



INQUIRY NO. 452

**ANTI-CIRCUMVENTION INQUIRY
REGARDING ANTI-DUMPING MEASURES
APPLYING TO STEEL REINFORCING BAR FROM
THE REPUBLIC OF KOREA**

VISIT REPORT - EXPORTER

DAEHAN STEEL CO., LTD

**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**

February 2018

CONTENTS

1 BACKGROUND..... 3

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

2.1 THE GOODS EXPORTED TO AUSTRALIA4

2.2 LIKE GOODS SOLD ON THE DOMESTIC MARKET4

2.3 MODEL MATCHING.....4

2.4 LIKE GOODS – PRELIMINARY ASSESSMENT5

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

3.1 VERIFICATION OF AUSTRALIAN SALES TO AUDITED FINANCIAL STATEMENTS6

3.2 VERIFICATION OF AUSTRALIAN SALES TO SOURCE DOCUMENTS.....6

3.3 THE EXPORTER.....6

3.4 THE IMPORTER6

3.5 RELATED PARTY CUSTOMERS6

3.6 ARMS LENGTH6

3.7 EXPORT PRICE – PRELIMINARY ASSESSMENT.....7

4 COST TO MAKE AND SELL..... 8

4.1 VERIFICATION OF COSTS TO AUDITED FINANCIAL STATEMENTS8

4.2 VERIFICATION OF COSTS TO SOURCE DOCUMENTS8

4.3 RELATED PARTY PURCHASES8

4.4 COST TO MAKE AND SELL – SUMMARY8

5 VERIFICATION OF DOMESTIC SALES 9

5.1 VERIFICATION OF DOMESTIC SALES TO AUDITED FINANCIAL STATEMENTS9

5.2 VERIFICATION OF DOMESTIC SALES TO SOURCE DOCUMENTS9

5.3 RELATED PARTY CUSTOMERS9

5.4 ARMS LENGTH9

5.5 ORDINARY COURSE OF TRADE10

5.6 SUITABILITY OF DOMESTIC SALES AND PROFIT.....10

5.7 DOMESTIC SALES – SUMMARY10

6 ADJUSTMENTS 11

6.1 EXPENSES RELATING TO ADJUSTMENTS11

6.2 INLAND FREIGHT11

6.3 EXPORT-RELATED CHARGES11

6.4 CREDIT EXPENSES.....12

6.5 SPECIFICATION ADJUSTMENT12

6.6 ADJUSTMENTS CLAIMED BUT NOT MADE.....12

6.7 ADJUSTMENTS – CONCLUSION14

7 NORMAL VALUE..... 15

8 APPENDICES AND ATTACHMENTS..... 16

1 BACKGROUND

On 20 November 2017, the Commissioner of the Anti-Dumping Commission gave public notice of his decision to initiate an anti-circumvention inquiry in relation to steel reinforcing bar (rebar or the goods) exported to Australia by Daehan Steel Co., Ltd (Daehan) from the Republic of Korea (Korea).

The background to initiation of this inquiry is contained in Anti-Dumping Notice (ADN) No. 2017/163, available on the electronic public record (EPR) at www.adcommission.gov.au.

For the purposes of the inquiry, there is to be an examination of whether the importer of goods from Daehan, directly or through an associate or associates, sold those goods in Australia without increasing the price commensurate with the total amount of duty payable on the goods under the *Customs Tariff (Anti-Dumping) Act 1975* (Dumping Duty Act).

The Commission is examining goods exported to Australia by Daehan during the period 1 April 2016 to 31 March 2017.

As part of its application, OneSteel Manufacturing Pty Ltd (OneSteel trading as Liberty OneSteel) claimed that:

- Daehan's export price has been lowered following investigation no. 264 to a greater extent than any corresponding reduction in Daehan's normal value; and
- that the reduced export price has allowed the importer or associate of the importer to sell the goods in Australia without increasing the price commensurate with the total amount payable on the circumvention goods under the Dumping Duty Act.

To assess OneSteel's claims, the Anti-Dumping Commission (the Commission) sought Daehan's cooperation through the completion of an Exporter Questionnaire, in particular to assess Daehan's export price and normal value. Should there be found to be a circumvention activity, the Commission may use verified data from this report to recommend changes to the dumping duty notice. However, at this stage of the inquiry there has been no determination of whether a circumvention activity has occurred and no dumping margin has been published as part of this report.

