



Australian Government
**Australian Customs and
Border Protection Service**

PUBLIC
FILE 132

**INVESTIGATION INTO THE ALLEGED DUMPING OF
CERTAIN HOT ROLLED COIL STEEL**

EXPORTED FROM

**JAPAN, MALAYSIA, THE REPUBLIC OF KOREA AND
TAIWAN**

IMPORTER VISIT REPORT

SK STEEL AUSTRALIA PTY 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 CUSTOMS AND BORDER
PROTECTION**

July 2012

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2 BACKGROUND AND PURPOSE

2.1 Background to the current investigation

On 10 May 2012, BlueScope Steel Limited and BlueScope Steel (AIS) Pty. Ltd (jointly referred to as BlueScope in this report) lodged an application requesting that the Minister for Home Affairs (the Minister) publish a dumping duty notice in respect of hot rolled coil steel (HRC) exported to Australia from Japan, the Republic of Korea (Korea), Malaysia and Taiwan. On 28 May 2012, BlueScope provided additional information and as a result, the maximum period of 20 days allowed to examine the application was recommenced.

Public notification of initiation of the investigation was made on 15 June 2012 (refer to Australian Customs Dumping Notice No. 2012/30).

Following initiation of the investigation, a search of Customs and Border Protection's import database indicated that SK Steel Australia Pty Ltd (SK Steel) had imported HRC from Korea during the investigation period (April 2011 to March 2012). SK Steel was also identified as an importer of HRC in the application. Customs and Border Protection wrote to SK Steel advising the company of the initiation of the investigation, requesting co-operation with the investigation and provided the company with a copy of the importer questionnaire to complete. SK Steel was also provided with a list of its imports during the investigation period, extracted from Customs and Border Protection's import database, and identified a number of transactions from the list for verification.

SK Steel completed the importer questionnaire, providing details regarding the company, overseas supplier information, imports and expenses.

2.2 Purpose of meeting

The purpose of this visit was to:

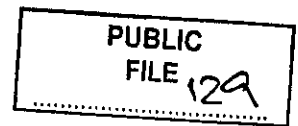
- confirm that SK Steel was an importer of HRC and obtain information to assist in establishing the identity of the exporter;
- verify information on imports of HRC to assist in the determination of export prices from Korea;
- establish whether the purchases were arms length transactions;
- establish post exportation costs incurred in importing;
- identify SK Steel's sales and customers and determine sales volume, selling prices and selling costs;
- recommend how export price may be determined under s. 269TAB; and
- provide the company with an opportunity to discuss any issues it believed relevant to the investigation.

2.3 Meeting

We advised SK Steel of the investigation process and timeframes.

- The investigation period is April 2011 to March 2012.

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- The injury analysis period is from April 2008.
- A preliminary affirmative determination (PAD) may be made no earlier than 14 August 2012. Provisional measures may be imposed at the time of the PAD or at any time after the PAD has been made. Customs and Border Protection would not make such a determination until it was satisfied that there appears to be, or that it appears there will be, sufficient grounds for the publication of a dumping duty notice.
- A statement of essential facts will be placed on the public record by 3 October 2012 or such later date as the Minister allows. The statement of essential facts will set out the material findings of fact on which Customs and Border Protection intends to base its recommendations to the Minister. The statement of essential facts will invite interested parties to respond, within 20 days, to the issues raised. Submissions received in response to the statement of essential facts will be considered when compiling the report and recommendations to the Minister.
- Customs and Border Protection's report to the Minister is due no later than 17 November 2012, unless an extension to the statement of essential facts is approved by the Minister.

We advised SK Steel that should a PAD be made, Customs and Border Protection would take securities on all HRC entered for home consumption on or after the date the PAD was published. However, should the Minister publish a dumping duty notice, securities collected on HRC that was in transit (exported before the date of the PAD, but entered for home consumption after the PAD) would not be converted to interim dumping duty. However, all HRC exported after the date on which the dumping duty notice was published would be subject to interim dumping duty.

We advised SK Steel that we would prepare a confidential report on the visit. SK Steel would be given an opportunity to review the visit report for accuracy. A non-confidential version of this visit report would be prepared in consultation with SK Steel and placed on the public record.

