



Australian Government

**Australian Customs and
Border Protection Service**

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**INVESTIGATION INTO THE ALLEGED DUMPING OF
POLYVINYL CHLORIDE HOMOPOLYMER RESIN**

EXPORTED FROM

THE REPUBLIC OF KOREA

EXPORTER VISIT REPORT

LG CHEM LIMITED

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**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**2.1 Background to the current investigation**

On 16 March 2012, Australian Vinyls Corporation Pty Ltd (Australian Vinyls) lodged an application requesting that the Minister for Home Affairs (the Minister) publish a dumping duty notice in respect of polyvinyl chloride homopolymer resin (PVC) exported to Australia from the Republic of Korea (Korea).

Following an examination of the application, the delegate of the Chief Executive Officer (CEO) of the Australian Customs and Border Protection Service (Customs and Border Protection) decided not to reject the application. An investigation into the alleged dumping of PVC exported to Australia from Korea was initiated on 23 April 2012.

Customs and Border Protection published a notice in *The Australian* newspaper on the date of initiation. Australian Customs Dumping Notice (ACDN) No. 2012/14 provides further details on the investigation and is available at www.customs.gov.au.

The investigation period used to determine whether dumping has occurred is 1 January 2011 to 31 December 2011.

Customs and Border Protection will examine the Australian market and the economic condition of the industry from 1 January 2009 for the purpose of injury analysis.

Following initiation of the investigation, a search of Customs and Border Protection's import database indicated that LG Chem Limited (LG Chem) and LG International Corp. (LGI) exported PVC to Australia from Korea during the investigation period.

Customs and Border Protection wrote to LG Chem advising the company of the initiation of the investigation, requesting co-operation with the investigation and providing the company with a copy of the exporter questionnaire to complete.

LG Chem and LGI are identified as subsidiaries of LG Corporation. LG Chem manufactures and exports the goods, whilst LGI is a trader of the goods.

This report will categorise export sales made by LG Chem in two tiers as follows:

- direct exports: comprising all export sales executed directly between LG Chem and Australian importers during the investigation period; and
- indirect exports: comprising all export sales made between LG Chem and Australian importers via traders, both affiliated and unaffiliated, during the investigation period.

LG Chem completed the exporter questionnaire on behalf of both LG Chem and LGI. The response provides details regarding both companies and the commercial relationship that exists between them, overseas supplier information, imports and expenses.

2.2 Purpose of meeting

The purpose of the visit was to verify information submitted by LG Chem in their exporter questionnaire response. The exporter questionnaire response was supported by confidential appendices and attachments, including confidential spreadsheets containing sales and costs data requested in the exporter questionnaire.

A non-confidential version of the exporter questionnaire response was placed on the public record.

Customs and Border Protection will use the verified information gathered at the visit to make preliminary assessments of:

- like goods;
- who is the exporter and who is the importer;
- export prices;
- normal values; and
- dumping margins.

2.3 Meeting and preliminary issues

COMPANY:	LG Chemical Ltd
ADDRESS:	LG Twin Tower 300, Seoidoong-gil Yongdeungpo-gu Seoul 150-721, Korea
DATE:	3 July 2012 – 5 July 2012
ATTENDEES: LG Chem	
Mr. K.S. Kim	Director, Sales and Marketing Department, PVC Division
Mr. Shane (S) Hwang	Team Leader, S/T PVC Overseas Sales Team, PVC Division
Mr. Benjamin Cho	Senior Manager, Sales and Marketing Department, PVC Division
ATTENDEES: Consultants	
Mr. Wayne Park	KPMG Samjong Consulting Inc.,
Mr. Min Kyun, Kim	KPMG Samjong Consulting Inc.,
Mr. Moon Park	KPMG Samjong Consulting Inc.,
Mr. Myong Kim	KPMG Samjong Consulting Inc.,
Mr. Sung-baek Jin	KPMG Samjong Consulting Inc.,
ATTENDEES: Australian Customs and Border Protection	
Mr. John Bracic	Director, Operations 1
Ms. Nicole Platt	Manager, Operations 2
Ms. Pamela Garabed	Supervisor, Operations 1

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At the outset of the meeting Customs and Border Protection provided an overview of the investigation process including the following key dates:

- statement of essential facts (SEF) due by 13 August 2012;
- submissions in response to the SEF due by 2 September 2012; and
- final reports to the Minister due by 25 September 2012.

