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Ms Joanne Reid
Director Operations 2
Industry House
10 Binara Street
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Review of hollow structural sections exported by Dalian Steelforce

Dear Joanne,

This submission is made by Dalian Steelforce Hi-Tech Co., Ltd. (Dalian Steelforce) to the current review of certain hollow structural sections (HSS) exported by Dalian Steelforce (Case 285). The submission outlines the view of Dalian Steelforce on a number of issues relevant to the determination of its ascertained variable factors.

Normal value

Like goods

In submitting its exporter questionnaire response, Dalian Steelforce has provided all domestic sales made during the review period including products that clearly fall outside the definition of the goods subject of the dumping and countervailing notices. Of the total volume of domestic sales submitted (which represents less than █% of total production during the review period), only a small proportion relate to HSS products that fall within the definition of the goods subject of the notices.

In its domestic sales listing at Appendix 15, Dalian Steelforce has identified those particular goods considered to be like goods to the review on the basis that they fall within the physical parameters of the goods subject of the notices. All remaining domestic sales have been classified as 'not like goods' in Appendix 15 as they are considered to not have characteristics closely resembling the goods exported to Australia during the review period.

Non-prime domestic sales

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In the Dalian Steelforce visit report¹ to the original investigation, the verification and investigation teams found that due to:

- *the company's volume of domestic sales of like goods; and*
- *the market characteristics of the company's domestic sales of like goods*

Dalian Steelforce's domestic sales of like goods are not sufficient for use in determining a normal value under subsection 269TAC(1). An ordinary course of trade test has not been undertaken on Dalian Steelforce's domestic sales of like goods.

In the ensuing reinvestigation (REP 203), the Commission stated that the 'reinvestigation identified a specific issue with the calculation of profit in relation to Dalian Steelforce's normal value determination.'² Report 203 goes on to add³:

...in the case of Dalian Steelforce, the original investigation found that after having regard to the nature and volume of Dalian Steelforce's remaining profitable domestic sales, Customs and Border Protection considered those sales were not made in the ordinary course of trade. In constructing normal values for Dalian Steelforce, REP177 determined that the appropriate rate of profit was "the average net profit from domestic sales made in the ordinary course of trade by the other selected cooperating exporters from China".

On reinvestigation, Customs and Border Protection considers that the methodology for determining Dalian Steelforce's profit was not consistent with the requirements of Regulation 181A.

In determining the appropriate profit, the Commission concluded⁴:

The calculations showed that the weighted average of actual amounts realised by other exporters was an overall net loss. Therefore, in these circumstances Customs and Border Protection considers that it is appropriate to determine normal values for Dalian Steelforce with the inclusion of a zero rate of profit.

In addition, the Commission made findings in [REDACTED] [inquiry process] that were consistent with those of REP 203, and included a zero rate of profit in the constructed normal value.

Dalian Steelforce wishes to highlight that there have been no substantive changes to its operation since the original investigation. It continues to produce HSS products predominantly for the Australian market that comply with the required Australian standards. During the production process, any products that do not meet the required quality, mechanical or chemical specifications are considered unsuitable for export and classified as non-prime or downgrade.

As highlighted and explained in Dalian Steelforce's exporter questionnaire response, all sales of HSS on the Chinese market are exceptional sales, taken from stockpiles of non-prime

¹ EPR 177; No. 355; page 32.

² EPR 203; No. 13; page 28.

³ Ibid. page 29.

⁴ Ibid. page 31.

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products which failed to comply with strict quality control measures based on Australian Standards.

Accordingly, Dalian Steelforce considers that its domestic sales of like goods continue to reflect sales not made in the ordinary course of trade. As such, Dalian Steelforce submits that the Commission should continue to hold the view that non-prime / downgrade products are not in the ordinary course of trade and unsuitable for the purposes of determining normal values pursuant to s.269TAC(1) or s.269TAC(2)(c) of the Act.

Adjustment to HRC purchase costs

In adjusting Dalian Steelforce's hot-rolled coil (HRC) purchase costs for the purposes of determining costs of production in accordance with Regulation 180 of the Act, Dalian Steelforce submits that the Commission should continue to follow the approach adopted in the original investigation (REP 177). That is, separate uplift rates should be calculated and applied to black and pre-gal HRC based on calculated differences over the review period between the exporter's actual purchase prices of the respective HRC and the corresponding benchmark prices determined by the Commission.

This approach to applying separate uplift rates to black and pre-gal HRC provides a more accurate adjusted cost that is consistent with the corresponding benchmark prices determined for the review period.

Subsidisation

Benchmark hot-rolled coil

In calculating contemporary black and pre-gal HRC benchmarks for the review period, Dalian Steelforce submits that the Commission should deduct Dalian Steelforce's average delivery expense incurred on its HRC purchases over the review period from the delivered benchmark prices determined for the review period. This ensures accurate ex-works benchmark prices for the review period that can be properly compared with the Dalian Steelforce's actual ex-works HRC purchase prices.

