



Australian Government
**Department of Industry,
Innovation and Science**

**Anti-Dumping
Commission**

REVIEW 465

**REVIEW OF ANTI-DUMPING MEASURES APPLYING TO
CERTAIN HOT ROLLED STRUCTURAL STEEL SECTIONS
EXPORTED FROM THE REPUBLIC OF KOREA**

VERIFICATION VISIT REPORT - EXPORTER

HYUNDAI STEEL COMPANY

**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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1 BACKGROUND

On 19 March 2018, the Anti-Dumping Commissioner (the Commissioner) initiated an investigation into the alleged dumping of certain hot rolled structural steel sections (HRS) exported to Australia from the Republic of Korea (Korea). Public notification of the initiation of the investigation was published on the Commission's website. The background relating to the initiation of this investigation is contained in Consideration Report 465.

A search of the Australian Border Force import database indicated that Hyundai Steel Company (Hyundai Steel) exported HRS to Australia from Korea during the period of 1 January – 31 December 2017 (the review period).

The Anti-Dumping Commission (the Commission) notified Hyundai Steel on initiation of the review and sought its cooperation through the completion of an exporter questionnaire. Hyundai provided a complete response to the exporter questionnaire and relevant attachments on 10 May 2018.

2 THE GOODS AND LIKE GOODS

2.1 The goods exported to Australia

During the review period Hyundai Steel exported HRS to Australia, with a nominal yield strength of 300 MPa, which were produced to the Australian Standard AS/NZS 3679.1.

The products exported were shaped as H beam or channels of various heights meeting the measures description, were non-alloy and had a 'cutting' finish.

2.2 Like goods sold on the domestic market

During the review period Hyundai Steel sold various grades of HRS to domestic customers in Korea. These products were shaped as H beams, channels and angles, of various heights meeting the goods description, were non-alloy and had a 'cutting finish'.

2.3 Model matching

The verification team examined the product code number structure that Hyundai Steel produced for the purposes of this review.

This consisted of the following product coding:

- 'Model' – classified on the basis of shape (H beam; channel; angle; I beam);
- 'Grade' – classified on the basis of minimum tensile strength (MPa<400; 400<=Mpa<450; 450<=Mpa<500; 500<=Mpa)
- 'Dimension' – classified on the basis of web height (web<230mm; 230<=web).

Change regarding 'Model' classification

This product code structure differs from that submitted by Hyundai and used in the original investigation 223, which was:

- 'Model' – classified on the basis of shape (H beam; channel; angle);
- 'Grade' – classified on the basis of minimum tensile strength (MPa<400; 400<=Mpa<450; 450<=Mpa<500; 500<=Mpa)
- 'Dimension' – classified on the basis of web height (web<230mm; 230<=web).

Previously in Investigation 223 there were three model classifications identified on the basis of shape, of which the three underlying section types in the sales data were sorted:

- H section equating to H beam model with it being stated in the exporter questionnaire that to also include I section/beams;
- U section equating to the Channel model;
- L section equating to the Angle model.

In the current review, there were four model classifications identified on the basis of shape, of which the five underlying section types identified in the sales data were sorted:

- H section equating to H beam model;
- U section included in the Channel model
- C section included in the Channel model;

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- L section equating to the Angle model;
- I section equating to the new I beam model.

Hyundai Steel advised that it was more accurate to separate I beam from H beam as they are distinct products (H beam is stronger and takes more force than I beam and is typically used in buildings whereas I beam is normally used for mines).

The verification team observed a difference in the domestic sales data between I beam and H beam and has undertaken model matching on the basis of the classification of model submitted by the exporter in the present review.

Consideration of grade classification

In the original investigation, the Commission determined that the SS400 was the most comparable Korean grade to the Australian G300 grade.

The matching of comparable grades by Hyundai Steel on the basis of tensile strength means that sales of the Australian grade are being compared to SS400 and other grades falling within the $400 \leq \text{Mpa} < 450$ band.

OneSteel also indicated that it did not agree with the Commission's assessment regarding the comparison of grades in the original investigation. It indicated that the Australian grade should be compared to the Korean grade SM490A and not the SS400 grade, since the yield strength required for the Australian requires minimum of 280-320 MPa whereas the SS400 grade required a yield strength of 215-245 MPa.

