



**REVIEW 419**

**REVIEW OF ANTI-DUMPING MEASURES**

**CERTAIN HOLLOW STRUCTURAL SECTIONS**

**EXPORTED FROM THE PEOPLE'S REPUBLIC OF CHINA, THE  
REPUBLIC OF KOREA, MALAYSIA AND TAIWAN**

**VISIT REPORT - EXPORTER**

**KUKJE 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**

**OCTOBER 2017**

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## **1 BACKGROUND**

On 14 July 2017, the Commissioner of the Anti-Dumping Commission (the Commissioner) gave public notice in Anti-Dumping Notice (ADN) Number 2017/95 of his decision to initiate a review of anti-dumping measures in relation to certain hollow structural sections (HSS) exported to Australia from the People's Republic of China, the Republic of Korea (Korea), Malaysia and Taiwan. The background relating to initiation of this review is contained in consideration report number 419 (CON 419).<sup>1</sup>

Following initiation of the review, a search of the Australian Border Force (ABF) import database indicated that Kukje Steel Co., Ltd (Kukje) exported HSS to Australia from Korea during the period 1 July 2016 to 30 June 2017 (the review period).

The Anti-Dumping Commission (the Commission) notified Kukje of initiation of the review, and sought its cooperation through the completion of an Exporter Questionnaire.

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<sup>1</sup> [www.adcommission.gov.au](http://www.adcommission.gov.au)

## **2 THE GOODS AND LIKE GOODS**

### **2.1 The goods exported to Australia**

During the review period Kukje exported HSS to Australia. The HSS exported by Kukje meets the description of ‘the goods’ subject to anti-dumping measures.

### **2.2 Like goods sold on the domestic market**

During the review period Kukje sold HSS to its domestic customers in Korea.

The verification team considers that the goods manufactured and sold for domestic consumption are identical to, or have characteristics closely resembling, the goods exported to Australia, as they:

- have similar physical characteristics;
- are produced at the same facilities and with the same raw material inputs and manufacturing processes; and
- can be considered functionally and commercially alike.

### **2.3 Model matching**

For the purpose of model matching, the verification team used the following criteria and hierarchy:

- Finish (black, painted, pre-galvanised)
- Grade (C250, C350)
- Shape (circular or rectangular)
- Size (CHS Diameter:  $\leq 48.3$ ;  $> 48.3$ ; RHS Width:  $< 65\text{mm}$ ;  $\geq 65\text{mm}$ )
- Thickness ( $\leq 2\text{mm}$ ;  $> 2\text{mm}$ )

#### **2.3.1 Grade**

Kukje exports HSS to the AS/NZS 1163 standard to Australia and sells domestically to the Korean and Japanese standards. It stated that the most comparable grades for the different standards are as outlined below:

<b>PIPE TYPE</b>	<b>AS/NZS 1163</b>	<b>KSD3566</b>	<b>JIS3444</b>
Circular	C250	STK 400	STK 400
	C350	STK 500	STK 500
Rectangular	C250	SPSR400	STKR 400
	C350	SPSR490	STKR 490

#### **2.3.2 Non-structural HSS**

Kukje excluded sales of non-structural carbon steel pipe from its sales listings. It advised that the following Korean and Japanese standards are for non-structural pipe:

- KS D3507

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- KS D3562
- KS D3517
- ASTM A53
- SAE 1012

### 2.4 Like goods – preliminary assessment

The verification team considers that HSS produced by Kukje for domestic sale has characteristics closely resembling those of the goods exported to Australia and are therefore 'like goods' in accordance with subsection 269T(1) of the *Customs Act 1901* (the Act).<sup>2</sup>

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<sup>2</sup> References to any section or subsection in this report relate to provisions of the Act, unless specifically stated otherwise.

### 3 VERIFICATION OF EXPORT SALES TO AUSTRALIA

#### 3.1 Verification of Australian sales to audited financial statements

The verification team verified the completeness and relevance of Kukje's Australian sales listing by reconciling it to audited financial statements in accordance with ADN. No 2016/30.