Attribution of total benefit

Dalian Steelforce understands that the Commission's practice for calculating the amount of subsidy attributable to the goods is to use the production volume of relevant products when apportioning the amount of benefit received. For the purposes of this review, Dalian Steelforce contends that the circumstances in this case warrant including the sales volume of scrap in the total production volume.

Scrap is a necessary by-product of steel-making and steel processing. All steel mills commence manufacturing operations with an understanding that scrap will be generated from its main production processes and as a result properly account for it. Dalian Steelforce begins production aware that scrap in the order of █% to █% of total HRC consumed will be generated from its manufacturing processes. This scrap is treated as a by-product, sold into the scrap market at prevailing prices and recorded as revenue in the accounts of Dalian Steelforce.

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Therefore, we submit that the relevant volume to be used in apportioning the total benefit is the total production volume of both primary and secondary products derived from the manufacturing process. The total production volume of primary and secondary products during the assessment period is the total purchased volume of HRC over the review period.

Please note that Dalian Steelforce's circumstances differ to those of other producers where yield losses incurred as a result of the manufacturing processes do not lead to a recovery of scrap or rework.

Additional subsidy questions

Dalian Steelforce provides the following responses to the Commission's additional request for information in respect of funds received during 2013.

1. *What is the title of the program? If you do not know the official government title of the program, please identify the program by the title it is known to your company.*

Dalian Steelforce is unaware of the official government title for these programs. However the programs are recorded in the accounts of Dalian Steelforce as:

- [redacted] [title] - RMB [redacted] received on [redacted] [period]
- [redacted] [title] – Two payments of RMB [redacted] received on [redacted] [period]
- [redacted] [title] - RMB [redacted] received on [redacted] [period]

Refer to **confidential appendix 24** for source documentation.

2. *Provide a general description of the program (e.g. 'annual lump-sum grant provided to fund the research and development of our business').*

The three identified programs were one-off awards provided by the government to Dalian Steelforce in [redacted] [period] for being [redacted] [performance measure] based on [redacted] [period].

Please note that Dalian Steelforce did not apply for these awards and did not complete any applications to receive them. It is Dalian Steelforce's understanding that the awards are intended to [redacted] [performance measure].

3. *What was the total benefit received by your company under this program for the review period?*

No benefits were received by Dalian Steelforce during 2014 which would have been based on its [redacted] [period]. The RMB [redacted] was all received in [redacted] [period], and as far as we are aware was a Government award based on [redacted] [period].

4. *Indicate which goods you produced benefited from the program (e.g. the program may have benefited all production, or only certain products if provided specifically in relation to them).*

All production.

5. *Describe the application and approval procedures for obtaining a benefit under the program.*

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As explained earlier, Dalian Steelforce did not apply nor complete any applications to receive the award. It is unaware of the application and approval process or whether an application process even exists for this program.

6. *Describe the application process (including any application fees charged by the government agency or authority) for the program.*

Please refer to our response to question 5.

7. *Where applicable, provide copies of the application form or other documentation used to apply for the program, all attachments and all contractual agreements entered into between your business and the Government of China in relation to the program.*

Please refer to our response to question 5.

8. *Outline the fees charged to, or expenses incurred by your business for purposes of receiving the program.*

No charges and please refer to our response to question 5.

9. *State whether your eligibility for the program was conditional on one or more of the following criteria:*
a) whether or not your business exports or has increased its exports;
b) the use of domestic rather than imported inputs;
c) the industry to which your business belongs; or
d) the region in which your business is located.

Given that it did not apply for the awards, Dalian Steelforce is unaware of any specific eligibility criteria. However it suspects that criteria a, c & d would be relevant.

10. *Outline the eligibility criteria your business had to meet in order to receive benefits under this program.*

Please refer to our response to question 9.

11. *If the benefit was provided in relation to a specific activity or project of your entity, please identify the activity and provide supporting documentation.*

Not applicable.

12. *What records does your business keep regarding each of the benefits received under this program? Provide copies of any records kept in relation to the program.*

The only records kept by Dalian Steelforce are the attached receipts of funds.

13. *To your knowledge, does the program still operate or has it been terminated?*

Dalian Steelforce is unaware of the status of the identified programs and has no knowledge or understanding if the Government will continue to provide such awards. What is known is that no further awards were granted to Dalian Steelforce in 2014 (based on [redacted] [period]) and none has been received for 2015 (based on [redacted] [period]).

14. *If the program has been terminated, please provide details (when, why). When is the last date that your business could apply for or claim benefits under the program? When is the last date that your business could receive benefits under the program?*

Please refer to previous responses.

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15. *If the program has been terminated, has it been replaced by another program? Please answer all of the above questions with regard to the new program.*

Please refer to previous responses.

Yours sincerely,

John Bracic