We advised LG Chem that we would prepare a confidential report on the visit and provide the opportunity for LG Chem to review the report for accuracy. Following approval of this report a non-confidential version would then be prepared for the public record.

We also informed LG Chem that all information provided by LG Chem to Customs and Border Protection would be treated as confidential unless advised otherwise.

We explained the operation of the public file system and the opportunity for LG Chem and interested parties to comment on reports and submissions placed on the public record.

LG Chem fully cooperated during the visit and provided the team with access to all requested information.

3 COMPANY INFORMATION

3.1 Company background

3.1.1 LG Chem

LG Chem is a share limited company, incorporated on 1 April 2001 in accordance with the laws of Korea. LG Chem's Petrochemical Company is responsible for the manufacture and sale of PVC products. PVC is manufactured at both the Yeosu complex and Daesan complex.

[REDACTED]

[Company ownership]

A diagram representing the organisational structure of LG Chem was provided with the response to the exporter questionnaire. It is attached at **confidential attachment GEN 1**.

3.1.2 LGI

LGI is a share limited company, incorporated on 23 November 1953 in accordance with the laws of Korea. LGI is a trading company that exports

[REDACTED]

[REDACTED]

[Company ownership]

A diagram representing the organisational structure of LGI was provided with the response to the exporter questionnaire. It is attached at **confidential attachment GEN 2**.

3.2 Commercial operations

3.2.1 General

[REDACTED]

[REDACTED]

[Details of production]

3.2.2 Production process

The production process is described below in section 7.1. Whilst a visit to LG Chem's production facilities was not undertaken, the company provided a presentation of its manufacturing operations and we were able to confirm that the production process is undertaken by LG Chem at its Yeosu and Daesan PVC plants in Korea, as well as at its LG-DAGU PVC plant, which is a joint venture subsidiary located in China.

LG Chem manufactures straight PVC, known also as a suspension resin, paste PVC and special PVC. These types of PVC are distinguished on the basis of the degree of polymerization, which determines end use. The specification and application of the range of PVC products produced by LG Chem is attached at **confidential attachment GEN 3**.

Of the total volume of units of the GUC sold by LG Chem during the investigation period [REDACTED] % was sold domestically, [REDACTED] % was sold to Australia and [REDACTED] % was sold to third country export markets.

3.3 Accounting

Both LG Chem and LGI maintain their accounts and produce financial statements according to the Generally Accepted Accounting Principles (GAAP) of Korea. Both companies use the calendar year as their financial year.

LG Chem advised that it uses the SAP software accounting system. At the visit we were provided with a demonstration of the system in operation.

Under Korean law, both companies are required to have their accounts audited. LG Chem provided a consolidated audit report for both companies for the 2011 Korean financial year.

We were provided with the 2011 consolidated audit reports for both LG Chem and LGI. These are included at **confidential attachment GEN 4 and GEN 5**.

4 GOODS UNDER CONSIDERATION AND LIKE GOODS

4.1 The goods

The goods the subject of the application are described as follows:

Polyvinyl chloride homopolymer resin (PVC) is a white powder produced by the polymerization of vinyl chloride monomer ("VCM"). PVC can be manufactured through a suspension process or a mass process and the final goods are considered to be similar and interchangeable.

The application excludes paste (or emulsion) compounding grades and recycled PVC.

4.2 Tariff classification

The goods are classified to tariff subheading 3904.1000 statistical code 18 of Schedule 3 to the Customs Tariff Act 1995. The duty rate for Korea is currently 5%.

4.3 Like Goods

4.3.1 General

During the investigation period LG Chem exported only straight PVC products in four varying degrees of polymerisation to Australia. These are summarised below:

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

LG Chem sells a wider range of goods domestically than that imported to Australia. Whilst only suspension resins are exported to Australia, [REDACTED]

[Product sales]

Of the straight PVC products, LG Chem sold the following product sizes domestically:

Product code	Polymerization degree of VCM	Description	Packaging type
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

4.3.2 'Like goods'

In its exporter questionnaire response, LG Chem claimed that there is no difference between goods sold on the domestic market and goods exported to Australia for the particular model.