Company	SK Steel Australia Pty Ltd
Address	15 Wonderland Drive EASTERN CREEK NSW 2766
Telephone no.	02 8882 1000
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Email	jamesr@sksteel.com.au
Date	12 July 2012
Present	
SK Steel	James Ra, General Manager Fran Bagot, Accountant
Customs and Border Protection	Chris Vincent, Manager Operations 1 Rebecca Higgins, Supervisor Operations 3

Prior to the meeting we forwarded an agenda to SK Steel and advised them that we would require supporting documentation for the selected sales that had been previously identified.

3 THE GOODS AND LIKE GOODS**3.1 The imported goods**

The imported goods the subject of this application are HRC (including in sheet form), a flat rolled product of iron or non-alloy steel, not clad, plated or coated (other than oil coated).

There are a number of relevant international standards for HRC that cover the range of HRC products via specific grade designations, including the recommended or guaranteed properties of each of these product grades. The relevant Australian Standard is AS/NZS 1594.

Goods *excluded* from this application are hot rolled products that have patterns in relief (known as checker plate) and hot rolled plate.

In its application, BlueScope noted that HRC is supplied in a range of thickness, all of which are claimed to be covered by the application. This is the case for HRC that is still in coil form. However, Customs and Border Protection has identified that the thickness of the coil when cut, will determine whether the product is classified as hot rolled sheet (which falls within the description of the goods covered by the application) or hot rolled plate¹ (which is clearly excluded from the goods description).

Based on its research into this matter, Customs and Border Protection has a preliminary view that plate is 3/16th of an inch (4.75mm) thick or more whilst sheet is below this thickness. BlueScope confirmed that this was also their view.

3.2 Tariff classification

The tariff classifications and statistical class codes in Schedule 3 to the *Customs Tariff Act 1995* and relevant rates of duty for HRC are shown below.

Tariff classification	Statistical class code	Rate of duty - Japan	Rate of duty - Korea	Rate of duty - Malaysia	Rate of duty - Taiwan
7208.25.00	32	5%	0%	0%	0%
7208.26.00	33	5%	0%	0%	0%
7208.27.00	34	5%	0%	0%	0%
7208.36.00	35	5%	0%	0%	0%
7208.37.00	36	5%	0%	0%	0%
7208.38.00	37	5%	0%	0%	0%
7208.39.00	38	5%	0%	0%	0%
7208.53.00	42	5%	0%	0%	0%

¹ Most hot rolled plate is produced directly from steel slabs, however, some is cut from HRC. All hot rolled plate is excluded from the goods description.

7208.54.00	43	5%	0%	0%	0%
7208.90.00	30	5%	5%	4%	5%
7211.14.00	40	5%	0%	0%	0%
7211.19.00	41	5%	0%	0%	0%

Customs and Border Protection's tariff section identified that HRC may also be classified under 7208.51.00 (statistical class code 40) and 7208.52.00 (statistical class code 41), however, these tariff classifications relate to hot rolled products that are not in coils and have a thickness of 4.75mm or more, and therefore Customs and Border Protection considers these to be plate products at this time. BlueScope has also advised that these tariff descriptions describe hot rolled plate.

3.3 Like goods

3.3.1 Other alloy steel

Flat rolled products of other alloy steel should be classified to tariff subheading 7225. Other alloy steel is steel not complying with the definition of stainless steel and containing by weight one or more of a number of elements. One is steel containing more than 0.0008% boron. We asked whether other alloy steel containing a greater quantity of boron is a like good to the goods the subject of the application. SK Steel did not know whether the addition of small quantities of boron would affect the integrity of the steel. We also asked if steel producers would deliberately add boron so the steel would be classified to subheading 7225. SK Steel advised that Chinese steel producers add boron to take advantage of export rebates. It advised that we would have to ask Korean steel producers if they would add boron to change the tariff classification.