2 THE GOODS AND LIKE GOODS

2.1 The goods exported to Australia

During the inquiry period, Daehan exported the goods to an importer in Australia via unrelated intermediaries. The goods exported by Daehan are mostly rebar coils manufactured to the Australian standard, of grade 500N, in a range of diameters.

2.2 Like goods sold on the domestic market

During the inquiry period, Daehan sold like goods to domestic customers in Korea, being goods that, while not identical to the goods under consideration, have characteristics closely resembling the exported goods.

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

- are similar in appearance and chemical composition;
- are produced in the same way (despite being subject to different international standards), with the costs of production being similar or the same;
- are produced using the same raw material inputs (being steel billet); and
- can be considered functionally and commercially alike, as they have similar end uses.

2.3 Model matching

The visit team assessed the product control number (PCN) structure that Daehan devised for the purposes of the inquiry (noting that it was the same that was used in the original investigation no. 264) and compared it with briefing material that OneSteel presented to the Commission (available on the EPR). The visit team considers that the PCN structure is appropriate for model matching, noting that it ensures comparison of:

- Specification (e.g. whether the rebar is in coil or straight lengths);
- Grade (e.g. minimum tensile strength equivalent); and
- Diameter ranges:
 - A = Dimension \leq 10mm
 - B = 10mm < Dimension < 16mm
 - C = 16mm \leq Dimension < 35mm

In relation to grade, it is noted that different standards apply to the goods (AS/NZS 4671) and like goods (KS D 3504: 2016). Daehan sell the goods to an Australian grade denoted as 500N. OneSteel stated in briefing material that the Korean grade SD500W is most similar to the Australian grade 500N for two reasons, being the minimum yield strength and control of chemistry for weldability. However, the visit team did not find sales of SD500W by Daehan on the Korean domestic market, only sales of a similar grade SD500. The visit team examined a sample of test certificates which demonstrated that Daehan's sales of the Australian grade 500N and Korean grade SD500 were similar in terms of minimum yield strengths. On this basis, the visit team considers it appropriate to compare Daehan's export sales of Australian grade 500N with its domestic sales of

PUBLIC RECORD

Korean grade SD500. In addition to the test certificate comparison, the visit team notes that the briefing material provided by OneSteel did not demonstrate any price differences between SD500 and SD500W grades on the Korean market. Therefore no specification adjustment is considered necessary in relation to grade.

The visit team also notes that there was an immaterial volume of like goods sold by Daehan on the Korean domestic market manufactured to other international standards. These also have a minimum yield strength equivalent to Australian grade 500N and have been used in establishing normal values.

2.4 Like goods – preliminary assessment

The visit team considers that the rebar produced by Daehan for domestic sale has characteristics closely resembling those of the goods exported to Australia and are therefore 'like goods' in accordance with subsection 269T(1) of the *Customs Act 1901*.¹

¹ All legislative references in this report are to the *Customs Act 1901*, unless specifically stated otherwise.

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 Daehan's Australian sales listing by reconciling it to audited financial statements in accordance with ADN No. 2016/30.

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

3.2 Verification of Australian sales to source documents

The visit team verified the accuracy of Daehan's Australian sales listing by reconciling it to source documents in accordance with ADN No. 2016/30.

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

3.3 The exporter

For all Australian export sales during the inquiry period, the visit team considers Daehan to be the exporter of the goods.

3.4 The importer

We noted that for all export transactions, the Australian customer is Stemcor (SEA) Pte Ltd. We consider that Stemcor (SEA) Pte Ltd is the beneficial owner of the goods at the time of importation, and therefore the importer of rebar exported by Daehan during the inquiry period.

3.5 Related party customers

The visit team did not identify any information that might suggest that the importer or intermediaries involved in the export of the goods are related to Daehan, based on Daehan's response to the Exporter Questionnaire, sales data and audited financial statements.

3.6 Arms length

In respect of Australian sales of the goods made by Daehan to its importer during the inquiry period, the visit 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

PUBLIC RECORD

- 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.²

The visit team therefore considers that all export sales to Australia made by Daehan during the inquiry period were arms length transactions.

3.7 Export price – preliminary assessment

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

During the inquiry period it was established that all of the goods have been exported to Australia otherwise than by the importer (e.g. they were exported by Daehan who is the exporter). Some of the goods were purchased by the importer from the exporter. For those goods, the export price has been ascertained under subsection 269TAB(1)(a).

