PUBLIC RECORD

Australian Government
Department of Industry, Innovation and Science

Anti-Dumping Commission

INVESTIGATION 319

ALLEGED DUMPING OF CHROME PLATED STEEL BARS EXPORTED FROM ITALY AND ROMANIA

VISIT REPORT - EXPORTER

ASO CROMSTEEL S.A.

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

1.1 Background

Public notification of the initiation of an anti-dumping investigation into certain chrome-plated steel bar (chrome bar) exported from Italy and Romania was made on 10 November 2015 in Anti-Dumping Notice (ADN) No. 2015/130.

The background relating to the initiation of this investigation is contained in Consideration Report No. 319.

Following this initiation, the Anti-Dumping Commission (the Commission) wrote to ASO Cromsteel S.A. (Cromsteel) and other Italian and Romanian exporters of chrome bar inviting them to cooperate with the investigation. Cromsteel cooperated and submitted a completed exporter questionnaire response (EQR) and relevant attachments.

1.2 Meeting details

The verification team visited Cromsteel's factory in Târgovişte (Dâmbovița), Romania from 2 March to 8 March 2016. The following attendees were present at various stages of the visit:

MEETING ATTENDEES	
ASO Cromsteel S.A.	
Mr Bogdan Gabriel Teodorescu Mr Darek Talko	Finance Manager Commercial and Marketing Director
Anti-Dumping Commission verification team	
Mr Geoff Gleeson Ms Jasna Halilovic	Director, Quality Assurance and Verification Senior Investigator, Operations 4

2 THE GOODS AND LIKE GOODS

2.1 The goods exported to Australia

The table below summarises the models of chrome bars exported to Australia by Cromsteel, as shown in Cromsteel's Australian sales spreadsheet (**Confidential Appendix 1**).

Products	ASOCHROME 50	ASOCHROME 100
Grade	C45E	42CrMo4
Induction hardened	ASOCHROME 50 I.H.	ASOCHROME 100 I.H.
Chrome layer thickness	25 and 40 microns	25 microns
Diameter	12 – 152.40 millimetres	20 – 110 millimetres
Length	5.6 - 7 metres	6.10 – 6.20 metres

2.2 Like goods sold on the domestic market

Cromsteel submitted in its EQR that it produced and sold goods domestically that are 'like' to those exported to Australia.

The table below summarises like models of chrome bars that Cromsteel sold to domestic customers during the investigation period, as shown in Cromsteel's domestic sales spreadsheet (**Confidential Appendix 3**).

Products	ASOCHROME 50	ASOCHROME 100
Grade	C45E	42CrMo4
Induction hardened	ASOCHROME 50 I.H.	ASOCHROME 100 I.H.
Chrome layer thickness	25 microns	25 and 50 microns
Diameter	6 – 200 millimetres	12 – 150 millimetres
Length	0.8 – 6.50 metres	0.9 – 7 metres

The verification team notes that Cromsteel sells chrome bar with similar grades, chrome layers and diameter ranges in the domestic market as it exports to Australia.

[Diameters of chrome bar sold on the domestic market]

2.3 Model matching

The model matching criteria (in order of importance) are as follows:

- grade (C45E and 42CrMo4);
- induction hardening (induction hardened or not);
- chrome layer thickness (25, 40 or 50 micron); and
- diameter range.

Diameter range

As the goods description covers a wide range of diameters, the verification team considered it necessary to group chrome bar into a number of diameter ranges in order to calculate a dumping margin, as follows:

The diameter ranges were established by the verification team after having regard to the price variations by diameter, as shown on Cromsteel's price lists.

2.4 Like goods – preliminary assessment

The verification team considers that chrome bars produced and sold domestically by Cromsteel have characteristics closely resembling those of the goods exported to Australia and are 'like goods' in terms of subsection 269T(1) of the *Customs Act 1901.*[1]

Subsequent to the visit, Cromsteel claimed that, from a technical perspective, the goods sold on the domestic market and that are not exported to Australia had completely different characteristics and a different cost structure.

The verification team notes that Cromsteel has not provided any evidence to substantiate this claim. Further, the verification team has not come across any evidence to suggest that the goods sold on the domestic market had different characteristics and cost structures to the goods exported to Australia. The verification team remains satisfied that the chrome bar that Cromsteel sold on the domestic market in Romania possess similar physical characteristics, have similar uses, and have similar manufacturing processes to the chrome bar exported to Australia.

[1] A reference to a division, section or subsection in this report is a reference to a provision of the *Customs Act 1901*, unless otherwise specified.

3 VERIFICATION OF EXPORT SALES TO AUSTRALIA

3.1 Verification of sales to audited financial statements

In its EQR, Cromsteel provided a detailed spreadsheet listing its Australian export sales of chrome bar during the investigation period (**Confidential Appendix 1**).