3.3.2 Grades

There are numerous grades of HRC that can be broadly classified into three main grades, commercial, forming and structural. The formable/commercial grades are those with mechanical properties suitable for general pressing and forming whereas the structural grades are those with guaranteed minimum properties that structural engineers utilize in their designs. The relevant Australian standard is AS/NZS 1594:2002, "Hot rolled steel flat products". Relevant international standards include JIS G3101 "Rolled steels for general structure" and JIS G 3131 "Hot rolled mild steel plates, sheets and strip". In its application BlueScope identified grade equivalents for these standards, as illustrated in the following table:

AS/NZS 1594	JIS G3131	JIS G3101
HA1	SPHC	
HA200	SPHC	SS330
HA250 / 300		SS400
HA350		SS490
HA3	SPHD	

We asked SK Steel whether it agreed with BlueScope's grade equivalents. SK Steel advised that it was difficult to compare grades because the Australian standard sat between the American and Japanese standards.

The Australian standard defines the characteristic of the grades. Formability grades are identified by H, then U or A and then either 1 (commercial forming), 3 (deep drawing) or 4 (extra deep drawing). Structural grades are identified by H, then U, A or W and then the minimum yield strength (such as 250, or 350). (The Australian standard also defines analysis grades and extra formability grades.) Japanese standard JIS G3131 provides specifications for HRC for general fabrication purposes and drawing, such as SPHC (commercial quality), SPHD (drawing quality) and SPHE (deep drawing quality). Japanese standard JIS G3101 provides specifications for general structural purposes and include grades SS330, SS400, SS490 and SS540. Minimum mechanical properties for selected grades from these standards are illustrated in the following table:

Standard	Use	Grade	Yield strength	Tensile strength	Elongation
AS/NZS 1594	Commercial forming	HA1	~200	~300	
AS/NZS 1594	Deep drawing	HA3	200	300	32%
AS/NZS 1594	Structural	HA250	250	300	22%
AS/NZS 1594	Structural	HA300	300	350	18%
AS/NZS 1594	Structural	HA350	350	430	16%
JIS G3131	Commercial forming	SPHC		270	29%
JIS G3131	Drawing	SPHD		270	35%
JIS G3131	Deep drawing	SPHE		270	37%
JIS G3101	Structural	SS330	205	330-430	26%
JIS G3101	Structural	SS400	245	400-510	21%
JIS G3101	Structural	SS490	285	490-610	19%
JIS G3101	Structural	SS540	400	540	16%

SK Steel stated that these are minimum mechanical properties and that actual properties vary from mill to mill. Customers would need to check their required properties with their supplier. Customers can also vary the grade required by, for example, using thicker HRC (the application would use more steel and there would be a weight disadvantage).

SK Steel stated that the important property for forming grades is elongation to prevent the steel from failing during the forming process. It stated that for automotive grades there is a balance between strength (to reduce the steel content) and elongation, and that POSCO has one of the best high strength elongation grades. SK Steel claimed that BlueScope's automotive grades don't meet the international specifications of some automotive manufacturers. It also gave an example of making base plates for rock bolts where the failure rate was reduced from 15% to zero when using POSCO steel.

SK Steel stated that POSCO can currently roll grade SS540 HRC to 1.4 mm and that by the end of the year will be able to roll to 1 mm. It claimed BlueScope cannot roll

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to less than 1.6 mm. SK Steel added that cold rolling to reduce the thickness added significantly to the cost.

4 COMPANY BACKGROUND**4.1 Company background**

SK Steel is a supplier of steel sheet and coil products and is 100% owned by SK Networks Co., Ltd (SK Networks) of Korea. Originally the company imported plastics from an office in the city and then began trading in steel. It was then decided to open a coil centre. SK Networks provided funds to buy the land and build the centre and SK Steel moved into the premises in November 2006. A slitter and shear line were installed in 2007.

SK Steel purchases HRC from SK Networks and Australian steel traders. SK Networks sources all its HRC from POSCO in Korea. Steel purchased from traders is supplied by New Zealand Steel.

SK Steel has 23 staff, 13 in the warehouse and ten in the office.

4.2 Accounting

SK Steel uses a purpose built accounting package called "Micromos". This package is similar to SAP and can be uploaded into SAP. Data is uploaded every month, SK Steel is subject to a mini audit every three months and a major audit annually.

A copy of SK Steel's 2011 audited accounts are at **confidential attachment 1**.

