22 May 2018

Director
Investigations 1
Anti-Dumping Commission
GPO 2013
Canberra ACT 2601

Zongcheng Steel – Review of measures applying to exports of aluminium zinc coated steel

Dear Director,

This submission is made on behalf of Jiangyin Zongcheng Steel Co., Ltd (Zongcheng) in response to the Anti-Dumping Commission’s (Commission) published Statement of Essential Facts Report 456 (SEF 456).

Incorrect use of quarterly period analysis

In preparing and submitting its exporter questionnaire, Zongcheng provided detailed monthly cost to make and sell data for each individual type of domestic and exported goods sold during the review period. The data was provided on a monthly basis for the following reasons:

- Zongcheng’s production and manufacturing records are prepared and maintained on a monthly basis;
- Zongcheng prepares and maintains monthly cost accounts which record the relevant monthly material purchase and consumption, along with scrap steel recovery values;
- Zongcheng orders and purchases its hot-rolled coil (HRC) and cold-rolled coil (CRC) based on monthly quoted prices;
- Zongcheng has allocated zinc costs on the basis of monthly production volumes and total monthly zinc costs;
- the Commission has determined the benchmark HRC prices on a monthly basis and substituted those prices for Zongcheng’s actual monthly coil costs in each previous review and duty assessment.

It is noted however that the Commission has calculated and utilised quarterly analysis and calculations for the following purposes:
- assessing the profitability of domestic sales as part of the ordinary course of trade test (OCOT);
- calculating model quarterly normal values for comparison with corresponding quarterly export prices.

Besides the areas highlighted above, the Commission has used monthly analysis in the following areas:

- constructed normal values rely on Zongcheng’s monthly reported coil and zinc costs;
- constructed normal values rely on Zongcheng’s monthly reported manufacturing costs; and
- the benchmark prices are calculated and substituted on a monthly basis;

This inconsistent approach whereby the dumping margin calculations are based on a mix of monthly and quarterly methodologies leads to conflicting outcomes and a distortion of the product dumping margin.

Zongcheng submits that it was incorrect for the Commission to depart from the monthly analysis adopted in previous reviews and more recently... The adopted quarterly methodology clearly distorts the calculated profitability and price comparisons. Instead, the preferred method for assessing OCOT and weighting the respective export prices and normal values, is on a monthly basis given the substantial fluctuations in:

- the costs of key raw material inputs such as HRC and CRC;
- corresponding prices of aluzinc steel across the review period and within each quarter; and
- the monthly fluctuations in the determined benchmark prices;

The following extracts from the Commission’s Dumping and Subsidy Manual provides relevant guidance on this issue by explaining:

**Determination of the domestic costs to make and sell (CTMS) for each model:** The costs to make and sell (CTMS) the domestic sales are verified for each model. The CTMS is generally calculated for each quarter of the investigation period. In some circumstances a monthly, or an annual, domestic CTMS may be used. A monthly CTMS may be appropriate where there are significant variations in raw material costs, or a highly inflationary market.

and

**Whilst weighted average unit normal values are typically calculated on a quarterly basis, there may be instances when monthly data is preferred. Erratic movement in costs and/or prices over short periods within the investigation period may require calculating monthly unit normal values.**

Zongcheng submits that there is sufficient information to demonstrate that costs and prices have exhibited erratic and variable movements between short-term periods over the course of the review period. The table below provides assessment of the movement in Zongcheng’s coil costs, cost to make and the Commission’s coil benchmark prices on both a monthly and quarterly basis to highlight the significant variance that is evident.

[CONFIDENTIAL TABLE REMOVED]

The data shows that on a monthly basis, Zongcheng’s coil costs varied substantially with significant erratic fluctuations over the review period ranging from a [ ]% increase to [ ]% decrease. Likewise, Zongcheng’s monthly cost to make varied even greater on a monthly basis.
ranging from XX% increase to XX% decrease. Finally, the Commission’s determined HRC benchmark prices showed similar sharp variations across the months, ranging from a XX% increase to a XX% decrease over the period.

Over the whole of the review period, the variance between the highest and lowest monthly values shows that:

- coil costs varied by XX%;
- cost to make varied by XX%; and
- the HRC benchmark prices varied by XX%.

