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Australian Government
Department of Industry,
Innovation and Science

Anti-Dumping Commission

INVESTIGATION 301

**ALLEGED DUMPING OF
STEEL ROD IN COILS
EXPORTED FROM THE PEOPLE'S REPUBLIC OF CHINA**

VISIT REPORT - EXPORTER

**HUNAN VALIN XIANGTAN IRON & STEEL CO.,
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 THE ANTI-DUMPING COMMISSION**

29 January 2016

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PUBLIC RECORD**ABBREVIATIONS**

ACBPS	Australian Customs and Border Protection Service
the Act	<i>Customs Act 1901</i>
ADN	Anti-Dumping Notice
AS/NZS	Australian Standard / New Zealand Standard
ASTM	American Society For Testing and Materials
AUD	Australian dollars
CFR	Cost and freight
the Commission	the Anti-Dumping Commission
the Commissioner	the Commissioner of the Anti-Dumping Commission
CTM	cost to make
CTMS	cost to make and sell
EQR	exporter questionnaire response
FAS	free alongside ship
FOB	free on board
the goods	the goods the subject of the application (also referred to as the goods under consideration, GUC)
IPV	invoice price variations
MPa	Megapascal
OCOT	ordinary course of trade
PAD	Preliminary Affirmative Determination
Parliamentary Secretary	the Assistant Minister for Science and the Parliamentary Secretary to the Minister for Industry, Innovation and Science
PPV	provisional price variations
SEF	Statement of Essential Facts
SG&A	selling, general and administrative costs

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1 BACKGROUND AND PURPOSE

1.1 Background

On 12 August 2015, the Commissioner of the Anti-Dumping Commission initiated an investigation into the alleged dumping of certain steel rod in coils exported to Australia from the People's Republic of China (China).

Further details regarding the background for the investigation can be found within *Consideration Report 301*.¹

1.2 Purpose of visit

The purpose of this visit was to verify information submitted by Hunan Valin Xiangtan Iron & Steel Group Co.,Ltd (Hunan Valin) in its Exporter Questionnaire Response (EQR). The EQR was supported by confidential appendices and attachments, including confidential spread sheets containing sales and costs data. A non-confidential version of the EQR was placed on the public record.

Information verified during the visit has been used to make assessments regarding:

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

1.3 Meeting details

Company	Hunan Valin Xiangtan Iron & Steel Group Co.,Ltd
Address	Yuetang District, Xiangtan City, Hunan Province, China
Date of visit	2 – 7 December 2015

The following were present at various stages of the meetings:

Hunan Valin		
Hunan Valin	Li Jianyu	Deputy General Manager
Legal Department	Wang Libo	Director-in-General
Financial Department	Wu Chunyu	Deputy Director
Financial Department	Liu Yang	Section Chief of Cost
Financial Department	Zhang Xiaohong	Section Chief of Purchasing

¹ Consideration Report 301, available online [here](#).

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Financial Department	Cao Huahui	Section Chief of Sales Finance
Financial Department	Feng Yan	Staff of Domestic Sales Finance
Financial Department	Xie Zhizhen	Purchasing Finance
Purchasing Department	Wang Hongwu	Director
Purchasing Department	Zengwei	Import Purchasing
Technology Center	Zeng Fanzheng	Section Chief of Manufacturing Technique
Sales Department	Yang Guosong	Section Chief of Domestic Sales
Sales Department	Ouyang Ningbo	Staff of Domestic Sales
Sales Department	Qiu Hong	Section Chief of Export Sales
Sales Department	Liao Li	Staff of Export Sales
Sales Department	Jia Jiakai	Staff of Export Sales
Production Department	Du Jiang	Deputy Factory Director
Production Department	Deng Minghua	Factory Director
Management & Innovation Department	He Yushan	Director Engineer
Management & Innovation Department	Luo Huihui	Section Chief
Consultants		
Dowway & Partners	Zhang Jun	Partner
Dowway & Partners	Sun Lei	Partner
Dowway & Partners	Gao Yuanyuan	Associate
Dowway & Partners	Duan Mengyue	Associate
Anti-Dumping Commission visit team		
Mr Carl Halpin Mr Chris Hill	Senior Investigator, Operations 3 Assistant Director, Operations 4	

1.4 Investigation process and timeframes

At the verification visit, the visit team advised Hunan Valin of the following.

- The investigation period is from 1 July 2014 to 30 June 2015.
- The injury analysis period is from 1 July 2011 onwards for the purpose of analysing the condition of the Australian industry.

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- A preliminary affirmative determination (PAD) has been recently made² and provisional measures have been imposed.
- The Statement of Essential Facts (SEF) for the review is due to be placed on the public record by 13 February 2016,³ or such later date as the Assistant Minister for Science and the Parliamentary Secretary to the Minister for Industry, Innovation and Science (Parliamentary Secretary)⁴ allows under section 269ZHI of the *Customs Act 1901* (the Act).⁵
- The SEF will set out the material findings of fact on which the Commissioner intends to base his recommendations to the Parliamentary Secretary, and will invite interested parties to respond, within 20 days, to the issues raised therein. Interested parties are encouraged to make submissions within 20 days of the SEF's release.
- Following receipt and consideration of submissions made in response to the SEF, the Commissioner will provide his final report and recommendations to the Parliamentary Secretary. This final report is due no later than 29 March 2016, unless an extension to the SEF or the final report is approved by the Parliamentary Secretary.
- The Parliamentary Secretary has 30 days from receipt of the final report to make a decision on the report's recommendations.

1.5 Visit report

Hunan Valin was advised that the visit team would prepare a report of the visit (this report) and provide it to Hunan Valin for review of its factual accuracy and to identify those parts of the report that the company considers confidential. It was explained that, in consultation with Hunan Valin, the visit team would prepare a non-confidential version of the report and place this on the public record.

² See Preliminary Affirmative Decision report 301, available [here](#).

³ The SEF was originally due to be published by 30 November 2015; however the Assistant Minister approved an extension (refer ADN No. 2015/141).

⁴ On 23 December 2014, the Minister for Industry and Science delegated his powers and functions under Part XVB of the *Customs Act 1901* to the Parliamentary Secretary to the Minister for Industry and Science. On 20 September 2015, the Prime Minister appointed the Parliamentary Secretary to the Minister for Industry, Innovation and Science as the Assistant Minister for Science.

⁵ References to any section or subsection of legislation are references to the *Customs Act 1901* unless otherwise specified.

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2 COMPANY INFORMATION

2.1 General

The legal name of the company is Hunan Valin Xiangtan Iron & Steel Co., Ltd, which operates as a limited liability company. The business manufactures and distributes a wide range of steel products including both flat and long products. Its primary market for revenue and volume generation is in flat products such as plate.

The company is a significant employer within the Hunan Province, and are considered a well-known brand within China who generally does not advertise their goods.

The business operates the Oracle accounting system.

The business is based entirely within the Hunan Province, and operates a fully integrated steel making process, utilising blast furnace equipment to convert iron ore, pellets, and coal into steel billets or slabs. These billets or slabs are further processed by Hunan Valin into a range of steel products (Hunan Valin sell a small volume of billet or slab). A full range of products produced is available within **Confidential Appendix GEN1**.