5 IMPORTS**5.1 Introduction**

Customs and Border Protection's import database indicates that SK Steel imported about 8,500 tonnes of HRC during the investigation period. The quantity imported by supplier is summarised in the following table.

Exporter	Qty (tonnes)
SK Networks Co., Ltd	██████

The HRC imported by SK Steel was manufactured by POSCO.

SK Steel has not previously been involved in an anti-dumping investigation.

5.2 Imports

SK Steel cannot buy directly from the POSCO and SK Networks negotiates on behalf of SK Steel. SK Networks also has greater buying power due to the volume it purchases world wide.

SK Steel maintains about three months supply in stock. Quarterly or monthly, depending on stock levels, SK Steel asks SK Networks for a quotation, who then seek a quotation from POSCO. An offer is made by POSCO and the three parties negotiate and, when finalised, SK Steel places an order on SK Networks, who in turn place an order on POSCO. SK Steel stated that prices are based on current international prices. It also stated that POSCO never sends unsolicited offers to SK Steel.

Once an order has been placed, POSCO takes two or three month to produce the goods. SK Networks pays POSCO prior to shipment and SK Networks invoices SK Steel. The delivery terms are CIF, invoices are in Australian dollars and payment terms are ██████ days. When the goods arrive in Australia SK Steel arranges delivery to its warehouse.

We examined Customs and Border Protection's import data base and SK Networks supplied almost █████ shipments to SK Steel during the investigation period. We selected 12 shipments for verification and asked SK Steel to complete an importer transaction form. SK Steel provided a completed importer transaction form in its importer questionnaire response. For each shipment this form identified the quantity, invoice value, importation costs, selling, general and administration (SG&A) expenses and average selling prices. We obtained ocean freight and insurance costs from Customs and Border Protection's import database.

We asked SK Steel for copies of the following documents for eight of these shipments:

- supplier invoices;
- proof of payment of supplier invoices for selected shipments;
- bills of lading; and

- invoices for importation costs and proof of payment for selected shipments (including freight from the port to SK Steel's warehouse).

These documents are at **confidential attachments IMP 1.**

SK Steel were unable to locate documents for four of the shipments as we had not provided sufficient information from Customs and Border Protection's import database to enable SK Steel to identify these shipments. We requested, and SK Steel provided, the commercial invoices for these shipments.

For all the shipments the payment terms were [REDACTED] days and we verified that payment was made within these terms (except payment for the last selected shipment which is not due until September 2012).

SK Steel had used budgeted importation costs and we substituted actual costs.

We calculated SG&A expenses from SK Steel's 2011 audited accounts. We expressed freight and cartage, indirect costs and overheads as a percentage of sales revenue ([REDACTED]%). We applied this percentage to the average selling price for each shipment.

We estimated average selling prices for each shipment using sales of the relevant grades and thicknesses in the month when the goods were received in the warehouse (the sales data provided by SK Steel identified the date the goods were received in the warehouse).

The revised importer transaction form is at **confidential attachments IMP 2.** Post free on board expenses are summarised in the following table (expressed in Australian dollars per tonne). Sales and the profitability of these shipments is discussed in section 6.

Cost Item	HRC	HRC PO	Total
Ocean freight	[REDACTED]	[REDACTED]	[REDACTED]
Insurance	[REDACTED]	[REDACTED]	[REDACTED]
Importation charges	[REDACTED]	[REDACTED]	[REDACTED]
SG&A expenses	[REDACTED]	[REDACTED]	[REDACTED]
Profit	[REDACTED]	[REDACTED]	[REDACTED]

5.3 Who is the importer

We noted that SK Steel:

- is named as the customer on supplier invoices;
- is named as the consignee on the bill of lading; and
- arranges delivery of the goods to one of its warehouses or direct to its customers.

We consider SK Steel was the beneficial owner of the goods at the time of importation and is therefore the importer.

5.4 Who is the exporter?

Customs and Border Protection will generally identify 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 will be a person in the country of export who owns, or who has previously owned, the goods but need not be the owner at the time the goods were shipped.

Where there is no principal in the country of export Customs will normally consider the exporter to be the person who gave up responsibility for the goods as described above.