In response to OneSteel's submission regarding this matter,¹ Hyundai Steel noted that the SS400 grade, though not identical, was the most comparable grade. In addition, Hyundai Steel noted that the yield strength required for the Korean SS400 grade was increased in 2016, with effect from 1 January 2017. As a result the SS400 grade now has a yield strength of 245-275 MPa, which is closer to that of the Australian standard.

The verification team reviewed the Korean Standard to confirm that changes to the standard do not affect the model matching criteria for grade (as outlined above), which is based on tensile strength. The associated change in tensile strength as a consequence of the change to the Korean Standard is 410-550 N/mm² (from 400-510 N/mm²). This change narrows the difference in tensile strength between the minimum tensile strength of the Australian Standard.

2.4 Like goods – preliminary assessment

The verification team considers that the goods manufactured for domestic consumption have characteristics closely resembling the goods exported to Australia and are therefore "like goods" in accordance with subsection 269T(1) of the *Customs Act 1901* (the Act).²

¹ Item 006 on EPR 465.

² 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

3.1 Verification of Australian sales to audited financial statements

The verification team verified the completeness and relevance of the Australian sales listing by reconciling it to audited financial statements in accordance with ADN. No 2016/30.

The verification team did not identify any other 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 verification team verified the accuracy of Hyundai Steel's Australian sales listing by reconciling it to source documents in accordance with ADN No. 2016/30. The verification team did not identify any issues.

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 review period, the verification team considers Hyundai Steel to be the exporter of the goods.³ Hyundai Steel manufactured the goods in response to orders received by Australian customers and Korean traders (as listed in the Australian sales listing) for export directly to Australia. Hyundai Steel negotiated pricing and technical aspects with the Australian purchasers, and made sales directly to these companies during the review period and to traders.

3.4 The importer

In relation to HRS exported to Australia by Hyundai Steel, the verification team considers that:

- for sales direct to Australian customers, the customers listed in the Australian sales listing were the beneficial owners of the goods at the time of importation, and were therefore the 'importers' of the goods; and
- for sales made through domestic traders in Korea, the traders' Australian customers were the beneficial owners of the goods at the time of importation, and were therefore the 'importers' of the goods.

³ The Commission generally identifies the exporter as a principal in the transaction, located in the country of export from where the goods were shipped, that gave up responsibility by knowingly placing the goods in the hands of a carrier, courier, forwarding company, or its own vehicle for delivery to Australia; or a principal in the transaction, located in the country of export, that owns, or previously owned, the goods but need not be the owner at the time the goods were shipped.

3.5 Related party customers

Based on Hyundai Steel's response to the exporter questionnaire, verified sales data and audited financial statements, the verification team did not identify information that might suggest that Hyundai Steel's Australian customers or domestic traders were related to it during the review period.

3.6 Arms length

In respect of Australian sales of HRS made by Hyundai Steel to its 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 received a benefit for, or in respect of, the whole or any part of the price.⁴

The verification team therefore considers that all export sales to Australia made by Hyundai Steel during the review period were arms length transactions.

3.7 Export price – preliminary assessment

The verification team is satisfied that the Australian sales listing is complete, relevant and accurate and recommends that, for sales direct to Australian customers, the export price be determined under paragraph 269TAB(1)(a), as the price paid by the importer to the exporter less transport and other costs arising after exportation.

For sales made through domestic traders in Korea, the goods have not been purchased by the importer from the exporter, therefore paragraphs 269TAB(1)(a) and (b) do not apply. The verification team therefore recommends that for these sales the export price be determined under paragraph 269TAB(1)(c), having regard to all the circumstances of the exportation. Specifically the verification team recommends that the export price be determined as the price paid by the trader to the exporter less transport and other costs arising after exportation.

The verification team's preliminary export price calculations are at **Confidential Appendix 1**. Export prices have been calculated at free-on-board (FOB) terms.

⁴ Section 269TAA of the Act refers.

4 COST TO MAKE AND SELL

4.1 Verification of costs to audited financial statements

In its response to the exporter questionnaire, Hyundai Steel provided cost to make and sell (CTMS) calculations for each product code manufactured during the review period. The CTM calculations were the same for the Australian export and domestic markets.