2.2 Corporate, organisational and ownership structure

Hunan Valin is part of a large corporate group. The direct holding companies are [REDACTED] and [REDACTED] respectively hold [REDACTED] % and [REDACTED] % of the shares of Hunan Valin.

[REDACTED] is a listed company, and its controlling shareholder is [REDACTED], which holds [REDACTED] % of shares.

[REDACTED] effectively has the ability to control Hunan Valin, and as per the EQR [REDACTED] has been disclosed as a [REDACTED].

The only other substantial holder of shares in [REDACTED] is [REDACTED], which holds [REDACTED] % of the available shares.

A corporate structure is included at **Confidential Appendix GEN 2**.

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2.3 Relationship with suppliers and customers

2.3.1 Suppliers

Hunan Valin advised that it purchases [REDACTED] for the production of its steel. The visit team noted that some suppliers listed in Hunan Valin's EQR were related by ownership. The visit team investigated the relationships and their effect on price and determined that the final price paid to its related suppliers was similar to that of unrelated suppliers. The visit team analysed [REDACTED] prices at the same period between related and unrelated suppliers, and there was no material variance in pricing per tonne (**Confidential Appendix GEN 3**)

The visit team concluded that these relationships appeared to be a commercial relationship between Hunan Valin and its suppliers.

2.3.2 Customers

Hunan Valin customers include wholesalers, end users, and traders. Hunan Valin advised that it is not related to any of its domestic customers in relation to the goods under consideration. The visit team noted that several of the customers disclosed in the EQR are SIEs.

The visit team found no evidence of any relationship other than a commercial relationship between Hunan Valin and its unrelated customers.

2.4 Accounting structure and details of accounting system

Hunan Valin advised that its financial year is the calendar year (1 January to 31 December).

The verification team sighted the original, audited financial statements including audit report for the 2014 year, and confirmed that the amounts reconciled with the accounts provided as part of the EQR.

The audit report disclosed that the company complied with Chinese generally accepted accounting principles (GAAP).

Hunan Valin utilise a standard costing methodology whereby actuals are replaced via reconciliation in the Oracle accounting system. They operate one profit centre, and many cost centres which are set at manufacturing production levels.

These cost centres are focused on [REDACTED]

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3 THE GOODS

3.1 Description

The goods that are the subject of the investigation (the goods) are:

Hot rolled rods in coils of steel, whether or not containing alloys, that have maximum cross sections that are less than 14mm.

The goods covered by this application include all steel rods meeting the above description regardless of the particular grade or alloy content.

Goods excluded from this application include hot-rolled deformed steel reinforcing bar in coil form, commonly identified as rebar or debar, and stainless steel in coils.

The goods are referred to as steel rod in coil in this report.

3.2 Tariff classification

The application states that the goods are typically classified to the following subheadings in Schedule 3 of the *Customs Tariff Act 1995*.

- 7213.91.00 (statistical code 44)
- 7227.90.90 (statistical codes 42 & 02)

The goods imported from China are free of duty.⁶

3.3 Production facilities and production process

Hunan Valin has one manufacturing site for the production of this product; however the site is of significant scale.

The Commission confirmed that Hunan Valin is a fully integrated steel manufacturer that produces its own billet from iron ore through the operation of four blast furnaces.

As part of this process, Hunan Valin also maintains [REDACTED] coking coal ovens, [REDACTED] sintering plants and [REDACTED] production lines. Hunan Valin has [REDACTED] production lines / rolling mills which may be used to produce the goods.

During the verification, the visit team conducted an inspection of the facility and observed the manufacturing process as follows (which is also represented graphically in **Confidential Appendix GEN 4**).

- Billets which are produced through the blast furnace operation are graded based on chemical composition and other physical properties.

⁶ While no duty is currently payable, a Preliminary Affirmative Determination has been made for this case which may impact on the cost of importation of the goods from China. For details regarding the impact, please review ADN 2015/142 available online [here](#).

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- The graded billets are selected based on the requirements of the end customer. For the creation of the goods under consideration, billets selected were of grade [REDACTED].
- The billets were first passed through a reheat furnace to ensure they reached sufficient temperature to pass through the rolling mills without damage to the billet or the mill.
- Once reheated, the billets are fed through a series of rolling stands, which compress, shape, and lengthen the billet into a narrow rod.
- The verification team sighted two different types of rolling mills which can produce steel rod in coil, being the “Big Wire” mills, and the “High Speed Wire” mills. The verification team did not recognise a significant difference in production methodology between the two processes.
- During this process at several stages before entering the next stand a crop shear operates to straighten the nose of the billet and ensure it will continue to roll smoothly.
- Once the billet has been rolled into the correct circular cross section size, it is dropped over a barrel roll which causes it to change from a straight length into a continuous coil.
- This continuous coil is cooled on a conveyor belt, and drops onto a compressing stand to be compressed and tied.
- Once tied, the goods are moved to the dispatch yard for pick up by the customer.
- A single billet will be converted into a single coil.

In addition, the verification team viewed the central control room for the plant where live feeds of several associated processes (iron furnace, steel making) were sighted.

3.4 Like goods

3.4.1 General

Like goods (as defined in s.269T of the Act) are goods that are identical in all respects to the goods under consideration, or that although not alike in all respects to the goods under consideration have characteristics closely resembling those of the goods under consideration.

The determination of like goods is used, among other things, to define the goods sold on the exporter’s domestic market. Of particular relevance is s.269TAC(1) of the Act which states that the “the normal value of any goods exported to Australia is the price paid or payable for like goods sold in the ordinary course of trade for home consumption in the country of export...”.

The visit team has therefore examined whether the steel products produced by Hunan Valin can be defined as being “like goods”, taking into account their physical, commercial, functional and production likeness.

There is a wide range of different alloys which may fall within the definition of ‘the goods’ due to the broad definition and the many standards which apply to steel.

In the EQR, Hunan Valin disclosed that the “[REDACTED]” and “[REDACTED]” grade “[REDACTED]” production process was the most like to the exported goods based on the chemical properties and manufacturing processes.

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The company provided the following comparison of like goods to be considered:

Export Grade Steel	Like Goods Selected
██████████	████
██████████	████
██████████	████████████████
██████████	████████████████

Full details regarding model matching can be found in **Confidential Appendix GOODS 1**.

3.4.2 Physical properties

The primary physical properties of the goods under consideration are the coiled form of the entire rod, and the lack of deformation on the surface of the rod.

The physical properties of the steel were considered through the analysis of test certificates.

These test certificates demonstrate the chemical, mechanical, ductility, strength and other physical properties.

It is important that the steel remains relatively weldable for the purposes of analysis of the Australian market, as the majority of the good ends up ██████████.

This places a significant restriction on the carbon content of the potential steel which could be considered like goods, as once the carbon content exceeds █████% the weldability of the steel becomes less reliable.

The targeted carbon content of the exported goods was between █████% and █████%.

We received billet standard grades for █████ different grades of steel that Hunan Valin produce and a breakdown of the production methodologies used to produce them.

There was no direct comparison standard which was recognised as a specific model sold domestically.

Hunan Valin nominated that █████ would be equivalent to █████, while █████ is equivalent to █████.

The physical properties, including the strength and ductility of the goods noted above appeared consistent with the exported goods following comparisons of the test certificates.

