices. In the case of depreciation, the team verified how depreciation for various departments is allocated. The team is satisfied that raw material and manufacturing overheads for THS are accurate.

THS purchases small quantities of scrap from related companies. THS' annual report stated that the purchase price and payment terms for these purchases were not significantly different from those from third party customers. The total value of related party purchases was not material.

The visit team did not identify any issues during the downwards verification of costs.

4.3 Verification of SG&A expenses

For certain accounts, costs were allocated to production areas using production volumes, but most were allocated using sales volume. Total administration costs allocated to each production area were allocated using sales volume. The visit team confirmed that all SG&A expenses in the financial statements were allocated correctly

PUBLIC RECORD

4.4 Cost to make and sell – summary

Having verified THS' CTMS data for HRS sections to audited financial accounts and to source documents, the visit team is satisfied that THS's CTMS data is complete, relevant and accurate.

THS's verified CTMS spreadsheet is at **Confidential Appendix 2**.

5 VERIFICATION OF DOMESTIC SALES

5.1 Verification of domestic sales to audited financial statements

The visit team verified the completeness and relevance of THS's domestic sales spreadsheet by reconciling it to audited financial accounts in accordance with ADN 2016/30. Details of the verification are contained within the verification work program at **Confidential Attachment 1**.

The upwards verification of domestic sales was done in conjunction with export sales and the visit team did not identify any issues.

5.1.1 Sales to a related party

THS updated its domestic sales spreadsheet after one of the transactions with a domestic buyer, who is a related party to THS, was inadvertently omitted from the original submission.

5.2 Verification of domestic sales to source documents

The visit team verified the accuracy of THS's domestic sales spreadsheet by reconciling it to source documents in accordance with ADN 2016/30. Details of the verification are contained within the verification work program at **Confidential Attachment 1**.

The visit team did not identify any issues during the downwards verification of domestic sales.

5.3 Related party customers

The visit team did identify a domestic customer which was related to THS. The visit team found that the weighted average invoice value for sales to the related party was higher than that to external buyers. Hence the transactions with that related party customer were considered to be at 'arms length' and were not excluded from normal value calculations.

5.4 Arms length

In respect of THS' domestic sales of HRS sections during the review period, the visit team found no evidence that:

- there was any consideration payable for or in respect of the goods other than their 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 visit team therefore considers that all domestic sales by THS during the review period were arms 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, they are taken not to have been paid in the ordinary course of trade (OCOT).

The visit team compared the quarterly domestic CTMS to the corresponding net invoice price to test whether domestic sales were profitable. Where the volume of unprofitable sales exceeded 20 per cent for the product category, the team then tested the recoverability of the unprofitable sales by comparing the unit selling price to the corresponding weighted average CTMS over the whole of the review period. Those sales found to be unrecoverable were deemed not to be made in the OCOT.⁴

5.6 Suitability of domestic sales

Except for one model, the volume of domestic sales were sufficient to calculate normal values. As noted in section 2, the volume of domestic sales of one model exported to Australia did not meet the sufficiency test. After consultation with THS the visit team used the normal value of a model of similar size and shape.

5.7 Domestic sales – conclusion

The visit team is satisfied that the sales data included in the domestic sales listing is complete, relevant and accurate, and can be used for assessing normal value under subsection 269TAC(1)

⁴ Subsection 45(2) of the *Customs (International Obligations) Regulation 2015*.

6 ADJUSTMENTS

To ensure that the normal value is comparable to the export price of the goods exported to Australia, the visit team is satisfied that the following adjustments to the normal value are necessary under subsection 269TAC(8).

Negative adjustments should be made by deducting:

- domestic packing;
- domestic inland transport;
- domestic handling and other charges; and
- domestic credit.

Positive adjustments to the domestic price should be made by adding:

- export packing;
- export inland transport;
- customs brokers fees;
- bank charges;
- export inspection charges;
- trade promotion services fees;
- port services and related charges; and
- export credit.

These adjustments were verified during the examination of export and domestic sales data. The visit team is satisfied that there is sufficient and reliable information to justify the above adjustments. The team did not identify any other adjustments that were necessary or warranted.

7 NORMAL VALUE

Based on the information provided by THS and the verification conducted on site, the visit team is satisfied that prices paid in respect of domestic sales of comparable models are suitable for assessing normal values under subsection 269TAC(1) during the review period.

The visit team considers that domestic selling prices require adjustment under subsection 269TAC(8) for the costs identified in section 6 to ensure proper comparison with export prices.

The normal value calculations are at **Confidential Appendix 4**.

8 DUMPING MARGIN

The dumping margin has been assessed by comparing the weighted average export prices to the corresponding weighted average normal values for the review period.⁵ The dumping margin in respect of Hot rolled structural sections exported to Australia by Tung Ho Steel Enterprise Corp. for the review period is **negative 8.4 per cent**.

The preliminary dumping margin calculation is at **Confidential Appendix 5**.

⁵ In accordance with section TACB(2)(a)

PUBLIC RECORD

9 APPENDICES AND ATTACHMENTS

| | |
|----------------------------------|---------------------------|
| Confidential Appendix 1 | Export prices |
| Confidential Appendix 2 | Cost to make and sell |
| Confidential Appendix 3 | Domestic sales and OCOT |
| Confidential Appendix 4 | Normal values |
| Confidential Appendix 5 | Dumping margin |
| Confidential Attachment 1 | Verification work program |