The verification team verified the completeness and relevance of Cromsteel's Australian sales spreadsheet by reconciling it to audited financial statements in accordance with ADN 2016/30.

The verification team did not identify any issues during the upwards verification of export sales to Australia.

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

3.2 Verification of export sales to source documents

The verification team verified the accuracy of Cromsteel's Australian sales spreadsheet by reconciling it to source documents in accordance with ADN 2016/30.

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

3.2.1 Domestic inland transport and ocean freight

In the Australian sales spreadsheet, costs relating to domestic inland transport and ocean freight were aggregated.

[redacted]

[Calculation of domestic inland transport and ocean freight]

3.2.2 Marine insurance

The Australian sales spreadsheet did not include costs relating to marine insurance for each transaction, despite the fact that all sales were at [redacted] terms.

The verification team requested documentation relating to shipments where marine insurance was recorded and used this information to calculate marine insurance as a proportion of the insured amount.

The verification team applied this rate to the [redacted] value for all shipments to calculate the cost of marine insurance.

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

[redacted]

[Calculation of marine insurance]

3.2.3 Commissions

[redacted]

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

[redacted]

[redacted]

[Calculation of commissions]

3.2.4 Cost of extending credit

The verification team calculated an average interest rate (cash rate) using the interest rates prevailing in Romania during the investigation period (obtained from the Bank of Romania website).

The verification team applied this rate when calculating the cost of extending credit to Cromsteel's Australian and domestic customers.

[redacted]

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

[redacted]

[Calculation of credit]

3.3 The exporter

For all Australian sales during the investigation period, the verification team considers Cromsteel to be the exporter[3] of the goods.

3.4 The importer

The verification team considers that, in relation to the goods exported by Cromsteel, the customers listed in the Australian sales spreadsheet were the beneficial owners of the goods at the time of importation and therefore were the importers of the goods.

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[2] Available at www.adcommission.gov.au.

[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, 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 in the transaction, located in the country of export, who owns, or previously owned, the goods but need not be the owner at the time the goods were shipped.

3.5 Related customers

The verification team did not identify any Australian customers which were related to Cromsteel, based on the company's EQR, sales data and audited financial statements.

3.6 Arms length

In respect of export sales of chrome bar to Australia by Cromsteel during the investigation period, the verification team found no evidence that:

- there is any consideration payable for or in respect of the goods other than their price; or
- 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; or
- the buyer, or an associate of the buyer, will directly or indirectly, be reimbursed, compensated or otherwise receive a benefit for, or in respect of, whole or any part of the price.

The verification team therefore considers that all sales of chrome bar to Australia by Cromsteel were arms-length[4] transactions.

3.7 Export price – preliminary assessment

In relation to the goods exported by Cromsteel, the verification team recommends that export price be determined under subsection 269TAB(1)(a), as the price paid by the importer less transport and other costs arising after exportation.

[redacted]

[Commercial terms for export price]

The preliminary export price calculations are at **Confidential Appendix 1**.

[4] Section 269TAA of the Act outlines the circumstances in which the price paid or payable shall not be treated as being at arms-length. These are where: there is any consideration payable for or 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; or, 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.

4 COST TO MAKE AND SELL

4.1 Verification of Cromsteel's costs up to audited financial statements

In its response to the exporter questionnaire, Cromsteel provided aggregated quarterly cost to make and sell (CTMS) data for chrome bar manufactured during the investigation period. This cost data was provided separately for the Australian and Romanian markets.

At the visit, the verification team requested a breakdown of these aggregated costs by each of the models identified as the goods and like goods. The amended CTMS data forms **Confidential Appendix 2**. The amended CTMS data was provided separately for export and domestic sales, and separately with respect to different grades, whether or not induction hardened, and different chrome thicknesses.

The verification team verified the completeness and relevance of Cromsteel's updated CTMS spreadsheets by reconciling them to audited financial statements in accordance with ADN 2016/30.

Re-work costs

[redacted]

This has the effect of increasing Cromsteel's CTMS in all quarters for all models (refer **Confidential Appendix 2**).

Subsequent to the visit, Cromsteel argued that the adjustment to its costs of production to take into account the re-work costs is inappropriate as it is difficult to allocate such re-work costs to the particular products sold, either domestically or exported.

Cromsteel also argued that second-quality products are not exported and only sold domestically.

With regard to Cromsteel's argument, the verification team notes that Cromsteel has not provided any evidence to substantiate its claim that re-work costs were only incurred in relation to second-quality goods. Therefore, the verification team has not altered its approach or calculations with respect to re-work costs.