Even more revealing and significant is the variations in costs within the relevant quarters of the review period which highlight the obvious distortion caused by the Commission’s quarterly weighting methodology. The data shows that:

- the variation in Zongcheng’s coil costs within the quarters ranged from XX% to XX%;
- the variation in Zongcheng’s cost to make within the quarters ranged from XX% to XX%; and
- the variation in the Commission’s HRC benchmark prices within the quarters ranged from XX% to XX%.

To highlight the clear unsuitability of the Commission’s quarterly methodology in these circumstances, domestic sales which were made in July 2017 and which reflect a cost to make of RMB XX XX/tonne, were compared to a quarterly cost which includes cost to make from the two months after the goods were sold and a September 2017 cost to make which reflects a XX% higher cost than the actual costs of the goods sold in July 2017.

The further erroneous impact of this monthly volatility in costs is understood when identifying the relevant months of the export sales which occurred XXXXXXXXXXXXXXXXXXXXXXXXXXXX. By calculating a quarterly normal value, the Commission has included costs from goods produced in XXXXXXXXXXXXXXXXX, up to two months after the goods were exported, and which reflect a higher monthly costs than XXXXXXXXXXXXXXXXX and XXXXXXXXXXXXXXXXX of XX% and XX% respectively. Besides not being possible for production costs incurred in September 2017 to be relevant to goods shipped in July 2017 or August 2017, the use of quarterly costs clearly distorts the calculations.

Likewise, the OCOT test is distorted by the use of quarterly costs as domestic prices are incorrectly compared with costs that bear no relevance to the goods sold. For example, sales made in January 2017 relate to the associated costs in January 2017. It is nonsensical to include production costs from February 2017 and March 2017 in testing whether the sales in January 2017 were profitable, when those costs were obviously incurred after the sales were made.

This is confirmed by section 269TAAD of the Customs Act 1901 (the Act) which requires a comparison of the price of like goods with the ‘cost of such goods’, and the cost of goods is the amount determined to be the cost of production or manufacture. It is not possible for raw material consumed in February or March 2017 to relate to the production of goods which were sold in January 2017.

Zongcheng therefore contends that the Commission’s decision to rely on a quarterly methodology for testing profitability of domestic sales and normal values, is inappropriate given the obvious significant variation and volatility in its costs and the Commission’s benchmark prices. This issue has been previously considered by the Anti-Dumping Review Panel (ADRP) which agreed with the view presented by the applicant ‘that where there are significant cost variations during a period, it is more...
appropriate to undertake monthly rather than quarterly calculations as undertaken in relation to other calculations.’

Given then that a monthly weighted comparison is the preferred method in circumstances where a quarterly comparison is likely to distort the overall product dumping margin due to significant variations across the quarterly periods, Zongcheng requests the Commission to:

a) undertake the OCOT analysis using Zongcheng’s monthly reported costs; and
b) establish monthly normal values to be compared with export prices in the corresponding months.

Incorrect costs of production attributed to the exported goods.

To construct the normal values for the export goods, the Commission has attempted to align the relevant costs of production of those exported goods (after applying an uplift to the HRC coil costs) with the corresponding export consignments. To achieve this, the Commission has categorised the full range of products manufactured by Zongcheng according to the ‘models’ which are defined by their respective base metal thickness “BMT” and coating mass. For example, model “XXXXXXXXXXXXX” identifies an export sale with BMT ranging from XXX to XXX and a coating mass of XXX.

This can be more clearly seen in the screenshot below taken from the Commission’s prepared Australian sales listing.

[CONFIDENTIAL TABLE REMOVED]

In calculating a constructed normal value for this export consignment, the Commission has categorised all of Zongcheng’s production according to the model identifier which takes into account the BMT and zinc coating mass of the goods produced, and relies on the corresponding production costs of goods with the same model identifier in the same quarter of export.

The errors in the Commission’s constructed normal values occur due to a combination of:

a) an incorrect assumption that production and exportation occur in the same month;
b) ignoring the width of the goods in identifying the correct costs of production of the exports; and
c) consolidating all production costs in the quarter of export.

As explained to the Commission during previous verification visits, Zongcheng’s exports to Australia are typically produced XXXXXXXX prior to export. During this time, Zongcheng purchases the required coil and engages in

i) XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX, and

ii) XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX.