The visit team compared the chemical components of the steel through analysis of the test certificates and were able to confirm a close match between the grades of steel which the exported goods were made from and the grades of steel used to produce similar goods for the domestic market.

This included, where possible, matching alloys utilised in the production of each billet.

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3.4.3 Commercial and functional properties

The steel rod in coil has several functional properties, though most require further manufacture to achieve.

For example, the goods under consideration may be cold drawn into wire for fencing or the production of hangers, deformed through further rolling / drawing to be used as reinforcing wire and welded into reinforcing mesh. There is a range of ways through which the further processing may transform the functional, physical and mechanical properties.

As such, it is important that the goods under consideration can conform to a customer's needs within a specified range of ductility, mechanical strength and carbon content. Hunan Valin advised that these are the major factors to consider to ensure that further processing can be effective without damaging any equipment used in further manufacture, or limiting the weldability of the end product.

The visit team compared the commercial and functional properties for the proposed models provided by Hunan Valin [REDACTED]. The visit team is satisfied that the commercial and functional properties of the goods are similar.

3.4.4 Production process

The goods are specifically limited to hot rolled steel rod in coils. Therefore, any cold rolled or straight products are not considered to be the goods.

It is noted that Hunan Valin disclosed [REDACTED] different types of production processes as part of the verification. Hunan Valin claimed that sales relating to [REDACTED] represent the most comparable production methodology.

During the verification, the visit team identified that the [REDACTED] production process used the same billets and a similar process was utilised through which steel billet would be heated and rolled through a mill to end up formed in a coil. Hunan Valin advised that the production process was to some extent different, and they explained the differences including suggesting that the [REDACTED] production line was a [REDACTED].

The end product from the [REDACTED] production process was also smooth, rounded steel coils, and any coils produced under 14mm in diameter are considered to fall within the goods definition.

3.5 Like goods – preliminary assessment

For the reasons outlined above, the visit team considers that the steel rod in coil produced and sold domestically by Hunan Valin using billets of grade [REDACTED] [REDACTED] has characteristics closely resembling those of the goods exported to Australia and are therefore "like goods" in terms of subsection 269T(1) of the Act.

It is noted that the specific production methodology can have an effect on the eventual physical and mechanical properties for the rod in coils, however the chemical

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composition of the billet produced is commonly utilised as a way to confirm the grade of steel utilised in the production process.

This is the case regardless of whether it is produced using the [REDACTED] process or the [REDACTED] processes.

3.6 Model matching

In comparing export models to domestic models, the visit team first attempted to match identical domestic models with the export models. It was recognised that model matching on this basis is not possible, as the domestic market does not use the same steel grade which the export market (Australia) does.

The Commission reviewed the domestic sales information provided, and did not identify any domestic sales of RIC using the identical grade of billet as the export sales of RIC. There were no sales of RIC within the domestic market where steel grades [REDACTED] were utilised.

As there were no domestic sales of the identical grade, Hunan Valin suggested that matching is first undertaken based on ensuring that the goods produced are consistent physically with a focus on carbon content, and then considering other alloys where required. In matching a model that is not identical, the visit team had regard to the price extras and made specification adjustments accordingly (see section 8.1.3 below).

As noted at 3.5, the Commission considers that domestic sales of grades [REDACTED], with adjustments, are sufficiently like to the exported goods.

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4 SALES TO AUSTRALIA

4.1 General

In its EQR, Hunan Valin provided a detailed Australian export sales listing for the goods on a line by-line basis. The export sales listing included the following information:

- customer name;
- level of trade;
- model, product code, grade, and standard;
- dimension;
- alloy composition;
- test certificate information;
- weight measurement;
- invoice number, invoice date / date of sale and order number;
- shipping terms;
- payment terms;
- quantity (in metric tonnes);
- gross invoice value, discounts, exchange rates and net invoice value (in USD);
- ocean freight costs (in USD);
- Marine Insurance costs;
- FOB Export Price;
- packing costs;
- inland transport costs;
- handling and other costs;
- warranties;
- technical support and commission expenses; and
- other costs.

Upon review of the EQR, it was identified that Hunan Valin's [REDACTED] Australian customer [REDACTED]

In preparing for the verification visit, Hunan Valin identified a number of minor errors in regards to the detailed Australian export sales listing provided. A corrected Australian export sales list was subsequently provided.

4.2 Export Sales Process

The Export sales process is well defined within the business. Export customers contact the Hunan Valin sales department to request an order, and provide Hunan Valin with the quantity and specifications of the product required.

Hunan Valin negotiate regarding the sales price with reference given initially to domestic sales prices. They will not sell the goods for less than the [REDACTED], though this reflects [REDACTED]. The Commission sighted one of the cost reports provided to the sales department which confirmed this (**Confidential Attachment SALES1** refers).

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Hunan Valin will then attempt to negotiate a price which will include a margin equal to the domestic profit margin for similar goods in the sale price. Hunan Valin noted that its prices are generally above the current market prices in China and their customers sometimes request lower prices. Hunan Valin however does not allow its sales staff to sell below the [REDACTED]. The agreed price is only agreed for a single contracted amount. Once agreed via email or phone, a contract is prepared.

The customer will sign the contract, and send a copy back via email. Once the contract is signed two things occur concurrently. Within Hunan Valin the production department is advised and the goods are produced, while the buyer [REDACTED] within [REDACTED] through a prime commercial bank.

The agreed price is only valid for the volume of the contract, and any additional orders are renegotiated. Prices are agreed on a [REDACTED] basis, with payment terms agreed at [REDACTED].

When the goods have been produced, Hunan Valin arrange with the contracted domestic freight company to transport the goods to port, and then an overseas freight company to arrange transportation to Australia in line with the [REDACTED] terms of the agreements. Valin's responsibility ends at the time of arrival at the port of [REDACTED].

As the goods arrive in Australia, they are landed and cleared for collection, the [REDACTED] [REDACTED] is acquitted on sight through transferring of the funds. The customer arranges for transportation of the goods from the port to their preferred location.

4.3 Verification of export and domestic sales to audited financial statements

As noted above, Hunan Valin completes its financial statements on a calendar year basis. This means there is a partial misalignment between the audited financial statements and the investigation period.

Hunan Valin provided a spreadsheet demonstrating the verification pathway between the goods and the audited financial statements for all the exported goods, and a selected model [REDACTED] of domestic sales.

This reflected both the first six months of the investigation period (1 July – 31 December 2014) which reconciled to the 2014 audited financial statements, and the 1 January – 30 June 2015 half year accounts (unaudited).

The export and domestic sales amounts were both reconciled with a minor variance of less than [REDACTED] % recognised. This variance is due to [REDACTED]
[REDACTED]

From this summary, the visit team traced through the accounting system to test Hunan Valin's classification of sales of subject merchandise and non-subject merchandise, total main business income and other business income and total income for the two periods.

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Having reconciled the export sales spreadsheet provided by Hunan Valin to the audited financial statements, the visit team is satisfied that this data is complete and relevant.

The reconciliation spreadsheet and working papers are available at **Confidential Attachment SALES 2**.

4.4 Verification of export sales to source documents

As part of its EQR, Hunan Valin provided source documentation for two Australian export sales transactions (**Confidential Attachment SALES 3**). Prior to the visit, the visit team reconciled these source documents to the Australian export sales listings.