At the commencement of the onsite verification, Kukje outlined minor corrections relating to inadvertent errors during the preparation of the questionnaire. A small number of transactions which were included in the initial response were removed as they were identified as not the goods subject to measures. Additionally, a number of minor errors regarding inland transportation, and handling and other costs were corrected

The verification team did not identify any other issues. Details of the verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

#### 3.2 Verification of Australian sales to source documents

The verification team verified the accuracy of Kukje's Australian sales listing by reconciling it to source documents in accordance with ADN No. 2016/30.

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

##### 3.2.1 Packing

In response to the Exporter Questionnaire 'B2-Australian Sales', Kukje did not include packing costs as it was of the view that there is no significant difference in packing costs between export and domestic sales.

At the visit the verification team requested and Kukje provided detailed costs which identified that HSS exported to Australia were packed differently compared to the domestic sales. Kukje provided a revised copy of its Australian sales listing, including the packing costs. The verification team verified the accuracy of the recorded packing costs.

##### 3.2.2 Date of sale

In response to the Exporter Questionnaire, Kukje claimed that the order confirmation date should be used as the date of sale. The order confirmation date recorded in the Australian sales spreadsheet did not match to the date on the purchase order samples provided by Kukje. The verification team did not pursue this discrepancy further as it is of the view that the invoice date should be used as the date of sale.

As noted in the Dumping and Subsidies Manual, April 2017 (Manual), "*in establishing the date of sale, the Commission will normally use the date of invoice as it best reflects the material terms of sale. For the goods exported, the date of invoice also usually approximates the shipment date.*" The Manual outlines a number of factors which the

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exporter would need to address when claiming a date other than the invoice date be used as the date of sale.

Having regard to the evidence provided in the response to the Exporter Questionnaire and during the visit, the verification team is of the view the date of invoice should be regarded as the date of sale.

### **3.3 The exporter**

For all Australian exports of the goods during the review period, the verification team considers Kukje to be the exporter of the goods.<sup>3</sup>

### **3.4 The importer**

In relation to HSS exported to Australia by Kukje, the verification team considers that the customers listed in the Australian sales listing were the beneficial owners of the goods at the time of importation, and therefore were the 'importers' of the goods.

### **3.5 Related party customers**

Based on Kukje's response to the Exporter Questionnaire, sales data provided by the company, audited financial statements and the information gathered during the visit, the verification team did not find any evidence that suggests the Australian customers were related to Kukje during the review period.

### **3.6 Arms length**

In respect of Australian sales of the goods by Kukje to its customers during the review period, the verification team found no evidence that:

- there was any consideration payable for, or in respect of, the goods other than its price; or
- the price was 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, was directly or indirectly reimbursed, compensated or otherwise received a benefit for, or in respect of, the whole or any part of the price.<sup>4</sup>

The verification team therefore considers that all exports of HSS to Australia by Kukje during the review period were arms length transactions.

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<sup>3</sup> The Commission generally identifies the exporter as a 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 carrier, courier, forwarding company, or its own vehicle for delivery to Australia; or a principal in the transaction, located in the country of export, that owns, or previously owned, the goods but need not be the owner at the time the goods were shipped.

<sup>4</sup> Section 269TAA refers.

### **3.7 Export price – preliminary assessment**

The verification team is satisfied that the Australian sales listing is complete, relevant and accurate and recommends that the export price be determined under subsection 269TAB(1)(a), as the price paid by the importer to the exporter less transport and other costs arising after exportation.

The revised Australian sales listing and the verification team's preliminary weighted average export price calculation is at **Confidential Appendix 1**.



## 4 COST TO MAKE AND SELL

### 4.1 Verification of costs to audited financial statements

The verification team verified the completeness and relevance of Kukje's cost to make and sell (CTMS) spreadsheets by reconciling it to audited financial statements in accordance with ADN No. 2016/30.