We consider that the straight PVC suspension resins sold by LG Chem on the domestic market of Korea are like goods to the goods under consideration exported to Australia by LG Chem in the investigation period. Both the domestically sold and exported goods are produced at the same facilities using identical raw materials and manufacture process. The goods manufactured for domestic consumption are not distinguished from the exported goods during the production process. The goods have the same end use and are functionally and commercially alike.

4.3.3 *Conclusion on like goods*

We are satisfied that the PVC products sold on the domestic market by LG Chem are like goods to the goods under consideration exported to Australia by LG Chem over the investigation period.

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5 EXPORT SALES

5.1 General

LG Chem identified three channels of sales to Australian customers, being:



[Redacted text block]

[Redacted text block] **[Sales details]**

LG Chem provided both details of sales to Australia executed through channels 1 and 2 (being direct and indirect via LGI) and details of sales to unaffiliated traders for the investigation period in the Australian Sales spreadsheet as part of its response to the exporter questionnaire.

At the outset of the onsite verification, LG Chem provided an amended Australian Sales spreadsheet in respect of sales through LGI to account for errors in relation to the inclusion of GST and some marine insurance costs.

Specific details are outlined in the error and correction list at **confidential attachment EXP 1**.

5.2 Export sales process

LG Chem outlined that its export sales process during the investigation period was as follows:

[REDACTED]

5.3 Price

LG Chem indicated that it seeks to set a standard price for the GUC, taking into account the market price, the cost of goods and the prices set by competing suppliers.

[REDACTED]

[REDACTED]

[Price determination]

5.4 Export sales terms

The delivery terms for all sales of PVC to Australia during the POI were [REDACTED]

LG Chem advised that all direct exports sales between LG Chem and Australian customers were invoiced in USD using the exchange rate of WON to USD published on the day on which the invoice was prepared. Payment was made in USD using the exchange rate of AUD to USD applicable on the date of invoice.

[REDACTED]

[Redacted]
[Payment terms]

5.4.1 Discounts, rebates and allowances

LG Chem stated in its response that it does not provide its Australian customers with discounts, rebates or allowances and that the price on the invoice is the price paid.

[Redacted]
[Details of terms negotiated with Australian customers]

5.5 Export sales verification

5.5.1 Accuracy

Prior to the visit, we selected eight invoices from the Australian Sales spreadsheet. We requested supporting commercial documents in relation to the following selected invoices for direct exports of LG Chem:

Export Invoice #	Product	Invoice date
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]

We also requested supporting commercial documentation in relation to the following selected invoices for indirect exports via LGI:

Export Invoice #	Product	Invoice date
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]

We requested that LG Chem provide the following commercial documents related to all selected transactions:

- commercial invoice from LG Chem to the importer;
- documentation relating to inland transport (logistics) to wharf;
- handling and other FOB-related charges;
- bill of lading; and
- proof of payment.

These documents were provided and are at **confidential attachment EXP 2**.

[Logistics details]

We traced the invoice details to the export sales data in the Australian Sales spreadsheet and noted no discrepancies.

5.5.2 Completeness

To check the completeness and relevance of both domestic sales and direct and indirect export sales to Australia, we verified the information contained in the exporter spreadsheets upwards through management reports to audited financial statements of both LG Chem and LGI.

We examined LG Chem's sales ledgers through a link to its accounting system and reconciled the total sales of the GUC for the POI in the sales ledgers to that recorded in the Australian Sales spreadsheet. We did this same process in relation to domestic sales. These both reconciled with LG Chem's provided income statement for the period of investigation.

The link by the sales ledger for exported PVC to Australia is at **confidential attachment EXP 3**.

We were then able to reconcile the income statement for the investigation period to LG Chem's 2011 audited accounts by:

- obtaining the total sales reports for chemical polymers, performance polymers and olefin departments within the Petrochemicals Division;
- summing the total sale values and volumes across these reports and reconciling this to the total sales of the Petrochemicals Division as reported in the audited accounts.