We reviewed the documentation provided in relation to the sample shipments. We note that:

- the commercial invoices identify SK Networks as the supplier;
- the bills of lading identify SK Networks as the shipper of the goods;
- SK Networks pays POSCO ex works, pays for the goods to be transported to the wharf and loaded onto the ship and pays for ocean freight;
- SK Steel pays SK Networks;
- the commercial invoices from SK Networks identify the port of loading as either Busan or Gwangyang; and
- a number of the commercial invoices from SK Networks identify POSCO as the manufacturer.

We do not have sufficient information to determine who is the exporter of the goods, but consider that it is likely that POSCO is the exporter.

6 AUSTRALIAN MARKET AND SALES**6.1 Australian market**

SK Steel stated that the price reflects the balance between supply and demand. It claimed that during the investigation period demand was weak and steel prices fell. It stated that four or five of its customers had gone out of business recently.

SK Steel considers that OneSteel Distribution is the price leader in the market. It claims that large customers are putting price pressure on BlueScope because of pressure from their customers who are competing with imported goods.

SK Steel negotiates prices with domestic customers by submitting offers from the mill (received through SK Networks). Customers may then come back with an offer; Customers may also have offers from BlueScope or other importers. This process may be repeated a number of times before the parties agree on a price.

6.2 Sales

SK Steel sells HRC, steel plate and galvanised coil to about 300 independent customers in the manufacturing sector in Sydney, although it sells a small quantity to a steel trader in Melbourne that cannot purchase Korean HRC directly. It stated that HRC accounts for about 60% of its business.

SK Steel sells slit and sheared HRC to its customers. About 50% of its sales are standard sizes and the balance is cut to order. SK Steel stated that it doesn't stock irregular sizes unless it has a fixed order. All slitting is done to order.

Credit terms vary from cash to 120 days, but most are 45 days or less. Delivery terms are free into store. SK Steel stated that it did not provide rebates to its customers.

SK Steel provided a download of its sales of HRC (dry and pickled and oiled) during the investigation. The sales download included the grade, thickness, width and length. It advised that this download also included steel plate. SK Steel advised that it could only shear coil up to a thickness of 3.2 mm and any thickness above this was steel plate, although all pickled and oiled sales were HRC.

We verified the sales data on-line to SK Steels accounts. We also selected a number of sales for verification and supporting documentation is at **confidential attachment SALES 1**. We noted that one invoice included an amount for freight. SK Steel explained that although the terms are free into store, customers that are further away from the warehouse are charged an additional amount for freight. We also noted that some invoices referred to the product codes GI and GA. SK Steel advised that these were galvanised product.

We noted some grades that we were not familiar with. SK Steel advised that grades A715-50 and A715-60 were POSCO grades with high tensile strength and deep drawing properties. It explained that elongation (reflecting the drawing properties) reduced as tensile strength increased. SK Steel advised that grades SAE1010 and

SAE1016 were for a specific customer that wanted the coil pickled but not oiled, which BlueScope can't produce. It stated that these were grades where the chemical composition, rather than the mechanical properties, were important. A monthly summary of the quantity and price SK Steel's sales of HRC (both dry and pickled and oiled) is at **confidential attachment SALES 2**.

During the investigation period over 90% of SK Steel's sales were pickled and oiled HRC. Most of these sales have been further processed (that is either slit or sheared) and sales prices are not suitable for comparison with BlueScope's HRC prices. We consider that the price from SK Networks to SK Steel should be compared with BlueScope's HRC prices.

However, sales to the Melbourne steel trader were shipped directly to Melbourne and were not further processed. Sales prices for grade SPHC (pickled and oiled) were:

- [REDACTED]; and
- [REDACTED].

6.3 Arms length

Section 269TAA outlines the circumstances in which the price paid or payable shall not be treated as arms length. These are where:

- there is any consideration payable for 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;
- in the opinion of the Minister, 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.

Furthermore, where:

- goods are exported to Australia otherwise than by the importer and are purchased by the importer from the exporter (whether before or after exportation) for a particular price; and
- the Minister is satisfied that the importer, whether directly or through an associate or associates, sells those goods in Australia (whether in the condition in which they were imported or otherwise) at a loss;

The Minister may treat the sale of those goods at a loss as indicating that the importer or an associate of the importer will, directly or indirectly, be reimbursed, be compensated or otherwise receive a benefit for, or in respect of, the whole or a part of the price.