The verification team verified the completeness and relevance CTMS spreadsheet by reconciling it to audited financial statements in accordance with ADN No. 2016/30. During this process, there were two amendments to the CTMS spreadsheet, to include sales volumes and to the calculation of selling, general and administrative (SG&A) expenses. The verification team did not identify any further issues.

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

4.1.1 Inclusion of sales volumes

During the visit, Hyundai Steel provided an amended CTMS spreadsheet in order to include sales quantities.

4.1.2 Calculation of SG&A

During the visit, Hyundai Steel provided a revised CTMS spreadsheet in order to provide SG&A expenses allocated on the basis of percentage of revenue (as opposed to a percentage of the cost of goods sold) at the request of the visit team.

The verification team has recalculated the amended SG&A and amended the CTMS figures to calculate an amount per unit for each product model for the review period.

4.2 Verification of costs to source documents

The verification team was able to verify the accuracy of Hyundai Steel's cost of production to source documents in accordance with ADN No. 2016/30. The verification team did not identify any issue.

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 response to the exporter questionnaire and documentation supplied for the purpose of the verification visit, the verification team identified related raw material suppliers. The verification team found that scrap purchased from the related parties makes up a small percentage of the CTM and were immaterial.

4.4 Cost to make and sell – summary

Having verified Hyundai Steel's CTMS spreadsheet to audited financial statements and source documents, the verification team is satisfied that the revised and amended CTMS spreadsheet is complete, relevant and accurate.

Hyundai Steel's revised and amended CTMS spreadsheet is at **Confidential Appendix 2**.

5 VERIFICATION OF DOMESTIC SALES

5.1 Verification of domestic sales to audited financial statements

The verification team verified the completeness and relevance of Hyundai Steel's revised domestic sales listing by reconciling it to audited financial statements in accordance with ADN No. 2016/30.

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

5.1.1 Returns

The verification team was presented with a revised domestic sales listing at the visit, to remove duplicate entries relating to returned goods. The team noted that the overall total change to the quantity and value of domestic sales during the review period was immaterial.

5.2 Verification of domestic sales to source documents

The verification team verified the accuracy of Hyundai Steel's revised domestic sales listing by reconciling it to source documents in accordance with ADN No. 2016/30.

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

5.2.1 Credit cost

Hyundai Steel calculated its domestic credit cost based on the average interest rate applying to actual short-term borrowings of loans to large corporations from the Bank of Korea during the review period. However, upon inquiry of the visit team it was determined that the actual interest rate faced by Hyundai Steel during the review period was different from the amount reported in the response to the exporter questionnaire. As such, the verification team has amended the calculation of the domestic credit expense to reflect the actual rate of interest faced.

5.3 Related party customers

The verification team noted that Hyundai sold HRS to related customers during the review period. 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 arms length.

5.4 Arms length

In respect of domestic sales made by HRS 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

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- 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 Hyundai Steel during the review period were arms length transactions.

5.5 Ordinary course of trade

Section 269TAAD of the Act 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 (i.e. net sales value) for each domestic sale of HRS 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.

5.6 Suitability of domestic sales

Subparagraph 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.

Low volume is defined by subsection 269TAC(14) as less than 5% of the total volume of the goods under consideration that are exported to Australia. The verification team found there was a sufficient volume of domestic sales made in the OCOT for the models exported to Australia.

5.7 Domestic sales – summary

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

The revised 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 verification team has considered the following adjustments in accordance with subsection 269TAC(8).

6.1 Domestic 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 the FOB export price. The verification team has applied this adjustment based on the interest rate verified at the visit.

The verification team notes that export sales were made on an L/C at sight basis so no adjustment for export credit is required.

6.2 Domestic and export inland freight

The verification team considers that an upward adjustment for export inland freight expenses is required, to ensure a fair comparison to the FOB export price. The verification team has applied this adjustment based on the weighted average cost (per tonne) for those expenses over the review period.

The verification team considers that a downwards adjustment for domestic inland transport costs are necessary to ensure a fair comparison to the FOB export price.

6.3 Domestic advertising expenses

The verification team considers that a downward adjustment to the normal value for domestic advertising expenses is necessary to ensure a fair comparison to the FOB export price.

The verification team quantified the amount of domestic advertising expenses. Hyundai Steel was able to demonstrate a direct link between the advertising and sales expenses and the HRS it produces.