To verify that the Australian Sales spreadsheet represented a complete listing of LGI's export sales to Australia we examined LGI's sales ledger. [REDACTED]

[Redacted]

[Sales reconciliation] This reconciled with LGI's income statement.

Having regard to the above, we are satisfied that the Domestic Sales and Australia Sales spreadsheets represent a complete listing of LG Chem and LGI's domestic and export sales of PVC to Australia during the investigation period.

5.5.3 Inland freight and export charges

We sought to confirm the inland freight and export charges including terminal handling and wharfage. LG Chem advised that it utilises unrelated logistics companies to transport the goods from its factories to port, [Redacted]

[Redacted]

[Redacted]

[Sales terms]

For all other transactions port and terminal handling costs were calculated together and included in the export sales spreadsheet as part of ocean freight. The source documents do not distinguish between handling and ocean freight charges.

[Redacted]

[Determination of price]

The Australian Sales spreadsheet was updated to reflect the above changes.

[Redacted]

[Redacted]

[Sales terms]

We further confirmed that the source documents for the selected transactions reconciled to the costs recorded in the Australian Sales spreadsheet.

5.6 The exporter

a) Direct exports:

On the basis of the above, for all direct export sales during the POI, we consider LG Chem to be the exporter of the goods because LG Chem:

- is the manufacturer of the goods;
- negotiates the price for the sale of the goods;
- owns the goods at the time prior to export;
- is listed as the supplier on the bill of lading;
- invoices Australian customers for the goods directly;
- arranges and pays inland transport costs from the place of manufacture and packaging to port of export;
- arranges and pays for other associated freight and insurance costs depending on the specific sales terms;
- is the 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 freight forwarder for delivery to Australia;
- sent the goods for export to Australia and was aware of the identity of the purchaser of the goods; and
- received payment for the goods from the importer/trader.

b) Indirect exports

We also consider LG Chem to be the exporter for all indirect export sales to Australia via LGI and affiliated traders because LG Chem:

- is the manufacturer of the goods;
- is the principal in the transaction located in the country of export from where the goods were shipped;
- knowingly executes an inter-company transaction with respect of the goods for which payment is made to LG Chem by LGI, an affiliated trader; and
- Notwithstanding the above, LG Chem retains for all administration of the export of the goods to Australia pursuant to the terms of sale negotiated with the relevant importer.

5.7 The importer

We noted that LG Chem's customers:

- negotiate directly with LG Chem for the purchase of goods;
- are named as the consignee on the bill of lading;
- arrange customs clearance, quarantine, logistics, and, depending on the terms of sale as negotiated, overseas freight and storage of the goods after they have been delivered to the Australian port; and

- take control of the goods on arrival and become the beneficial owner of the goods.

We consider that LG Chem's invoiced Australian customers are the beneficial owners of the goods at the time of importation and are therefore the importer of the goods exported by LG Chem during the POI.

5.8 Arms length transactions

In determining export prices under s. 269TAB(1)(a) and normal values under s. 269TAC, the legislation requires that the relevant sales are arms length transactions.

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.

We found no evidence to suggest that the prices negotiated between LG Chem, its affiliated trader LGI, unaffiliated traders and Australian customer were influenced by any relationship or arrangement, commercial or otherwise during the POI. We also did not find any evidence to indicate that any consideration, compensation or other benefit passes between LG Chem and its customers in relation to the goods other than the price negotiated, reflected in executed sales agreements and listed for payment in commercial invoices.

Export price preliminary assessment

In the case of direct export sales to Australia by LG Chem, we consider:

- that the goods have been exported to Australia otherwise than by the importer;
- that the goods have been purchased by the importer from the exporter; and
- the purchases of the goods were arms length transactions.

Therefore, we consider that export price for direct export sales from LG Chem can be established under section 269TAB(1)(a) using the invoiced price less amounts for:

- ocean freight as appropriate;
- marine insurance as appropriate;

- bank charges;
- customs agents fees; and
- customs duty.