SK Steel considers that its purchases from SK Networks are arms length transactions. However, the importer transaction form indicates that the selected shipments were not profitable overall (■%), although the loss was small, and that

only two were profitable. Further, SK Steel made a loss in 2011. SK Steel advised that the Australian HRC market is depressed and that HRC is a low margin high volume product. We also noted that one of the selected shipments was to the Melbourne steel trader. These goods were shipped directly to the customer and we have used a trader margin of 5% rather than the SG&A percentage that includes warehousing and processing costs. Other sales were to customers where the coils were warehoused, but not further processed.

We did not find any evidence that:

- there is any consideration payable other than price; or that
- the price is influenced in SK Steel's favour by a commercial or other relationship between SK Steel and SK Networks.

We confirmed during our verification that the price invoiced by SK Steel Corporation was the price paid by SK Steel. Therefore, we consider that sales between SK Steel Corporation and SK Steel were arms length transactions.

6.4 Forward orders

SK Steel has forward orders for about [REDACTED] tonnes of HRC due to arrive at the end of August 2012.

7

UNSUPPRESSED SELLING PRICE

At the visit SK Steel did not have any comments on the calculation of an unsuppressed selling price.

8 GENERAL COMMENTS

SK Steel made the following additional comments.

BlueScope employs 2,000 to 3,000 workers at its Port Kembla steelworks and its Western Port pickling line. However, SK Steel has 300 customers who employ many more in total.

BlueScope set its prices using import parity pricing. However, the prices were set for deliveries in two months time and that there was therefore always a lag between international prices and BlueScope's prices. In a falling market BlueScope's prices will always be higher than international prices

BlueScope cannot produce pickled and oiled HRC at competitive prices because there is no pickling line at Port Kembla. HRC must be produced at Port Kembla and transported to the pickling line at Western Port and therefore incur significant additional transportation charges.

The Port Kembla steelworks were old and inefficient and the economies of scale are not there. BlueScope's fixed costs are too high and it must reduce these and other costs, such as those referred to above in respect of pickled and oiled HRC.

BlueScope upset its customers in the period before the Beijing Olympics when demand was very strong. Customers were put on quotas and were forced to seek alternative sources of supply and that customers still want to maintain two or three sources of supply.

BlueScope is not interested in supplying HRC for use in the automotive industry where properties of high tensile strength and deep drawing properties are important. General Motors have global specifications and that BlueScope does not produce any grades that meet these specifications. One of its customers that make parts for the automotive industry are thinking of moving its manufacturing operations off shore and importing the finished parts.

Customers should be able to have a second source of supply.

Customers are competing against imports of finished goods.

BlueScope will not sell HRC directly to SK Steel.

Some customers need HRC of a width greater than 1,500 mm as they need continuous lengths of wider coil.

BlueScope cannot produce HRC with a thickness less than 1.6 mm.

HRC is a low margin high volume product that suppliers must be able to offer its customers. Suppliers make better returns on other products.

9 RECOMMENDATIONS

We consider that if POSCO is the exporter of HRC sold by SK Networks to SK Steel:

- the goods have been exported to Australia otherwise than by the importer;
- the goods have not been purchased by the importer from the exporter;
- the purchases of the goods by the importer were arms length transactions; and
- the goods are subsequently sold by the importer to a person who is not an associate of the importer.

Subject to further inquiries with the exporters, we are satisfied that the export prices can be established under s. 269TAB(1)(c) having regard to all the circumstances of the exportation.

We estimated the following FOB export prices for the selected shipments:

- HRC - \$█/tonne; and
- HRC pickled and oiled - \$█/tonne.

10 ATTACHMENTS

Confidential attachment GEN 1	SK Steel's 2011 audited accounts
Confidential attachment IMP 1	Documents supporting selected shipments
Confidential attachment IMP 2	Revised import transaction form
Confidential attachment SALES 1	Documents supporting selected sales
Confidential attachment SALES 2	Monthly summary of sales prices