The advertising adjustment was applied as a percentage of the invoice price to each sale transaction.

6.4 Merchandise differences

Section 14.3 of the Commission's Dumping and Subsidy Manual (the Manual) provides that an adjustment is allowed for differences in physical characteristics where the differences can be quantified to ensure a fair comparison.

The verification team quantified a small difference in the cost of production between the selected Korean grades for model matching purposes falling within the 400<=Mpa<450 minimum tensile strength range and the cost of production for the grade exported to Australia.

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This cost difference has been adjusted by applying the gross margin of profit on the relevant goods to estimate the price effect of that cost difference.

The verification team considers that an adjustment to normal value is warranted for the merchandise difference observed. The calculation for the merchandise difference applied is contained in **Confidential Appendix 4**.

6.5 Export handling & other costs

The verification team considers that an upward adjustment for export handling and other costs expenses is required, to ensure a fair comparison to the FOB export price. The verification team has applied this adjustment based on the weighted average cost (per tonne) for those expenses over the review period.

As the team did not identify any domestic handling costs, the verification team does not consider that a corresponding downward adjustment is required.

6.6 Packing costs

The verification team is satisfied there is no difference in packaging costs or level of trade between domestic and Australian exports. As such, no adjustment is considered to be warranted in this instance.

6.7 Sales occurring at different times

Section 14.3 of the Manual notes that in establishing the date of sale, the Commission will normally use the date of invoice as it best reflects the material terms of sale, however where a claim is made that a date other than the date of invoice better reflects the date of sale, the Commission will examine the evidence provided.⁵

Hyundai Steel claimed that while invoice date reflected the date of sale for domestic sales, the sales order date should be regarded as the date of sale for export sales, and therefore an adjustment was required for sales occurring at different times. At the verification visit Hyundai Steel provided an updated domestic sales listing, including an additional two quarters of sales (the two quarters immediately prior to the review period) for the purposes of making this adjustment (on the basis that some sales orders for goods exported to Australia in the review period were issued in the prior six months).

In Investigation 223 the date of sale for export sales was the invoice date and no claim for an adjustment was made. In the current review, Hyundai Steel claims that the date of sale is the sales order date and the change was due to the differences in sales processes from the original investigation period to the current review. Specifically, Hyundai Steel stated that during the original investigation period the price could be varied after an export order was made and so the sales order date was not the final 'date of sale'; but Hyundai Steel now claims that the price does not vary after the purchase order is made, the date of sale is earlier, at the time of the order. In addition to unit prices, orders also include quantities

⁵ *Dumping and Subsidy Manual*, April 2017, p.62

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within a not insignificant tolerance and a statement of the final date by which the total order must be shipped.

The date of sale is the date that best reflects the material terms of sale, which include price, quantity, payment and delivery terms. The verification team has examined Hyundai Steel's claims and makes the following findings:

- The sales order is an entry in Hyundai Steel's accounting system intended to reflect the terms of the purchase order received from the customer, however for a certain number of the selected transactions the sales order date preceded the date of the purchase order.
- Hyundai Steel recognises a transaction as a sale in its accounting system, i.e. posts it to the sales ledger, on 'shipment' date, i.e. date the truck leaves the plant for delivery to the port for export. Hyundai Steel didn't provide shipment dates in the export sales listing, only sales order date and invoice date, however the verification team was able to identify the shipment date for the selected transactions. Analysis of the dates for these transactions shows that the invoice date is much closer to the date when Hyundai Steel recognises exports as sales in its accounting system than the sales order date.
- The delivery date by which the customer requires the goods to be exported to Australia is a material term of sale included on the purchase order and reflected in the sales order. The verification team was able to identify these dates for the selected transactions and analysis shows that a not insignificant percentage of the goods by volume were exported after the date requested by the customer on the purchase order. This analysis indicates that the terms of the sales order were not met on a significant number of occasions and the discrepancy between the sales order terms and the actual terms of the sales was substantial.

For these reasons the verification team considers that the invoice date best establishes the material terms of sale and a downwards adjustment for sales occurring at different times has not been substantiated. The analysis above is contained the export sales analysis attachment:

A detailed discussion of the verification team's analysis of this issue is contained in **Confidential Attachment 1**.