For other goods, there was an intermediary involved between the exporter and importer. For those goods, the export price cannot be ascertained under subsections 269TAB(1)(a) or (b) and the visit team recommends that the export price be determined under subsection 269TAB(1)(c) based on all the circumstances of exportation. Specifically, it is recommended that the export price be the price between Daehan and the intermediaries involved in the sale to Australia.

Export prices were calculated at free-on-board (FOB) terms.

The visit team's preliminary export price calculations are at **Confidential Appendix 1**.

² Section 269TAA refers.

4 COST TO MAKE AND SELL

4.1 Verification of costs to audited financial statements

The visit team verified the completeness and relevance of Daehan's cost to make and sell (CTMS) spreadsheets by reconciling them to audited financial statements in accordance with ADN No. 2016/30.

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

4.1.1 Selling, general and administrative (SG&A) costs

Daehan calculated SG&A separately for the domestic and export markets. For the domestic SG&A calculations, the export related transport and handling expenses were removed. For the export SG&A calculations, the domestic transport expenses were removed.

Warranty expenses, Loss on Disposition of Invested Real Estate and Depreciation of Invested Real Estate and Dividends (which are all immaterial amounts) were removed from both calculations because they do not relate to the goods or like goods.

The visit team queried why the amount for Depreciation of Leased Machinery in the domestic SG&A did not reconcile with the amount used in the calculations for the lease adjustment (discussed at section 6.6.2). Daehan explained that a minor correction was required to the domestic SG&A because Daehan had originally included 15 months worth of Depreciation of Leased Machinery expenses rather than the 12 months relating to the inquiry period. Having rectified this issue, the visit team is satisfied that the costs reconcile with the financial statements.

4.2 Verification of costs to source documents

The visit team verified the accuracy of Daehan's CTMS spreadsheets to source documents in accordance with ADN No. 2016/30 and 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

The visit team noted that there was a minor volume of raw material (scrap) purchased from related suppliers. The visit team is satisfied that these are arms length transactions.

4.4 Cost to make and sell – summary

Having verified Daehan's CTMS spreadsheets to audited financial statements and source documents, the visit team is satisfied that the CTMS spreadsheets are complete, relevant and accurate.

The CTMS spreadsheets are 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 Daehan's domestic sales listing by reconciling it to audited financial statements in accordance with ADN No. 2016/30.

The visit team did not identify any other issues.

5.2 Verification of domestic sales to source documents

5.2.1 Domestic sales listing

The visit team verified the accuracy of Daehan's domestic sales listing by reconciling it to source documents in accordance with ADN No. 2016/30. Minor discrepancies were identified and rectified as outlined below.

5.2.2 Rebates

As part of the verification of domestic sales to source documents, Daehan identified that it had omitted to report rebates given to purchasers of coil on the domestic market. Daehan provided a revised domestic sales listing with these rebates included. The rebates were recorded as accounting adjustments which were verified as part of the verification of domestic sales to audited financial statements. Daehan provided evidence of the basis of the rebate calculations, which are paid to customers who achieve certain volume targets. It is noted that the value of rebates represents an immaterial proportion of the total domestic sales value. The visit team is satisfied that the net invoice values, as revised, are accurate and reliable.

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

5.2.3 Barter sales

The visit team noted that a significant volume of domestic coil sales were made under a barter sale arrangement where Daehan sells coils to certain customers and receives other like goods, e.g. straights in return. Consistent with the original investigation, these sales have been excluded from the normal value calculations for this inquiry.

5.3 Related party customers

Daehan sells rebar to related parties on the domestic market. An analysis comparing related-party pricing compared to Daehan's largest unrelated customers indicated prices were in a similar range.

Details are contained in **Confidential Attachment 1**.

5.4 Arms length

In respect of domestic sales of the goods made by Daehan to its customers during the inquiry period, the visit team found no evidence that:

PUBLIC RECORD

- 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.

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 visit team compared the revenue (i.e. net sales value) for each domestic sale of like goods to the corresponding quarterly domestic CTMS to test whether those sales were profitable.

Where the volume of unprofitable sales exceeded 20 per cent for a particular model, the visit team tested the recoverability of the unprofitable sales by comparing the revenue for each transaction to the corresponding weighted average CTMS over the inquiry period. Those sales found to be unrecoverable were considered not to be in the ordinary course of trade.