Selling, general and administrative costs

In verifying the selling, general and administrative (SG&A) expenses reported by Cromsteel in its CTMS data, the verification team noted that certain expenses incurred by Cromsteel in the investigation period had not been allocated to the goods under consideration or to like goods sold domestically.

Cromsteel advised that it had distinguished between expenses it regarded as being related to the production and sale of the goods and like goods and expenses it regarded as not related to the production and sale of the goods and like goods. Cromsteel advised that, on that basis, it then categorised the SG&A expenses as those to be allocated or not allocated.

The Commission examined the composition of non-allocated expenses and considered the expenses were of a nature that should generally be allocated to the goods under consideration and like goods. The verification team considers that Cromsteel provided no compelling argument and no evidence to support its claim that certain expenses should be set aside from the CTMS.

The verification team therefore recalculated SG&A expenses in accordance with the evidence provided by Cromsteel. This has the effect of increasing the SG&A expenses and therefore increasing Cromsteel's CTMS in all quarters for all models (refer **Confidential Appendix 2**).

Taking account of re-work costs and SG&A, the verification team was satisfied all other relevant costs were included.

Subsequent to the visit, Cromsteel argued that the verification team's allocation of certain SG&A expenses is contrary to the International Financial Reporting Standards. The verification team disagrees. The accounting rules pertaining to where certain expenses are reported within the financial statements is not necessarily a determining factor in considering which expenses are taken into account for calculating a fully absorbed CTMS for the purpose of establishing normal values. The verification team considers that the CTMS calculation it has used included all relevant SG&A items that are usually included when determining a full CTMS for normal value purposes. Cromsteel has not provided any evidence to demonstrate that any of the SG&A expenses in question are not related to the production or sale of the goods exported to Australia, or the like goods sold in Romania. Therefore, the verification team has not altered its approach or calculations with respect to SG&A costs.

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

4.2 Verification of costs down to source documents

The verification team verified the accuracy of Cromsteel's CTMS spreadsheets by reconciling them to source documents in accordance with ADN 2016/30.

Other than the re-work costs and the additional SG&A expenses discussed above, the verification team did not identify any other issues during the downwards verification of CTMS.

4.3 Related-party purchases

In conducting its verification of raw material costs (steel bar) downwards to source documents, the verification team paid particular attention to the identities of the suppliers. The verification team was satisfied that only a very small proportion of raw material purchases were from a related party.

After reviewing the volume and price of those purchases relative to the other purchases of raw materials, the verification team considers the raw material costs reported by Cromsteel reasonably reflect competitive markets costs, and the costs do not require any adjustment for the reason of being purchased from a related party.

4.4 Cost to make and sell – summary

Having verified Cromsteel's CTMS data for chrome bar to audited financial statements and to source documents, the verification team is satisfied (after taking account of re-work costs and updated SG&A) that Cromsteel's CTMS data is complete, relevant and accurate.

Cromsteel's verified 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 Cromsteel's domestic sales spreadsheet by reconciling it to audited financial statements in accordance with ADN 2016/30.

When undertaking the upwards verification, the verification team observed some variances (less than 2 per cent by value). The verification team queried Cromsteel about these variances. Cromsteel explained that these variances represented other operating income. To support this, Cromsteel provided a copy of its other operating income ledger.

From this ledger, the verification team could reconcile the variances observed for the investigation period.

Taking into account further evidence provided by Cromsteel to reconcile the observed variances, the verification team was able to reconcile the sales revenue recorded in the domestic sales spreadsheet to audited financial statements for 2014.

5.2 Verification of domestic sales to source documents

The verification team verified the accuracy of Cromsteel's domestic sales spreadsheet by reconciling it to source documents in accordance with ADN 2016/30.

The verification team found the following:

[redacted]

5.3 Related customers

The verification team identified one domestic customer which was related to Cromsteel, based on the sales data and audited financial statements.

The verification team compared the unit prices and volumes to other unrelated customers and found no evidence that the transactions with the related customer were not arms length. Therefore, the verification team has not excluded sales to this related customer when calculating the normal value.

5.4 Arms length

In respect of Cromsteel's domestic sales of chrome bar during the investigation period, the verification team found no evidence that:

- there is any consideration payable for or in respect of chrome bar other than the price; or
- 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; or
- the buyer, or an associate of the buyer, will directly or indirectly, be 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 by Cromsteel during the investigation period were arms-length transactions.

5.5 Level of trade

In its REQ, Cromsteel claims that selling prices do not vary according to the level of trade. Cromsteel claims that domestic selling prices are primarily driven by sales volume.

The verification team noted that the majority of sales (export and domestic) were made to distributors and found evidence that unit prices varied by the volume of sales. This is consistent with Cromsteel's claim that prices are primarily driven by sales volume.