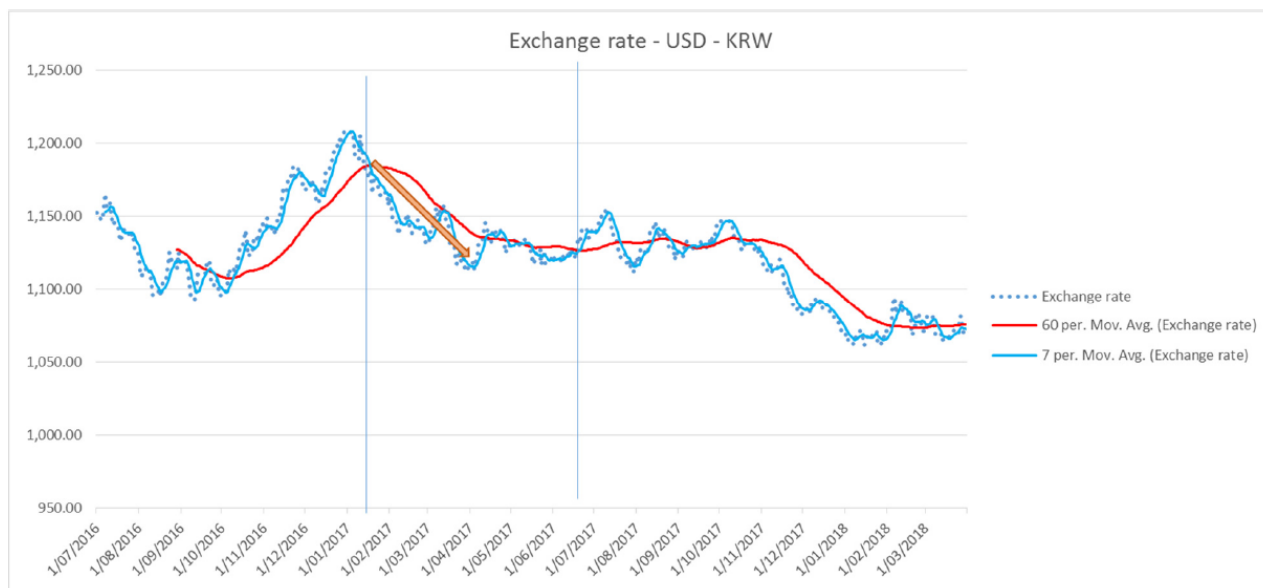
6.8 Sustained exchange rate movement

During the verification Hyundai Steel claimed an adjustment under subsection 269TAF(4) for sustained movement in the Korean Won (KRW) to US Dollar (USD) exchange rate. Hyundai Steel claimed there was a downwards movement in the KRW per USD exchange rate at the start of the review period, from January 2017 through to April 2017 and that this was sustained through to June 2017.

Subsection 269TAF(4) allows, for the purposes of comparing export prices and normal values in different currencies, to fix an exchange rate for a period of 60 days if satisfied that the rate of exchange between those currencies has undergone a sustained movement. As explained at section 20.3 of the Manual, this is to allow a 60 day period for the exporter to respond to the currency changes and, if seeking not to be dumping, the exporter has the opportunity to set new export pricing levels.