The visit team reviewed the EQR response and noted that there appeared to be [REDACTED] contracts over the period for a total of [REDACTED] different invoice numbers. As such, the Commission decided to undertake a full verification of the remaining export sale documents.

This included receiving the following documents:

- Contract of purchase;
- purchase order;
- order confirmation;
- commercial invoices;
- proof of payment of commercial invoice (accounts receivables and bank statements/confirmation);
- packing list;
- discount and rebate source documents (where applicable);
- inland freight invoices;
- bill of lading;
- associated port, handling, FOB and clearance charges invoice; and
- the debtor ledger for the Australian customer.

These source documents (and other relevant documents) were provided to the visit team and are included at **Confidential Attachment SALES 4**.

There were no material issues observed within the provided documents relating to export sales. The Commission was able to confirm that for each transaction payment had been made.

The Commission was able to materially reconcile each of the amounts within the documents provided to the updated export sales spreadsheet provided by Hunan Valin during the verification process.

4.4.1 Conclusion

The visit team considers that Hunan Valin's export sales listing is an accurate record of its sales of rod in coil to Australia during the investigation period.

4.5 The exporter

The Commission 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

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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.

For all export sales during the investigation period, the visit team considers Hunan Valin to be the exporter of the goods because it:

- is the manufacturer of the goods;
- determines the price for the sale of the goods;
- owns the goods at the time prior to export;
- arranges delivery to the port of export (and is listed as the supplier on the bill of lading);
- arranges and pays for associated handling costs and other export expenses incurred in moving the goods to the port of export;
- pays for the [REDACTED] costs as per the [REDACTED] contracted Incoterm;
- is the principal in the country of export from where the goods are knowingly placed in the hands of a freight forwarder for delivery to Australia; and
- sent the goods for export to Australia and was aware of the identity of the purchaser.

4.6 The importer

The visit team reviewed the documents provided in respect of the selected shipments and other material provided by Hunan Valin during and after the verification visit.

The visit team note that the Australian customers:

- negotiate with Hunan Valin directly via email for the purchase of the goods;
- are named as the customer on supplier invoices;
- are named as the consignee on the bill of lading;
- have an insurable interest in the goods while they are on the water;
- arrange Customs clearance, logistics and storage of the goods after they are delivered to the Australian port; and
- retain ownership of the goods from the point of their arrival in Australia.

The verification team considers that the relevant customer listed in the export sales listing is the beneficial owner of the goods at the time of importation and therefore is the importer of the goods exported by Hunan Valin during the investigation period.

4.7 Arms length

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

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- in the opinion of the Parliamentary Secretary, 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.

In respect of Hunan Valin's export sales of steel rod in coil to Australia during the investigation period, the visit 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 visit team therefore consider that all steel rod in coil export sales to Australia by Hunan Valin during the investigation period were arms length transactions.

4.8 Export price – preliminary assessment

In relation to the goods exported by Hunan Valin to each of its customers in Australia, the verification visit team considers that:

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

The verification team recommends that the export price be determined under subsection 269TAB(1)(a) of the Act, as the price paid by the importer less transport and other costs arising after exportation.

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

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5 COST TO MAKE AND SELL

5.1 General

Hunan Valin provided a detailed summary of its cost accounting process in its exporter questionnaire response (EQR). The EQR states that Hunan Valin uses a standard costing system whereby standard prices are set at the beginning of a year based on its market intelligence and previous year performance. The standard costing system is supported by an actual cost recovery system which operates on a monthly basis to correct the standard price to actual cost based on actual consumption and value. Hunan Valin provided the visit team with a cost accounting process diagram (**Confidential Attachment CTMS 1**) that outlines how the actual recovery system corrected the standard prices set in the cost accounting system.

Hunan Valin explained that the actual recovery system corrected the cost of inputs at the end of each month or as soon as the actual price was known for certain inputs. This involved a two stage price correction for some goods known as provisional price variations (PPV) and invoice price variations (IPV). The visit team was satisfied with the methodology provided by Hunan Valin and proceeded to test the methodology and accuracy during the cost verification exercise.

As stated earlier, Hunan Valin is an integrated manufacturer that produces the goods under consideration from raw materials such as coal and iron ore. Hunan Valin operates multiple blast and steel making furnaces and has had no requirement to purchase billet externally for the goods under consideration during the investigation period.

Hunan Valin's cost accounting system tracks the cost of production for goods at a model level for finished (and semi-finished) goods. In order to complete the exporter questionnaire, Hunan Valin consolidated its monthly CTMS data for each model of goods considered to be like goods for the domestic market and all CTMS data for all models of the goods under consideration that were exported to Australia. The CTMS data provided was categorised into [REDACTED] cost items as shown in the EQR (**Confidential Attachment CTMS 2**). These included items such as [REDACTED].

Hunan Valin identified that several of these cost items were used at multiple stages of the integrated manufacture. To illustrate the cost inputs at each stage, Hunan Valin provided a cost allocation reconciliation table that linked the CTMS data to the inventory ledger for finished goods (**Confidential Attachment CTMS 3**). The methodology used allocated the actual costs recorded in the finished goods ledger against the standard allocation ratio for each stage of production before amalgamating costs for the same cost item (e.g. coking coal) to the CTMS.

The visit team identified inconsistent values for the May 2015 cost data relating to [REDACTED] costs for a particular model that resulted in a lower than expected CTMS for that model. The visit team raised this item with Hunan Valin, which acknowledged there had been a [REDACTED] for a single transaction which caused this error to flow through the actual cost recovery system and therefore into the CTMS data provided. Hunan Valin proceeded to correct their accounting system for this error; however, due to the complexity of the production of the CTMS data for the Commission, Hunan Valin were unable to reproduce a new CTMS spreadsheet for that period. The visit team subsequently made manual adjustments to ensure that the alloy cost in that month was

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reflective of actual alloy costs incurred. This resulted in the CTMS for May 2015 increasing to a level consistent with the remaining data set.

At the conclusion of the visit the visit team was satisfied that the costs indicated in the CTMS data provided were reflective of the total actual cost of manufacture of the goods.

5.2 Verification of Hunan Valin's costs up to audited financial statements

The visit team sought to verify the completeness and relevance of the CTM data provided by Hunan Valin in its EQR by reconciling it to its audited financial accounts.

Hunan Valin provided a cost reconciliation spreadsheet (**Confidential Attachment CTMS 3**) which demonstrated how the CTMS data reconciled to the cost of goods sold (COGS) amount in the audited financial statements. Specifically, it demonstrated the reconciliation path for:

- COGS for the investigation period using the full year COGS reported in the 2014 audited income statement and the COGS reported in the profit statement for the period Jan-Jun 2015;
- reconciliation between the COGS for the investigation period and the cost of production of the rod in coil using its COGS ledger and finished goods inventory ledger.

The cost of production for rod in coil during the investigation period was compared with the CTM provided in the EQR and there were no variances identified. The full reconciliation flowchart is provided at **Confidential Attachment CTMS 3**. Having reconciled the CTM data to audited financial statements, the visit team is satisfied that Hunan Valin's CTM data is complete and relevant.