5.6 Suitability of domestic sales and profit

Subsection 269TAC(2)(a)(i) provides that the normal value of goods exported to Australia cannot be ascertained under subsection 269TAC(1) where there is an absence, or low volume, of sales of like goods in the market of the country of export.

The Commission considers that low volume is less than 5 per cent of the total volume of the goods under consideration that are exported to Australia. The visit team found there was a sufficient volume of domestic sales made in the OCOT for all models except one, of rebar exported to Australia during the inquiry period. For that model, there were sufficient sales of a similar model which can be used to establish the normal value with an adjustment as discussed at section 6.4 below.

5.7 Domestic sales – summary

The visit team is satisfied that the domestic sales listing is complete, relevant and accurate, and can sales that were arms length in the OCOT and in sufficient volumes can be used for assessing normal value under subsection 269TAC(1).

The domestic sales listing is at **Confidential Appendix 3**.

6 ADJUSTMENTS

To ensure the normal value is comparable to the export price of goods exported to Australia at free on board (FOB) terms, the visit team has considered the following adjustments.

6.1 Expenses relating to adjustments

During the verification it was revealed that the calculations for adjustments relating to credit costs (section 6.4), inventory carrying costs (section 6.6.3) and lease expenses (section 6.6.3) were incorrect. Daehan provided revised calculations rectifying these issues, noting that the revisions were minor and that certain adjustments weren't accepted by the visit team as discussed below at section 6.6.

6.2 Inland freight

6.2.1 Export inland freight

The visit team verified the inland freight costs for export sales and is satisfied that the amounts recorded in the export sales listing are accurate.

The visit team considers that an upwards adjustment to the normal value for export inland freight costs is necessary to ensure a fair comparison to the FOB export price.

The visit team has applied this adjustment based on the actual cost for each transaction.

6.2.2 Domestic inland freight

Daehan sells like goods on the domestic market at either delivered or ex-works terms. The visit team verified the inland freight costs for delivered sales and is satisfied that the amounts recorded in the domestic sales listing are accurate.

The visit team considers that a downwards adjustment to the normal value for domestic inland freight costs is necessary, for delivered sales only, to ensure a fair comparison to the FOB export price.

The visit team has applied this adjustment based on the actual cost for each transaction.

6.3 Export-related charges

A number of export related charges were incurred on all exports of the goods to Australia during the inquiry period. These charges included amounts relating to terminal handling charges, wharfage charges, containerisation and other ancillary charges incurred at the port of export.

The visit team verified the accuracy of these charges in the source documents relating to the Australian export sales, and considers that these charges warrant an upwards adjustment to the normal value. The visit team made this adjustment using the actual charges for each transaction.

6.4 Credit expenses

At the visit, Daehan revealed that the expenses relating to export credit and domestic credit required amendment due to the short-term interest rate applied in the calculation being incorrect. The short-term interest rate required a minor change and was verified against the accounting system and financial statements.

6.4.1 Export credit

Daehan calculated the export credit cost using the net invoice value, the difference between the invoice date and the payment date and the short term interest rate.

Daehan provided a monthly summary of its foreign currency short term borrowings and the associated interest expenses.

We verified these amounts in the accounting system and against financial statements and reviewed the calculations for a sample of export sales. We have made an upwards adjustment for export credit costs.

6.4.2 Domestic credit

Daehan calculated the domestic credit cost using the net invoice value, the difference between the invoice date and agreed customer payment terms and the short term interest rate.

We verified the customer payment terms and calculations for a selected sample of domestic sales and have made a downwards adjustment for domestic credit costs.

6.5 Specification adjustment

For one model exported to Australia, there were insufficient sales of the same model on the domestic market in the ordinary course of trade (OCOT). For this model, another model (a product of the same specification and grade but different diameter) has been selected and a specification adjustment applied to its selling prices to determine the normal value.

To carry out the specification adjustment, we determined what the price differences were on the domestic market, using an extras price list used by Daehan in relation to domestic sales. This approach is consistent with the original investigation no. 264.

6.6 Adjustments claimed but not made

6.6.1 Technical support services

During the inquiry period, Daehan provided specific customers with technical support services free of charge and incurred additional costs in doing so. Daehan explained that it is the only Korean producer that sells coiled rebar on the market and it provides a technical support service to customers that lease coil processing equipment in order to encourage the use of coils rather than straights. The technical service support costs relate to the employees who visit the customer's premises.