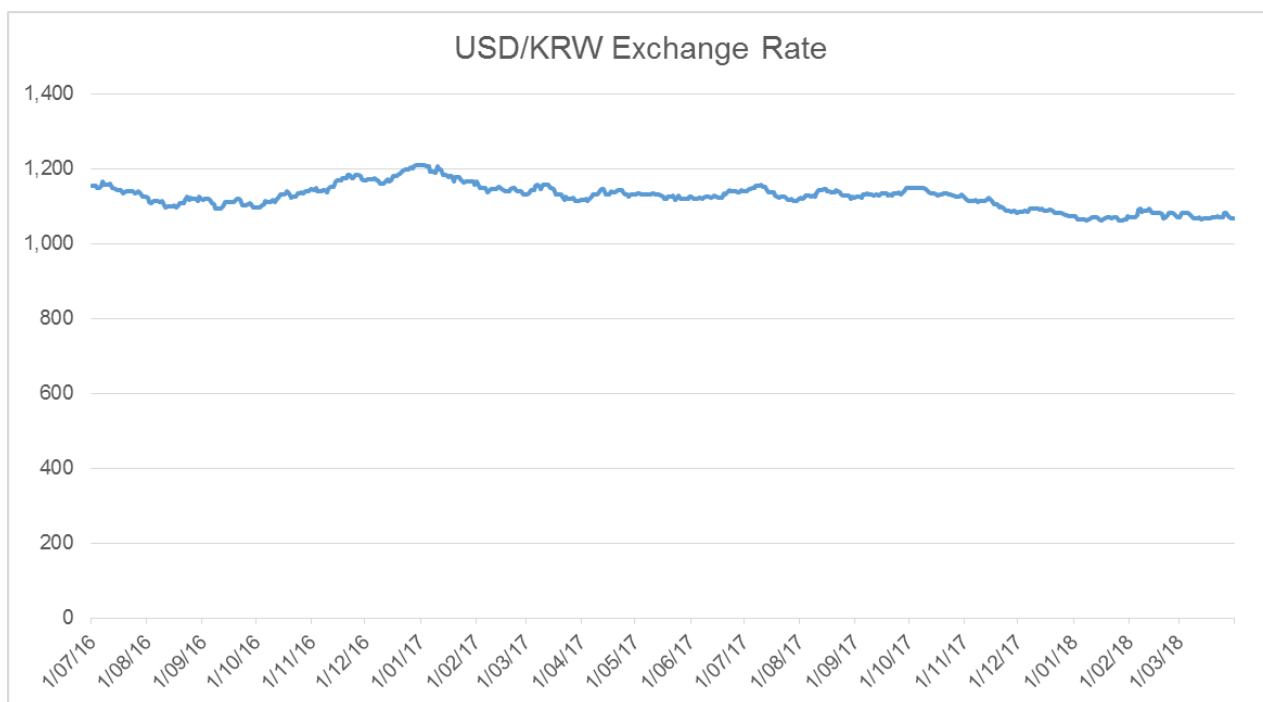
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Hyundai Steel provided the following chart of the exchange rate to demonstrate its claim:



The verification team notes that the vertical axis of the above chart starts at 950 KRW. Setting the vertical axis at a value above zero can be useful for observing how different variables interact however it tends to overemphasise the magnitude of changes in observed variables. For this reason the Commission's normal practice is to start the vertical axis at zero and, if it does not do so, to expressly note that it has not done so.

The Commission has reproduced the KRW/USD exchange rate chart with the vertical axis starting at zero (without the moving averages) and the movements in the first part of the review period do not appear to be outside of a normal range of fluctuation.



Nevertheless, the verification team has tested whether there was a sustained exchange rate movement in the review period by applying the methodology used previously by the