5.3 Verification of costs down to source documents

The visit team sought to verify the accuracy of Hunan Valin's CTM data by reconciling it to source documents. Hunan Valin was able to demonstrate how it calculated the CTMS of rod in coil using monthly actual cost reports, semi-finished goods ledgers and actual price variations. The visit team was satisfied with the methodology. The visit team selected a particular model that represented the majority of domestic sales of like goods for further downwards verification of production quantities, raw materials, electricity, gas recovery, alloys and overheads for the month of May 2015.

5.3.1 Production quantity

The visit team was able to reconcile the May 2015 production quantity reported in the CTMS spreadsheet through to the finished goods ledger input from production for the relevant sizes of rod in coil. The recording process for inputs into production was automated. The visit team traced the total volume of billet consumed to produce that model, less volume for sizes of coil that exceeded the size limitations of the goods description and noted that this reconciled with a yield of [REDACTED]%. The visit team considers this yield loss to be comparable to our understanding of industry standards.

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5.3.2 Raw materials

The visit team selected the raw materials of iron ore, iron ore fines, coal, coking coal and alloys for downwards verification from the CTMS spreadsheet. As discussed above, Hunan Valin used a methodology to allocate the actual costs recorded in the finished goods ledger against the standard allocation ratio for each stage of production, before amalgamating costs for the same cost item to prepare the CTMS spreadsheet. Therefore the total allocation for the model is based on the total actual costs shown on the finished goods ledger.

In order to verify the total cost from the finished goods inventory ledger to source documents the visit team traced the costs and production volumes through production cost reports, semi-finished goods ledgers and standard to actual price conversion reports to invoices and proof of payment. As Hunan Valin is a fully integrated manufacturer this required verification of multiple stages of production of the various semi-finished goods in the process.

The verification team developed a verification flowchart pack that includes all source document packs used to trace the cost to source invoices. The process included over twenty five different production reports, ledgers or processes. The process of verification is clearly outlined in **Confidential Attachment CTMS 4**. A summary of the verification process that was undertaken has been included below.

Stage 1: Finished Goods Production

The final stage of goods production involves passing a steel billet through a series of rollers, increasing in speed to produce the finished goods including rod in coil. Hunan Valin provided a copy of the finished goods inventory ledger for rod in coil produced in the selected month using the selected billet grade. This ledger identified five sizes were produced using this billet type, with three sizes falling within the goods definition.

The visit team selected a line item representing 60% of total production for further verification. The input from production line for the selected model was examined and traced to the actual CTM calculation table for that model. This document outlines the target (standard) and actual production costs for the production of this model of the goods. It outlines all material and conversion costs applicable for this model. The visit team noted that the total production quantity and production value reconciled between the finished goods ledger and the CTM calculation table.

The visit team examined the cost calculation table and noted the cost of the billet represented [REDACTED] % of the total cost of production. The visit team noted that scrap credits offset the raw material inputs for production. Hunan Valin advised that this related to offcuts during the rolling production and general yield loss during production. The visit team calculated the scrap credits represented [REDACTED] % of the total cost of billet production. The visit team compared this to the overall billet yield in rolling of [REDACTED] % and concluded that the scrap credits reasonably reflected an amount of yield loss that could be reused in earlier production stages. Thus, the visit team considered the scrap credits to be reasonable.

The visit team requested a copy of the billet finished goods inventory ledger which showed that during the month a total of billet was consumed to further production that

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exceeded the amount consumed for the production of the selected model of rod in coil. Hunan Valin produced a consumption table that outlined the destination of all production of that grade of billet. The total from this table reconciled to the total shown on the finished goods ledger and the quantity consumed for production of the selected model of rod in coil.

Stage 2: Billet Production

Billet production takes the iron melt (or pig iron) and heats the melt, adds alloys, coke and other items to produce a more refined chemistry of steel products. The result of the billet production process is steel billet. The visit team calculated the unit actual cost of production from the selected billet finished goods ledger and reconciled this input unit value as the actual unit value shown on the cost calculation table for the selected model of rod in coil.

The visit team requested that Hunan Valin demonstrate the total production inputs shown in the semi-finished goods inventory ledger for the selected billet. Hunan Valin produced a cost calculation table for that billet which outlined all costs incurred in the manufacture of that model of billet during the selected month. The visit team noted that the cost items incurred appeared consistent with industry standards for steel making. The visit team selected four production items including iron melt, by-products, an alloy and electricity consumption for further verification. The selected items represented ██████% of the total cost of steel billet production.

Hunan Valin extracted relevant data from its accounting system to develop semi-finished goods ledgers for iron melt, by-products and alloys. Hunan Valin also explained the allocation methodology for electricity which will be discussed separately. The semi-finished goods inventory ledgers were used to calculate a unit cost for each selected cost item. These unit values reconciled with the actual unit cost inputs on the selected steel billet production cost calculation sheet. The visit team also traced the unit costs for by-products (scrap) and an alloy to the semi-finished goods ledger and purchase records. This process is discussed in further detail later in this report.

Stage 3: Iron Making

Hunan Valin explained that the iron making stage of production was conducted using the various blast furnaces it operates. The process mixes a quantity of grades of iron ore, sintered ore, coking coal and other elements to form an iron melt, which when set is known as pig iron. Hunan Valin refers to the product of the blast furnace process as iron melt.

The visit team traced the unit price for iron melt to the iron melt semi-finished goods ledger which showed all iron melt produced was consumed in the process. Hunan Valin provided a ledger that outlined the process of allocating the iron melt produced to the various steel making billets cast. The volume of iron melt consumed for the production of the selected billet reconciled. The total production volume and value from production of iron melt was reconciled to the actual CTM calculation table for iron melt.

The visit team selected three items from the iron melt calculation table representing 79% of the total cost for further verification. These included iron ore, sintered ore and coke. Using the semi-finished goods inventory ledger for each of the selected items the

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visit team calculated the unit cost for each item using the values contained in the 'to further production' area of the ledgers. These unit values reconciled with the actual unit cost inputs on the iron melt production cost calculation sheet.

The visit team reconciled the total amount of sintered ore sent to further production that was consumed during the iron melt process and the total value transferred accordingly. Coke sent to further production represented [REDACTED] % of the total coke sent to all production, therefore Hunan Valin provided a sent to production document outlining the details of where all coke sent to production was consumed. The visit team was satisfied of the allocation of cost and volume for coke and sintered ore transferred to production. The visit team verified the cost of iron ore purchases during the iron ore sintering phase of verification and thus did not follow the iron ore at this stage, noting that the majority of ore consumed was sintered.

Stage 4a: Iron Ore Sintering

Hunan Valin produced a sintering plant cost calculation report which outlined the key cost components of the sintering plant. The visit team followed a similar verification process as was conducted for previous stages to validate this cost report. The visit team selected two grades of iron ore and scale from the sintering cost calculation report. The visit team noted that these represented 19% of the total sintering plant costs, however it was also noted that various other grades of iron ore made up a further [REDACTED] % of the total cost. Thus the visit team considered that the sample selected would test the methodology for a reasonable proportion of total sintering costs to obtain satisfaction in the accuracy of the CTMS data.