Based on this, the verification team does not consider it necessary to compare domestic sales to comparable levels of trade of export sales.

5.6 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, they are taken not to have been paid in the ordinary course of trade (OCOT).

The verification team compared the quarterly domestic CTMS to the corresponding net invoice price to test whether domestic sales were profitable. Where the volume of unprofitable sales exceeded 20 per cent for the product category, the team then tested the recoverability of the unprofitable sales by comparing the unit selling price to the corresponding weighted average CTMS over the investigation period. Those sales found to be unrecoverable were deemed not to be made in the OCOT.[5]

5.7 Sufficiency of sales

Subsection 269TAC(2) provides that certain domestic sales may be unsuitable for use in determining normal values because of factors in the market. One such factor is where there is an absence, or low volume, of sales of like goods in the domestic market that would be relevant for determining normal values (insufficient sales in OCOT).

Low volume is defined in subsection 269TAC(14) as less than five per cent of the total volume of goods under consideration that are exported to Australia.

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[5] Subsection 45(2) of the *Customs (International Obligations) Regulation 2015.*

The verification team found sufficient sales of like goods sold in the OCOT to match 16 models of chrome bar exported to Australia during the investigation period. Of these, nine were exact model matches. For the remaining seven models, the team identified substantially similar models (meeting the arms' length, OCOT and sufficiency tests) which were then adjusted for differences in price according to differences in diameter. In these cases, surrogate models for the required model were selected from the same model type (denoting grade and induction hardening). However, there were some models that could not be matched due to insufficient domestic sales in OCOT within the same quarter, grade and hardening model combination. For these models, the normal value was constructed using the cost of production of the goods (for Australian sales); the selling, general and administrative costs associated with domestic sales; and the profit on domestic sales.

5.8 Domestic sales – conclusion

Based on the information provided and the verification conducted on site, the verification team is satisfied that prices paid for domestic sales of chrome bar are suitable for use in determining normal values for exports of the goods to Australia.

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

6 ADJUSTMENTS

To ensure that the normal value is comparable to the export price of the goods exported to Australia (at ex-works delivery terms), the following adjustments were made.[6]

6.1 Specification adjustment to surrogate models

Where there was an export model that did not have an exact match to a model sold domestically with sufficient sales of like goods sold in the OCOT, the verification team has used the normal value of a substantially similar model. In doing so, the verification team applied a specification adjustment to the normal value of the similar model to ensure proper comparison with an export model. Specifically, adjustments were made for differences in diameters (by diameter range), calculated on the basis of selling price.

6.2 Commissions

The verification team has applied an upward adjustment to the normal value to account for the cost of commissions paid in relation to exports to Australia.

6.3 Credit terms

The verification team has applied a downward adjustment to the normal value to account for the cost of extending credit to domestic customers.

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

Adjustment type	Deduction/addition
Specification adjustment	**Add / subtract** amount for specification adjustment to normal value of surrogate models
Export commissions	**Add** costs relating to commissions paid on exports
Domestic credit	**Deduct** cost of extending credit to domestic customers

[6] In accordance with subsection 269TAC(8).

7 Normal value – preliminary assessment

The verification team recommends that normal value be determined under subsection 269TAC(1), using the price paid or payable for like goods sold in the ordinary course of trade for home consumption in Romania, in sales that are arms length transactions.

In accordance with subsection 269TAC(8), the verification team considers that certain adjustments are necessary to ensure fair comparison of normal values with export prices, including adjustments for physical differences where exact model matches have not been found. These adjustments are discussed in chapter 6 of this report.

However, for models where there are insufficient sales in the ordinary course of trade and there are no reasonable adjustments to ensure fair comparison of normal values with export prices, the verification team considers that normal value cannot be ascertained under subsection 269TAC(1) for these models. Therefore, the verification team has determined that the normal value should be determined using a constructed method, as permitted under subsection 269TAC(2)(c).

Normal value calculations are at **Confidential Appendix 4**.

8 DUMPING MARGIN

The dumping margin has been assessed by comparing the weighted average export prices to the corresponding weighted average normal values for the investigation period.[7]

The dumping margin in respect of chrome bar exported to Australia by Cromsteel for the investigation period is 22.4 per cent.

The preliminary dumping margin calculation is at **Confidential Appendix 5**.

[7] In accordance with subsection 269TACB(2)(a).

9 APPENDICES AND ATTACHMENTS

Confidential Appendix 1	Australian sales and export price
Confidential Appendix 2	Cost to make and sell
Confidential Appendix 3	Domestic sales
Confidential Appendix 4	Normal value
Confidential Appendix 5	Dumping margin
Confidential Attachment 1	Verification work program