PUBLIC RECORD

After sales costs are discussed at page 74 of the Dumping and Subsidy Manual. The Manual at page 61 also says that where an adjustment is based on costs, it is subject to the principle that adjustments will be made only where evidence indicates that price comparability has been affected.

We reviewed Daehan's claims and note the following:

- the expense incurred can be traced through the accounting system;
- the technical support services are linked indirectly to the sale of coils but are provided in relation to further processing the like goods (to produce downstream products which are not like goods);
- the technical support service cost does not appear to be factored into pricing of like goods, therefore does not affect price comparability between export sales and domestic sales. This was supported by the visit team's pricing analysis which compared the selling prices Daehan charged to the customers receiving the services with the selling prices charged to other customers.

The visit team does not consider that an adjustment of this nature is warranted in the circumstances.

6.6.2 Lease expenses

Daehan claimed an adjustment relating to specific customers who lease machinery to enable the further processing of coil. Daehan explained that it incurred lease depreciation costs on this machinery. Daehan considers that, to conduct a fair comparison between domestic sales and export to Australia, this expense should be deducted from the price of domestic sales for coil to the specific customers. Daehan provided a worksheet demonstrating the calculation of the unit lease expenses. As discussed at section 4.1.1), there was a minor change required because Daehan had originally included 15 months worth of lease expenses rather than the 12 months relating to the inquiry period.

We reviewed Daehan's claims and note the following:

- the expense incurred can be traced through the accounting system;
- the lease expenses relate indirectly to the sale of coils but the machinery leased is used to further process the like goods (to produce downstream products which are not like goods);
- the lease depreciation costs does not appear to be factored into pricing of like goods, therefore do not affect price comparability between export sales and domestic sales.

The visit team does not consider that an adjustment is warranted in the circumstances.

6.6.3 Inventory carrying costs

Daehan explained that, generally, domestic sales are made from inventory, but export sales are made to order and that production is arranged to coincide with shipping times.

Inventory carrying costs were calculated by Daehan for each domestic transaction using the cost to make, the inventory carrying period and the short term interest rate (as discussed above, the short term interest rate required a minor amendment which meant

PUBLIC RECORD

that inventory carrying cost calculations also required a minor amendment). Daehan provided a summary of the sales quantity and ending inventory quantity for coil and straights and inventory ledgers supporting the figures for one month of the inquiry period.

The Dumping and Subsidy Manual refers to inventory carrying costs in the discussion of due allowances. The requirement is that evidence be provided that the costs are different for domestic and export markets and that this has an impact on price comparability.

The visit team noted that the ending inventory quantities in the inventory ledger for coil included not only grades relevant to the domestic market but grades exported to Australia and other export markets. The evidence provided did not demonstrate differences in the costs and any consequential impact on price comparability. Although this claim for an adjustment was allowed in the original investigation no. 264, the facts appear to be different now. Therefore the visit team considers that an adjustment is not warranted.

6.7 Adjustments – conclusion

The visit team is satisfied that there is sufficient and reliable information to justify the following adjustments. The visit team considers these adjustments are necessary to ensure a fair comparison of normal values and export prices.

Adjustment Type	Deduction/addition
Domestic credit expense	Deduct the cost of domestic credit
Domestic inland freight	Deduct the cost of domestic inland freight for delivered sales
Export inland freight	Add the cost of export inland freight
Export related charges	Add the cost of export related charges
Export credit expense	Add the cost of export credit
Specification adjustment	For model C-500-C, use the selling prices of C-500-A, with a deduction of 15,000 KRW/T for the difference in selling prices

The visit team's preliminary adjustment calculations are included in normal value calculations at **Confidential Appendices 4 and 5**.

7 NORMAL VALUE

The visit team is satisfied that it found sufficient volumes of domestic sales of rebar, for all models exported to Australia, that were arms length transactions and at prices that were within the OCOT. The visit team is therefore satisfied that the prices paid in respect of domestic sales of rebar are suitable for assessing normal value under subsection 269TAC(1).

In using domestic sales as a basis for normal value, the visit 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 chapter 6.

The visit team's normal value calculations are at **Confidential Appendix 4**.

8 APPENDICES AND ATTACHMENTS

Confidential Appendix 1	Australian export sales
Confidential Appendix 2	Cost to make and sell
Confidential Appendix 3	Domestic sales
Confidential Appendix 4	Normal values
Confidential Appendix 5	Dumping margin
Confidential Attachment 1	Verification work program, with attachments