Stage 4b: Coking Coal Ovens

Hunan Valin produced a coking coal oven cost calculation report which outlined the key cost components of the coking ovens. The visit team followed a similar verification process as was conducted for previous stages to validate this cost report. The visit team noted that the total quantity produced versus the amount transferred to production varied. Hunan Valin explained that the amount of coking coal released for production was amended due to the reclassification of some product during the process. Hunan Valin explained that during the production process some coking coal produced does not meet the required standards and is thus reclassified or reprocessed accordingly. This resulted in a minor adjustment to the quantity provided for further production. The visit team considered this volume and explanation of this adjustment to be reasonable.

The visit team selected two grades of coal and gas recovery from the coking oven cost calculation report. As was the case for iron ore sintering, these two grades did not represent a large proportion of the total cost, however the combination of all various grades of coal made up a significant proportion of the total costs. Thus the visit team considered that the sample selected would test the methodology for a reasonable proportion of total coking oven costs to obtain satisfaction in the accuracy of the CTMS data.

Stage 5: Warehouse entry of raw materials

Hunan Valin advised that as part of its accounting process when raw materials are receipted in the relevant warehouses the warehouse staff enter the actual quantity

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received into the cost accounting system. The system then automatically assigns a standard cost for that product into the accounting system. The actual cost recovery system later reconciles the standard cost with the actual cost using a two stage process, the PPV and the IPV. This process applies to all raw materials received.

Hunan Valin produced price variation calculation tables for iron ore, coal and alloy raw materials that were selected for further verification to source documents during the previous stages of verification. These tables identified the PPV, IPV and reconciled to the raw materials ledgers for each selected raw material.

When goods are entered into the system the standard price is used. The system calculates an expected variance between standard and actual price known as the PPV (provisional price variation). When the invoice is received the accounting department corrects the PPV price with an IPV (invoice price variation).

The combination of these variances is translated to the finished goods ledger for purchases. The visit team was satisfied that despite standard prices being entered when goods are delivered, through the price variation mechanisms the goods are priced at actual costs when they hit the inventory ledgers. Fees are also estimated and entered at a standard rate when the goods are delivered. Once the goods are transferred to the inventory ledger the difference in transportation fees is also applied to correct the standard to actual fees.

Stage 6: Provisional Price Variation (PPV)

The PPV calculates the difference between the standard cost and the estimated actual cost. The provisional price is the price determined when the goods are ordered. As discussed later in this report, the provisional price is subject to change and thus the PPV accounts for this change in prices between order and delivery. Hunan Valin stated that this stage of the process allows for more accurate performance reporting during production as it reduces some of the variance between standard and actual costs in a more timely manner. It also allows Hunan Valin to account for the expected liability at the value of the liability at that time.

Hunan Valin produced a table that outlined selected suppliers' PPV calculations for each of the selected raw materials. The PPV calculation compares the provisional price for selected orders to the standard price over a period. The PPV is calculated for each supplier based on the total of the volume and value of orders in that period. The visit team reconciled the PPV unit variation from the PPV calculation table to the warehouse cost calculation table and is satisfied with the methodology and accuracy.

Stage 7: Invoice Price Variation (IPV)

The IPV calculates the difference between the provisional price and the actual invoice price. The actual invoice price, also known as the final invoice price, is the final liability paid by Hunan Valin in consideration for raw materials received. The IPV can be either positive or negative, depending on the price movements of raw materials between the provisional price and final price.

Hunan Valin produced IPV tables for each selected supplier for each raw material selected for verification. The visit team observed both positive and negative IPV results

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among the selected sample of suppliers and raw materials and were able to trace the IPV result to the warehouse calculation table which in turn flows into the raw materials inventory ledger. The visit team is satisfied with the accuracy and methodology for the invoice price variations.

Stage 8: Raw Material Purchase Invoices

Hunan Valin produced raw material purchase invoices that the visit team was subsequently able to reconcile with the invoice lines shown on the relevant IPV table for each of the selected raw materials. Hunan Valin also included proof of payment for each invoice in the form of bank coupons/statements and additional invoices as required to allocate invoices to supplier payments. The visit team noted that Hunan Valin pre-paid most suppliers and observed no outstanding debts for raw materials.

Raw Materials Conclusion

The visit team was satisfied that the methodology that Hunan Valin uses to allocate costs for raw materials from order, purchase and further processing accurately records the actual costs incurred. The visit team is satisfied that the raw materials shown in the CTMS data provided by Hunan Valin in its exporter questionnaire response are accurate.

5.3.3 Electricity

Hunan Valin explained the process by which electricity is accounted for in the cost accounting system as follows. Hunan Valin purchases electricity from the electricity grid in addition to generating its own electricity using a thermal recovery plant. As many stages of the steel making process involve exothermic chemical reactions, Hunan Valin captures that heat and uses some of it for reheating other processes (see gas recovery below) and some for electricity generation. The visit team undertook further research into the process of sinter waste heat recovery for power generation and noted a United Nations Framework Convention on Climate Change (UNFCCC) report that validated Hunan Valin's use of sinter heat recovery for energy generation.

Hunan Valin describes the cost components of electricity to include the cost of electricity purchased, cost of raw materials used in electricity generation and the cost of electricity generation (labor and overheads). Hunan Valin explained that the total cost of electricity generation is priced according to the actual labor and overheads used in the power generation plant and having consideration to a standard price for raw material inputs. This standard price is calculated annually and is based on the actual market price for electricity and the price of the majority of the grid's key electricity generation inputs such as coal.

Hunan Valin advised that it has electricity meters at the generation plants and production facilities to record and analyse data regarding electricity generated and consumed. The standard electricity unit cost is applied to all production across the facility and represents both purchased and generated electricity. The visit team tested the accuracy of the standard electricity price by comparing the standard price to external grid prices. The visit team sighted an electricity bill from the grid and compared this to the standard price calculated by Hunan Valin. The visit team concludes that the

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electricity cost allocated to the goods is reasonably reflective of market electricity prices from the Chinese grid.

5.3.4 Gas Recovery (Steam)

Hunan Valin offsets its cost of production by the value of the gas (steam) recovered and used in further production stages. As a fully integrated manufacturer gas steam is generated at all stages of manufacture. Hunan Valin captures this gas and uses it for heating production stages or electricity generation (as above), stating that it sets the cost per unit of gas steam recovered annually based on a standard cost. This standard cost is calculated based on the energy content of the gas recovered and the amount it would cost Hunan Valin to produce the same amount of energy using other methods such as gas or electricity. Hunan Valin measures the volume of gas generated and sets the price annually based on the current market prices of gas and electricity.

During the verification process Hunan Valin demonstrated how it calculated the value of energy captured which the visit team compared to the current market value of electricity. The visit team concludes that the gas recovery offsetting the cost of production of the goods is reasonably reflective of market electricity prices from the Chinese grid for the same amount of energy that would have been required if not for gas recovery.

5.3.5 Manufacturing Overheads

Hunan Valin explained that it allocates manufacturing overheads and depreciation expenses based on the production output of each production line and stage of production. Hunan Valin stated that each stage of the production is a different cost centre and where a stage has multiple lines, the costs of production are allocated according to the production on that line. During verification the visit team noted that manufacturing overheads appeared on each cost production report for the various stages of production and were satisfied that the manufacturing overheads were appropriately apportioned across the production.

5.4 Selling, general and administration (SG&A) expenses

The visit team sought to verify the completeness and relevance of the SG&A data provided by Hunan Valin in its EQR by reconciling it to its audited financial accounts.