In respect of indirect export sales to Australia by LG Chem through LGI and unaffiliated traders, we consider that:

- that the goods have been exported to Australia otherwise than by the importer; and
- the purchases of the goods were arms length transactions.

However, as the goods were not purchased by the importer from the exporter we consider that the export price for indirect export sales from LG Chem can be established under section 269TAB(1)(c).

For export sales made through unaffiliated intermediaries we have established export prices using LG Chem's invoiced price less amounts for:

- ocean freight as appropriate;
- marine insurance as appropriate;
- bank charges;
- customs agents fees; and
- customs duty.

For export sales made through LGI we have established export prices using LGI's invoiced price less amounts for:

- marine insurance incurred by LGI (where amounts for marine insurance were allocated to LGI sales rather than LG Chem sales);
- LGI's selling, general and administrative expenses;
- commissions incurred by LGI;
- bank charges incurred by LGI; and
- the cost of credit offered by LGI.

These deductions provided us with a price equivalent to LG Chem's invoice price, for which we then further deducted the specific post-exportation expenses incurred by LG Chem outlined above in order to determine the FOB export price for LG Chem.

Export price calculations are included at confidential appendix 1.

6 DOMESTIC SALES

6.1 General

In the domestic market, LG Chem identified two channels of distribution, being direct sales to affiliated customers and direct sales to unaffiliated customers.

[Redacted] **[Customers]** There was no evidence that the association between LG Chem and affiliated companies had influence the price.

We noted sales to related domestic parties accounted for [Redacted] % of both total sales volume and value totals.

6.2 Domestic sales process

LG Chem's domestic sales process to customers is as follows:

[Redacted]

LG Chem stated that the payment terms for all customers were 36 days in their initial questionnaire response. However at the verification visit the company advised that this reflected the average credit terms over the investigation period and [Redacted] were subsequently provided with revised information showing actual payment terms for each domestic customer.

6.3 Price

LG Chem indicated in its response to the exporter questionnaire that domestic selling prices are determined [Redacted]

When negotiating prices the sales manager takes into account the cost of production and the market situation. [Redacted]

[Redacted] [Price determination]

We did not find any evidence contrary to this contention during verification.

6.3.1 Level of Trade

LG Chem stated in its response that there are two channels of sale for PVC products sold domestically. The channels of distribution are directly to either affiliated or non-affiliated customers [Redacted]

[Redacted]

[Customer Information - level of trade]

We noted that during the investigation period that of the total number of domestic sales, [Redacted]

6.4 Domestic Sales Verification

6.4.1 Accuracy

Based on an analysis of the domestic sales spreadsheet, we were satisfied with the accuracy of the transactions.

We selected 8 transactions from Appendix D-4 and requested the supporting documentation for verification as outlined below.

Export Invoice #	Product	Invoice date
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]

We requested the following documentation be provided for each transaction:

- Purchase order
- Order confirmation

- Commercial invoice
- Evidence of payment
- Inland freight invoice and evidence of payment
- Discount and rebate source documents (where applicable)

Source documents for the 8 selected transactions were provided by the company at the verification visit and all figures were cross matched to the information provided in their questionnaire response. Documentation traced right through to the inland freight and delivery invoices and bank deposit showing payment. All were found to be accurate and complete.

Based on the information provided we are satisfied that the domestic sales volume and value in Appendix D-4, are accurate.

The sales documents form **confidential attachment DOM**

The domestic sales spreadsheet contained transactions to both affiliated and non-related parties. Comparisons of unit sales figures were made between the two types of customers and prices were found to be consistent between them.

6.4.2 Completeness

The verification of the domestic sales spreadsheet upwards to audited accounts is outlined above at section 5.4.2.

6.5 Arms length transactions

In respect of LG Chem's domestic sales of PVC, we 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, within a period subsequent to the purchase or sale, 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.

The company explained that despite an entity being a related party, they did not consider them any different to unrelated customers and negotiated prices in the same manner no matter who the customer was. This ensured that sales prices were similar across the board.

Our analysis of prices to affiliated and unaffiliated domestic customers showed only insignificant differences after taking into account the product group. This appears to be supported by the verified figures recorded in the questionnaire spreadsheet response.