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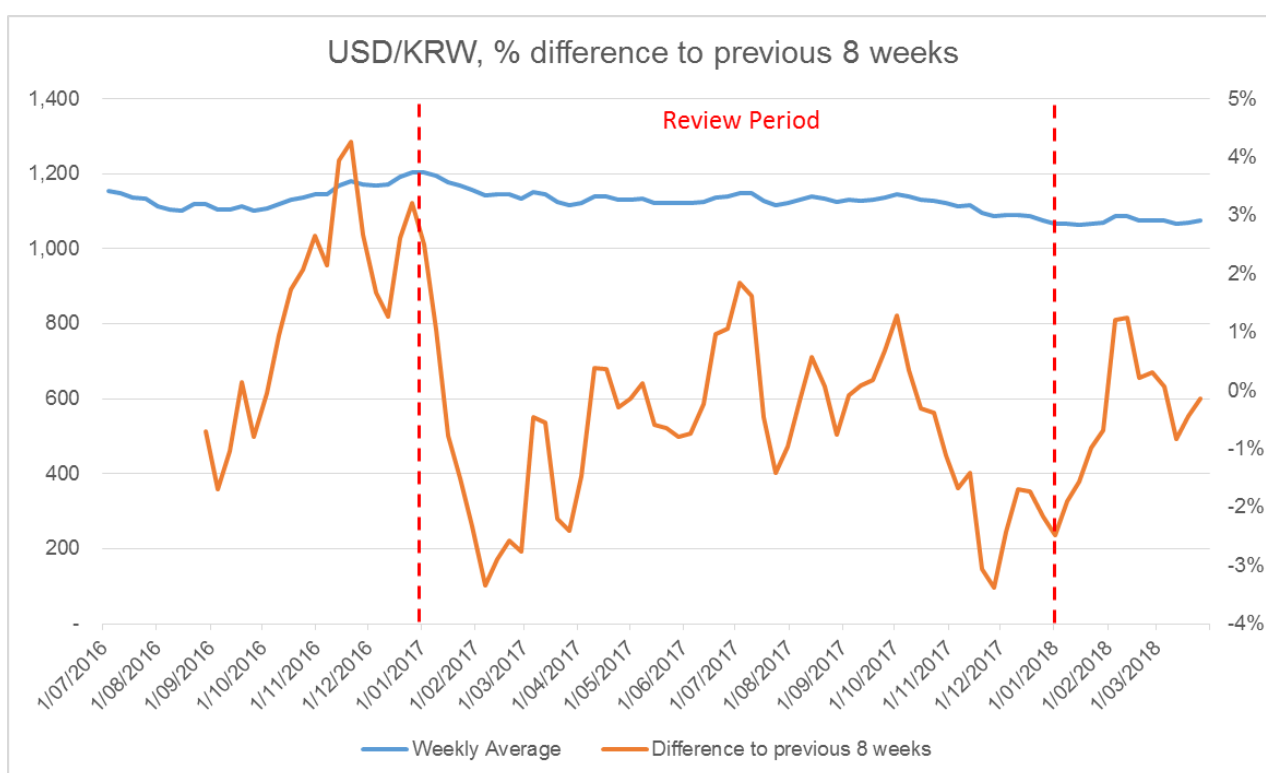
Commission (in Investigations 240 and 341), which is based on the methodology used by the United States anti-dumping investigating authority.⁶

The Commission's methodology is as follows:

- calculate weekly averages of actual daily exchange rates;
- calculate an eight week moving average of those weekly rates (benchmark rate);
- where the weekly average exceeded the benchmark rate by more than five per cent, that week is identified as a period of unusual movement; and
- count the number of consecutive weeks of unusual movement.

A sustained movement is considered to be a period of eight consecutive weeks of unusual movement.

The result of applying this methodology in this case is shown in the following chart.



The verification team's analysis shows that there were no weeks of unusual movement during the review period. The team therefore finds that Hyundai Steel's claim is not substantiated.

6.9 Foreign exchange gains and losses

Hyundai Steel sought to claim an adjustment for foreign exchange gains and losses, which would have had the effect of lowering the normal value, but retracted this claim

⁶ United States *Enforcement and Compliance Antidumping Manual* at pages 81 to 83.

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during the visit. The verification team was not able to verify that these foreign exchange gains and losses related to the sale of the relevant goods or that these gains and losses affected price comparability.

6.10 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) of the Act, and considers these adjustments are necessary to ensure a fair comparison of normal values and export prices:

Adjustment Type	Deduction/addition
Domestic credit expenses	Deduct the cost of domestic credit expense
Domestic inland freight	Deduct the cost of domestic inland freight
Domestic advertising expenses	Deduct the cost of domestic advertising expense
Merchandise difference	Add the cost of merchandise difference
Export inland freight	Add the cost of export inland freight
Export handling & other costs	Add the cost of export handling and other costs

The verification team's preliminary adjustment calculations are included in normal value calculations at **Confidential Appendix 4**.

7 NORMAL VALUE

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

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

8 DUMPING MARGIN

The dumping margin has been assessed by comparing weighted average Australian export prices to the corresponding quarterly weighted average normal value for the review period, in accordance with paragraph 269TACB(2)(a) of the Act.

The dumping margin in respect of HRS exported to Australia by Hyundai Steel for the review period is **9.9%**.

Details of the preliminary dumping margin calculation are at **Confidential Appendix 5**.

9 APPENDICES AND ATTACHMENTS

Confidential Appendix 1	Australian export sales
Confidential Appendix 2	Revised and amended CTMS spreadsheet
Confidential Appendix 3	Revised domestic sales
Confidential Appendix 4	Normal value
Confidential Appendix 5	Dumping margin
Confidential Attachment 1	Verification work program, with attachments