Hunan Valin provided a SG&A reconciliation spreadsheet (**Confidential Attachment SG&A 1**) which demonstrated how the SG&A data reconciled to the selling, general and administration amounts shown in the audited financial statements. Specifically, the spreadsheet provided a reconciliation pathway which demonstrated:

- SG&A for the investigation period using the full year reported in the 2014 audited income statement and the SG&A reported in the profit statement for the period Jan-Jun 2015;
- Reconciliation between the SG&A for the investigation period and the SG&A allocation to the rod in coil.

The SG&A allocation for rod in coil during the investigation period was compared with the CTMS provided in the EQR and there were no variances identified. The full

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reconciliation flowchart is provided at **Confidential Attachment SG&A 1**. Having reconciled the CTMS data to audited financial statements, the visit team is satisfied that Hunan Valin's CTMS data is complete and relevant.

5.5 Cost to make and sell – summary

Having verified Hunan Valin's CTMS data for rod in coil to audited financial accounts and to source documents, the visit team was satisfied that its CTMS data is complete, relevant and accurate.

Hunan Valin's verified CTMS spreadsheet is at **Confidential Appendix 2**.

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6 DOMESTIC SALES

6.1 General

In its EQR, Hunan Valin provided a detailed domestic sales listing for the goods on a line by-line basis. The domestic sales listing included the following information:

- customer name;
- level of trade;
- model, product code and standard;
- product name;
- quality, and PCN;
- invoice number, invoice date / date of sale and order number;
- payment terms;
- quantity (in metric tonnes);
- dimensions (thickness, width and length in millimetres);
- gross and net invoice value (in NTD);
- inland transport costs; and
- credit costs.

In addition, two packages of documents were providing which demonstrated the supporting evidence for 2 sales within the EQR as requested.

During the visit, it was recognised that the sales list provided was limited to only include sales of [REDACTED] and a small number [REDACTED] grade rod in coil sales.

The verification team discussed the concerns regarding limitation of the like goods with the company. As noted in Chapter 3 of this report, the like goods are significantly broader than this. The Commission requested and received an increased list of domestic sales of rod in coil without the like goods filter being applied to the output. This captured a substantially wider range of billet and both the [REDACTED] [REDACTED] production lines for goods which increased the amount of data for analysis [REDACTED].

The verification team was able to recognise the difference between production processes based on the Product Code line. The Product Codes beginning with [REDACTED] [REDACTED] represent [REDACTED], while product code [REDACTED] represented [REDACTED] product.

The team considered the new domestic sales spreadsheet appropriately captured all possible like goods.

6.2 Domestic Sales Process

Hunan Valin disclosed two different processes for domestic sales, the primary method being sales from the factory, and a secondary method capturing sales from one of several distribution centres which Hunan Valin operates.

The primary channel of factory based sales operates as follows:

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Customers contact the Hunan Valin sales department to request an order. The customer provides Hunan Valin with the quantity and specifications of the product required. The Hunan Valin staff consult an internal price calculation sheet that is based on the cost of the production to determine the price. They also consider the current market conditions in the domestic market and to a lesser extent the volume of sales from that customer to determine the price.

Hunan Valin notes that its prices are generally above the current market prices in China and their customers sometimes request lower prices, however sales staff cannot sell below the cost to make the goods. The price is valid for ■■■ days. Once the customer accepts the price they contact the financial department to arrange payment.

Domestic customers are required to make full prepayment of the order when they place an order with Hunan Valin. The financial department monitors the balance on the customers' accounts receivable ledger and if the account is in credit for the value of the order then they allow the sales department to process the order. If the account is not in credit then the customer must prepay the order in full.

Once the finance department has given approval, they contact the sales department to approve the order. The sales department then contacts the production department to schedule production of the goods and advise the customer of the expected date for collection.

When the goods have been produced (approximately ■■■ days after the order was lodged) the customer is contacted to arrange collection from the factory. Hunan Valin does not include delivery in any of its domestic sales for any products.

The customer collects the goods from Hunan Valin. If there are any issues with the goods the customer contacts the sales department for warranty claims. The numbers of warranty claims are low as the goods have historically met required specifications. Test certificates are provided for each billet heat used in the production of the goods to confirm this.

Hunan Valin also operates several distribution centres for what it calls 'irregular customers', which operate as follows:

Irregular customers contact the distribution centre directly to determine if an order can be placed. The distribution centre checks the stock levels and if an order can be filled, it generates a VAT invoice for the irregular client. The client pays the distribution centre for the goods and collects the goods immediately.

After a VAT invoice has been issued to the irregular customer the distribution centre advises the sales department within Hunan Valin of the sale. The sales department then creates a commercial invoice in the sales system to account for the sale of the goods. This invoice does not include the customer details. Unlike regular customers, the sales department does not advise the production department as the goods have already been delivered from stock. Production for distribution centre stock is manufactured as required when stock levels within the distribution centre need to be refilled.

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These distribution centres allow for entities with smaller annual needs or one-off purchasers of the goods to operate on cash terms without the need to enter into a more formal supply relationship with Hunan Valin for what may be a one off order.

The visit team noted that for irregular sales Hunan Valin carries stock which differs from regular domestic sales and export sales. However Hunan Valin was unable to quantify inventory turnover or inventory carrying costs. Thus the visit team was unable to calculate or verify a downward adjustment based on warehousing costs for irregular customers.

6.3 Verification of domestic sales to audited financial statements

Having reconciled the domestic sales spreadsheet provided by Hunan Valin to the audited financial statements, the visit team is satisfied that this data is complete and relevant. This information is captured within **Confidential Attachment DOM 1**.

6.4 Verification of domestic sales to source documents

As part of its EQR, Hunan Valin provided source documentation for two domestic sales transactions (**Confidential Attachment DOM 2**). Prior to the visit, the visit team reconciled these source documents to the domestic sales listings.

The visit team selected an additional 12 domestic transactions for verification to source documents at the visit, requesting that Hunan Valin provide the following commercial documents in relation to each selected domestic sales transaction:

- sales agreement / purchase order;
- commercial invoices;
- mill test certificates;
- proof of payment of commercial invoice (payment receipts / vouchers); and
- inland freight invoices (where applicable).

These source documents (and other relevant documents) were provided to the visit team (**Confidential Attachment DOM 3**).

Using the source documents, the visit team verified the customer names, product codes, invoice dates, currency, invoice values, and quantities of each selected domestic sale transaction to the corresponding domestic sales listing. All data in the sales listing aligned precisely with the source documents, and any allocations (including for credit costs) were completed correctly.

The team confirmed that for each of the domestic sales documents requested, the amounts reconciled.

6.4.1 Conclusion

The visit team considers that Hunan Valin domestic sales listing is an accurate record of its domestic sales of rebar during the investigation period.

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6.5 Arms length

In respect of Hunan Valin's domestic sales of steel rod in coil during the investigation period, the visit team found no evidence that:

- there is any consideration payable for or in respect of the steel rod in coil 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, the whole or any part of the price.

The visit team therefore considers that all domestic sales by Hunan Valin during the investigation period were arms length transactions.