We consider the domestic sales of PVC by LG Chem were arm's length transactions.

6.6 Ordinary course of trade

We compared the net invoice value for each domestic sale (of the four product groups exported to Australia) to the CTMS for the corresponding month.

For those individual sales found to be unprofitable, we then compared the net selling prices with the weighted average CTMS for the investigation period to determine whether the sales were recoverable within a reasonable period of time.

The table below provides a summary of the OCOT analysis. [Redacted]

[Redacted] [Profitability of sales]

Product group	Volume of domestic sale (MT)	Volume of unprofitable sales (MT)	% of unprofitable sales	Volume of non-recoverable sales	% of non-recoverable sales
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]

Ordinary course of trade test calculations are at confidential appendix 2.

6.7 Volume and sustainability of domestic sales

In relation to the goods exported to Australia, the quantities of domestic sales of like goods sold in the ordinary course of trade was significantly greater than 5% of the volume of the PVC exported to Australia.

7 COST TO MAKE & SELL**7.1 Production process**

LG Chem is a fully integrated producer of PVC with the manufacturing process consisting of various stages.

[REDACTED]

[REDACTED]

[Production process]

7.2 Approach to verification

In its submission, LG Chem provided total and unit cost calculations for PVC sold domestically and exported to Australia. The data was presented separately for each product code of PVC, and was broken into:

- materials costs – VCM and other
- direct labour costs;
- manufacturing overheads;
- selling and administration expenses;
- finance expenses, and
- delivery expenses.

At the outset we emphasised our requirement to reconcile the data to audited financial statements and management reports, and also down to source documents.

7.3 Completeness of cost data

We explained that we required cost data that had been gathered from the company records that have been kept in accordance with the generally accepted accounting principles for Korea, and that the costs provided should reasonably reflect the costs associated with the production and sale of the goods.

We noted the LG Chem consolidated financial statements for 2011 contained the following statement within the report of independent auditors, Samil PricewaterhouseCoopers:

'In our opinion, the separate financial statements referred to above present fairly, in all material respects, the financial position of LG Chem, Ltd. As of December 31, 2011 and 2010, and its financial performance and cash

flows for the years then ended in conformity with international financial reporting standards as adopted by the Republic of Korea.

We requested that the costs submitted for the purpose of this investigation can be reconciled to the company's audited financial statements. LG Chem demonstrated a reconciliation from its Audit report of 2011 to its SAP financial accounting system. In its SAP system, we were able to reconcile the value cost of goods sold (COGS) in the detailed income statement to the cost of sales shown in the income statement contained in their audited financial statements.

Using the companies 2011 trail balance, we were able to reconcile the value of COGS in the income statement to the total costs of production contained in SAP after adjusting for inventory movements, work in progress and duty drawback. A manufacturing cost report in SAP was provided showing the total product cost for the company wide and for the various divisions with LG Chem. These included petrochemical, information tech, battery, new projects and energy.

[REDACTED] We were able to further drill down into this division to see the manufacturing costs by the product groups within the division. [REDACTED]

[REDACTED] The costs for each product group reconciled to the total costs for the petrochemical division.

The goods under investigation fell within the PVC straight product group and we noted that these costs were made up of costs from the company's Yeosu and Daesun manufacturing plants. A costing summary report was provided showing a breakup of the manufacturing costs for each of the PVC products produced at the two plants. The report included costs for the following items:

- VCM;
- other materials;
- labour and
- individual manufacturing overheads.


Packing costs were not included but a separate report for these costs was provided. A sum of the total manufacturing and packing costs for each of the PVC products produced reconciled to the total manufacturing costs for PVC produced at the two production facilities. These total manufacturing costs were the basis for the costs included at appendix 10 of the questionnaire response.

We selected the model [REDACTED] for detailed verification down to source documents for the month of August. We were provided with a production costing report for August 2011 with showed a summary of raw materials, labour and manufacturing overheads.


LG Chem explained that verification would require stepping through each stage of producing ethylene, EDC and VCM and that costs could be presented to reflect the transfer pricing of raw material inputs from one production stage to another or on an actual costing basis. The costs included in the exporter questionnaire responses were actual costs.