It is difficult for Zongcheng to procure the raw HRC material, XXXXXXXXXXXXXXXXXXXXXXXX and package and deliver the goods to the port of departure within the same month. In those less common cases where production has occurred in the same month of export, this generally involves XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX. However, the Commission appears to have ignored this fact entirely in constructing normal values which then incorrectly attributes costs of production to the exported goods.
The screenshot below shows all of the production orders included in the constructed CTMS for the sampled exported sale, which includes all goods produced in [REDACTED] and all thicknesses and widths within the specified range. This method overlooks that the reported production costs include all domestic and export production, therefore the Commission has not complied with the requirements of subsection 269TAC(2)(c) of the Act, for the costs of production to relate to the goods exported.

The screenshot also shows that costs incurred in [REDACTED] are included in the constructed normal value of the goods exported in [REDACTED]. This highlights again the earlier point that production costs incurred after the goods were exported from China are included in the constructed normal value of those same goods. This is an impossible circumstance and again highlights the obvious flaws in the Commission’s approach to determining normal values.

By including all thicknesses within [REDACTED] and all widths, the Commission is clearly including production costs which have no relevance to the exported goods. The Commission’s export sales template requested identification of thickness and widths for each individual export sale. This information can be used to reconcile costs of the export goods to the particular production order shown in the screenshot below. As highlighted by the green box, the actual thickness [REDACTED] and width [REDACTED] of the export sample sale can be reconciled to the particular costs, which also shows the production volume which corresponds almost precisely to the actual export sales volumes, less a small fraction for scrap.

By simply grouping all goods over a whole quarter without any relevance to the date of export, and including both domestic and export goods into a broad BMT range and without regard for widths, the Commission’s quarterly constructed normal values are inaccurate. This is confirmed by the individual unit cost to make and sells included in the quarterly normal value for the sample export sale which range from a low of RMB [REDACTED]/tonne to a high of RMB [REDACTED]/tonne. A variance of [REDACTED]% across the quarter.

Correcting these errors is considered straightforward, as it requires ensuring that the actual BMT and actual width are used to identify the actual costs of production for each export consignment in the month of export, or if not present in that month, the previous month when it is likely to have been manufactured. This will ensure that in those instances where the goods were produced in the month prior to export, they will be appropriately identified and compared against the corresponding export prices of those same goods.

Incorrect comparison of the HRC benchmark cost with Zongcheng’s net HRC costs which includes the allocation of revenue from the sale of scrap generated during the production process.

As explained and verified by the Commission during Zongcheng’s most recent verification visit which covered the period of review, during the production process involved in processing HRC into CRC and then to the finished goods aluminium zinc coated steel and galvanised zinc coated steel, Zongcheng recovers a small fraction of scrap steel which it sells to steel scrap merchants to generate additional revenues (approximately [REDACTED]% of the total cost of coil).

The total revenue from the sale of scrap has been verified by the Commission to Zongcheng’s audited financial accounts (refer to attached confidential scrap allocation worksheet) and the Commission have agreed that the cost of the goods should include an allocation of the generated
revenues from the sale of scrap to offset the cost of the raw materials. This is a normal and accepted accounting practice.

The reported monthly scrap revenues were then allocated to both aluzinc steel and galvanised steel using relative production tonnes. The monthly scrap revenue allocated to aluzinc was then deducted from Zongcheng’s total monthly coil costs to calculate and derive the net coil costs reported and reflected in the Commission’s calculations at Appendix 2 – CTMS.

The identified error is caused by the Commission’s comparison of the determined monthly HRC benchmark prices with Zongcheng’s coil material costs, with the difference being used to uplift Zongcheng’s actual costs. That calculated difference is overstated as it incorrectly compares a unit purchase price for HRC verified from cooperating exporters, with Zongcheng’s net coil cost which reflect the unit purchase price of HRC less the offset from revenue generated from the sale of scrap.

On the basis that the benchmark prices provided by the cooperating exporters from Taiwan and Korea are purchase prices which do not include any revenue offset from the sale of scrap, the calculated difference is overstated.

Therefore, when calculating the difference between Zongcheng’s actual monthly cost of coil with the benchmark purchased coil prices, the Commission should be using Zongcheng’s full cost of coil without the inclusion of the offset revenue. Alternatively, the Commission can ensure a proper comparison by applying the verified revenue from the sale of scrap to the established benchmark coil prices by reducing those purchase prices by __%.

Yours sincerely

John Bracic