6.6 Ordinary course of trade

Section 269TAAD of the Act 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 visit team compared the quarterly domestic CTMS to the net invoice price of the matching model during the same quarter to test whether domestic sales were profitable. Where the volume of unprofitable sales exceeded 20% 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 whole of the investigation period. Those sales found to be unrecoverable were deemed not to be made in the OCOT.

6.7 Suitability of sales and profit

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

Other situations in the market can arise making the sales not suitable for use in determining a normal value under s. 269TAC(1). Sales that would otherwise be relevant for determination of normal value may be unsuitable because the price does not reflect a fair price in normal market conditions. The legislation does not define market situations that would render domestic sales as unsuitable. The investigation and analysis of each case must fully set out the reasons for the unsuitability of sales before determining normal value under succeeding provisions of section 269TAC.

The visit team undertook a sufficiency test following verification of sales and cost data. This was undertaken by the visit team who calculated the profitability of domestic sales of like goods by comparing the selling price with the corresponding quarterly CTMS. In calculating the profit, we have only included domestic sales made in the ordinary course of trade.

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The profitability of domestic sales of like goods made in the ordinary course of trade during the investigation period, as a percentage of revenue, is [REDACTED] %.

6.8 Domestic sales – conclusion

The Commission is considering OneSteel's application that a particular market situation exists in the Chinese domestic rod in coil marketplace. Pending a decision on a potential market situation, the visit team has generated a normal value based on the verified cost to make and sell and the sales data provided by Hunan Valin.

Noting that there has not yet been a market situation finding, the visit team verified data and were satisfied that normal values are able to be established under subsection 269TAC(1) using the price paid for like goods sold in the ordinary course of trade in the country of export. Should a market situation finding be made during the course of the investigation, the visit team were also satisfied that the verified data was sufficient to enable normal values to be established under 269TAC(2)(c).

Domestic sales spreadsheet is at **Confidential Appendix 3**.

7 THIRD COUNTRY SALES

In its EQR, Hunan Valin provided a summary of steel rod in coils sold to third countries during the investigation period. This summary did not contain a line by line listing. However, during the upwards export sales verification to audited financial statements, Hunan Valin provided a report which captured all export sales during the review period (section 4.2 above refers).

The third party export sales disclosed also represented a relatively small amount of the market, totalling [REDACTED] compared to [REDACTED] exported to Australia over the investigation period.

The visit team considers that it is in possession of sufficient verified information from the EQR and the visit to calculate normal values for steel rod in coil using domestic sales or costs. For this reason, the visit team did not undertake a detailed verification of third country sales.

8 ADJUSTMENTS

8.1 General

To ensure that the normal value was comparable to the Australian export price at FOB terms, the following adjustments were made.

8.1.1 Export inland freight, handling and port charges

The visit team consider an upward adjustment for export inland freight, handling and port charges is required to ensure fair comparison to the export price. The visit team applied a weighted average upwards adjustment over the investigation period based on actual export inland freight, handling and port charges listed for each transaction.

8.1.2 VAT

The visit team observed that the value added tax (VAT) liability differed between domestic sales and export sales. As per the Commission's *Dumping and Subsidy Manual*,

*“the Commission treats this VAT liability in export sales as having influenced the export price. Accordingly, where the normal value is calculated from VAT exclusive domestic sales prices, an upward adjustment is made in order to compare those domestic sales prices to the VAT- inclusive export sales prices.”*⁷

The visit team calculated an upwards VAT adjustment as the difference between the VAT rates for normal supply and the rate of VAT refund for export and applied this adjustment to ensure fair comparison to the export price.

8.1.3 Physical Adjustments

The visit team consider that an upwards adjustment for differences in alloy contents, namely boron and titanium, is required to ensure fair comparison to the export price. The visit team applied a weighted average over the investigation period adjustment to specific models for boron and titanium based on verified actual alloy costs observed in the CTMS data.

Due to insufficient sales in the OCOT for a specific model, the visit team consider that an upwards adjustment for physical differences between models is required to ensure fair comparison to the export price. The visit team applied a quarterly weighted average upwards adjustment based on quarterly cost to make and sell cost differences between the selected domestic models. In order for the adjustment calculation to estimate the market value of the cost difference, the visit team added a profit percentage based on domestic profits generated from OCOT sales to the production cost difference.

⁷ Anti-Dumping Commission *Dumping and Subsidy Manual* (November 2015), p63

PUBLIC RECORD

8.2 Adjustments – conclusion

The visit team is satisfied that there is sufficient and reliable information to justify the following adjustments, in accordance with subsection 269TAC(8) of the Act, and considers these adjustments are necessary to ensure a fair comparison of normal values and export prices:

Adjustment Type	Deduction/addition
Export inland freight, handling and port charges	Add cost of export inland freight, handling and port charges
VAT	Add cost of VAT less any applicable rebates
Physical Adjustments	Add (Deduct) cost of alloy cost difference. Add (Deduct) cost of production cost difference plus profit.

9 DUMPING MARGIN

The dumping margin has been assessed in accordance with subsection 269TACB(2)(a) by comparing the weighted average export prices to the corresponding weighted average normal values for the investigation period.

As noted in Consideration Report 301 and Preliminary Affirmative Decision Report 301 for this dumping investigation, the applicant has suggested that it would be unsuitable to use domestic sales data to determine the normal value of the goods under subsection 269TAC(1) of the Act.

At the current stage of the investigation the Commission has not taken a position on this matter. The normal values calculated in this report are therefore based on the application of verified cost to make and sell information to test for profitability and recoverability of the domestic sales data, with adjustments as noted in chapter 8.

The visit team calculated normal values under subsection 269TAC(1) making adjustments in accordance with subsection 269TAC(8).

The normal value calculations are at **Confidential Appendix 4**.

The dumping margin in respect of steel rod in coils exported to Australia by Hunan Valin for the investigation period is **10.4% per cent**.

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

PUBLIC RECORD**10 APPENDICES AND ATTACHMENTS**

Confidential Appendix 1	Export sales
Confidential Appendix 2	Cost to make and sell
Confidential Appendix 3	Domestic sales
Confidential Appendix 4	Normal value
Confidential Appendix 5	Dumping margin

Confidential Appendix GEN1	Product Range of Hunan Valin
Confidential Appendix GEN 2	Valin Iron & Steel Corporate Structure
Confidential Appendix GEN3	Related Supplier Comparison Spreadsheet
Confidential Appendix GEN 4	Production process graphs
Confidential Appendix GOODS 1	Model Matching table
Confidential Attachment SALES1	Example Sales Price guide
Confidential Attachment SALES 2	Sales Reconciliation work papers
Confidential Attachment SALES 3	EQR Export Sales Evidence
Confidential Attachment SALES 4	Verification visit export sales evidence
Confidential Attachment CTMS 1	Cost accounting process diagram
Confidential Attachment CTMS 2	Cost allocation process and categories
Confidential Attachment CTMS 3	Cost reconciliation spreadsheet
Confidential Attachment CTMS 4	Cost verification spreadsheet
Confidential Attachment SG&A 1	SG&A Reconciliation Spreadsheet
Confidential Attachment DOM 1	Sales reconciliation to Annual Report
Confidential Attachment DOM 2	EQR Domestic Sales Evidence
Confidential Attachment DOM 3	Verification visit domestic sales evidence