[Confidential information – raw material inputs]

We continued our verification of the model  for the month of August and the product costing sheet adequately identified raw materials, labour and other manufacturing overhead costs. For labour and manufacturing overheads, we were able to reconcile the amounts through production records for the relevant cost centre which showed the total amounts. Allocation of these costs was based on the actual labour hours and machine hours used in producing the various products in the relevant production line in the given month.

For verification of raw materials, we explained to LG Chem that we would be focusing our attention on the key inputs in each stage of production. This essentially related to the purchase of naphtha in producing ethylene and the purchase of EDC in producing VCM.

Beginning at the ethylene plant, LG Chem provided a cost of manufacture report from its SAP system. We noted that the naphtha represented approximately % of the total cost of production and we selected to verify the purchase of naphtha from relevant transactions, through to invoices and proof of payment. Of the three transactions that took place in August, we selected the largest and sought relevant documents showing the terms of the purchase and that the amount invoiced is the amount paid. We were able to reconcile information from the source documents through to the company's SAP cost of production report.

A movement ledger for the produced ethylene was provided and we were able to track the output cost of ethylene to the corresponding input cost in the cost of production reports for both EDC and VCM. We noted that in the manufacture of VCM, ethylene and EDC accounted 


[Raw material inputs]

Once again we selected a number of transactions for the purchased EDC and were provided with commercial invoices from the Japanese supplier along with evidence of payment. The amounts on the invoiced reconciled to LG Chem's SAP costing reports.

LG Chem then provided movement ledgers showing the cost of manufacture of VCM reconciling to the input amount in the relevant movement ledger within the VCM plant. The output amounts were then tracked through to the input amounts in VCM movement ledger within the PVC plant. Finally the output amounts for the VCM cost from the movement ledger could be reconciled to the VCM costs reported in the PVC costing sheet for product [REDACTED]

Copies of documents relevant to the calculation of the cost to make and sell are at **confidential attachment CTMS 1**.

The table below provides an outline of the structure used to construct a cost to make and sell for goods and like goods.

7.4 Selling, general and administration expenses

Unit selling, general and administration (SG&A) expenses were calculated by apportioning each of the total SG&A expenses across total cost of goods sold.

[REDACTED]

[REDACTED]

[Calculation of SG&A]

Documents supporting the calculation of SG&A expenses form **confidential attachment CTMS 2**

7.5 Profit

We calculated that all identical domestic sales of PVC by LG Chem achieved a weighted average profit [REDACTED] % (of the cost to make and sell) over the investigation period. We consider that the profit level achieved on these domestic sales is appropriate to use if normal values are to be constructed in accordance with paragraph 269TAC(2)(c) of the Act.

7.6 Conclusion

We were able to reconcile all relevant data provided to audited accounts and source documents. In doing so, we formed the view that the cost constructions contained in LG Chem's submission were an appropriate basis for the actual costs incurred in manufacturing the goods, apart from some minor amendments SG&A expenses.

In summary, sufficient information was obtained and verified to determine:

- a constructed normal value under section 269TAC(2)(c) of the Act for the investigation period; and
- the cost of goods to assess ordinary course of trade under section 269TAAD of the Act.

The amended cost to make and sell spreadsheets form confidential appendix 3.

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8 ADJUSTMENTS

We discussed with LG Chem a number of items that may require consideration in order to ensure the normal value is properly comparable to the export price.

8.1 Packing

As explained in the export and domestic sales sections of this report, PVC sold into both markets is packed in a variety of ways with each packing type having a separate associated cost. Therefore to ensure proper comparison, we consider that adjustment to domestic selling prices is warranted. We have made downward adjustments for actual packing costs incurred in each domestic transaction along with a corresponding upward adjustment for export packing costs based on the actual weighted average packing cost for the investigation period.

8.2 Inland freight

As explained earlier in the report, all domestic sales of PVC by LG Chem are inclusive of delivery charges. Therefore, in order to adjust domestic selling prices to reflect a FOB price to be compared with export sales, we have deducted actual inland freight expenses incurred on each domestic transaction. We have then made an upward adjustment for delivery expenses in transporting goods to the port of export using the weighted average inland freight cost over the investigation incurred.

8.3 Terminal handling charges

LG Chem incurs expenses on exports related to port document fees, terminal handling charges and warehousing. To ensure proper comparison with the export sales, we consider that an upward adjustment to domestic sales is warranted for these FOB related expenses.

8.4 Credit terms

Export and domestic payment terms varied between customers and we have made a downward adjustment for domestic cost of credit and a corresponding upward adjustment for export cost of credit.

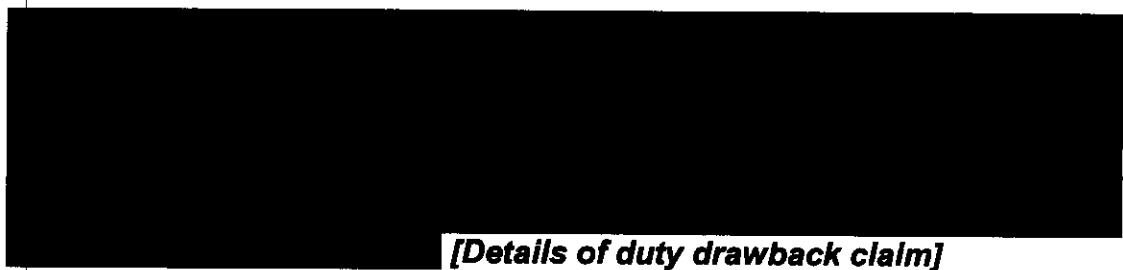


[Details of credit terms offered to customers]

8.5 Duty drawback

In its questionnaire, LG Chem claimed an adjustment for duty drawback was warranted to ensure fair comparison between domestic and export sales. During the meeting, the company provided an overview of the operation of the

duty drawback system in Korea. The scheme provides for a refund of duty on imported inputs used in the production of goods that are subsequently exported. In large part the scheme in Korea operates like most other overseas schemes.



[Details of duty drawback claim]

LG Chem provided source documents demonstrating the amount of imported materials and the amount of duty paid and the amount of duty refunded following applications for a drawback of those duties.

LG Chem proposed that the amount of the adjustment to the normal value for duty drawback should reflect the notional cost of non-refunded duty. This argument is based on the idea that the domestic sales persons are unaware of the additional refund of duties and set a domestic selling price that reflects the costs of production inclusive of the part of non-refunded duty. On the other hand, the export sales persons are fully aware of the additional refund of duties and do adjust their export prices to account for the drawback.

We do not agree with LG Chem's argument. The actual amount of imported duty that can be properly linked to the production of domestic PVC is the residual amount of non-refunded duties. We have quantified the amount of the downward adjustment by apportioning the residual amount of duties across the total volume of domestic produced PVC.

8.6 Conclusion

We consider the following adjustment to constructed selling prices, in accordance with 269 FAC(1) of the Act, is necessary to ensure a fair comparison with the export price of the goods:

Adjustment	Add to, or deduct from, domestic selling prices
Domestic packing expenses	deduct
Domestic inland freight expenses	deduct
Domestic cost of credit	deduct
Export packing expenses	add
Export inland freight expenses	add
Export FOB related expenses	add
Export cost of credit	add
Duty drawback	deduct

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9 NORMAL VALUE

The relevant sales of PVC by LG Chem in the domestic market were found to be in transactions that were arms length, and at prices that were in the ordinary course of trade. The price paid for the goods in those domestic sales was established satisfactorily.

Based on the information provided by LG Chem, and the verification processes conducted on site, we are satisfied that prices paid in respect of those domestic sales of PVC are suitable for assessing normal value under s. 269TAC(1). We consider those domestic selling prices require adjustment in terms of s. 269TAC(8), to ensure fair comparison to the export prices, for the following:

- packing;
- inland freight;
- charges to FOB;
- credit terms, and
- duty drawback

Normal value calculations are at **confidential appendix 4**.

Should there be a need to consider an alternative to establishing normal values under s. 269TAC(1) we consider the cost to make and sell data, and the profit determined in a comparison of costs to prices, are suitable for constructing normal values under s. 269TAC(2)(c) of the Act.