The verification team did not identify any issues. Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

### 4.2 Verification of costs to source documents

The verification team verified the accuracy of Kukje's CTMS spreadsheet by reconciling it to source documents in accordance with ADN No. 2016/30.

The verification team did not identify any issues. Details of the verification process are contained in the verification work program, and relevant attachments, at **Confidential Attachment 1**.

### 4.3 Related party purchases

The verification team did not identify any suppliers that might be related to Kukje, based on the company's response to the Exporter Questionnaire and documentation supplied for the purpose of verification.

### 4.4 Cost to make and sell – summary

Having verified Kukje's CTMS spreadsheet and reconciling it to audited financial statements and to source documents, the verification team is satisfied that the CTMS spreadsheet is complete, relevant and accurate.

Kukje's revised income statement and CTMS spreadsheet is at **Confidential Appendix 2**.

## 5 VERIFICATION OF DOMESTIC SALES

### 5.1 Verification of Australian sales to audited financial statements

The verification team verified the completeness and relevance of Kukje's domestic sales listing by reconciling it to audited financial statements in accordance with ADN. No 2016/30.

At the commencement of the onsite verification, Kukje outlined minor corrections relating to inadvertent errors during the preparation of the questionnaire. A number of transactions which were included in the initial response were removed from the domestic sales listing as they were identified as not the goods subject to measures.

The verification team also noted a minor variance when reconciling the domestic sales to the financial statements. At the visit Kukje provided revised and domestic sales spreadsheets which reconciled to the audited financial statements.

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

### 5.2 Verification of domestic sales to source documents

The verification team verified the accuracy of Kukje's domestic sales listing by reconciling it to source documents in accordance with ADN No. 2016/30.

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

#### 5.2.1 Packing

In response to the Exporter Questionnaire 'D1-Domestic Sales', Kukje did not include packing costs as it was of the view that there is no significant difference in packing method between export and domestic sales.

At the visit the verification team requested and Kukje provided detailed costs which identified that HSS exported to Australia were packed differently compared to the domestic sales. Kukje provided revised copy of its domestic sales listing, including the packing costs. The verification team verified the accuracy of the recorded packing costs.

#### 5.2.2 Credit costs

The verification team noted that Kukje had calculated an average duration of account receivable in order to determine credit costs for domestic customers, however, this included months outside the review period and was not specific to the goods subject to measures. Kukje was unable to adopt a methodology satisfactory to the verification team and, therefore the verification team has adopted an alternate methodology for the purposes of adjustment (see section 6 of this report).

### **5.3 Related party customers**

Based on Kukje's responses to the Exporter Questionnaire, sales data, audited financial statements and information gathered at the visit, the verification team did not find any evidence that suggests that the domestic customers were related to Kukje during the review period.

The verification team found no evidence of any relationship, other than a commercial relationship, between Kukje and its domestic customers.

### **5.4 Arms length**

In respect of domestic sales of HSS made by Kukje during the review period, the verification team found no evidence that:

- there was any consideration payable for, or in respect of, the goods other than its price; or
- the price was 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, was directly or indirectly reimbursed, compensated or otherwise received a benefit for, or in respect of, the whole or any part of the price.

The verification team therefore considers that all domestic sales made by Kukje during the review period were arms length transactions.

### **5.5 Ordinary course of trade**

Section 269TAAD provides that if like goods are sold in the country of export at a price less than the cost of such goods, and are unrecoverable within a reasonable period, then they are taken not to have been sold in the ordinary course of trade (OCOT).

The verification team compared the net sales value for each domestic sale of HSS to the corresponding quarterly domestic CTMS to test whether those sales were profitable.

Where the volume of unprofitable sales exceeded 20% for a particular model, the verification team tested the recoverability of the unprofitable sales by comparing the revenue for each transaction to the corresponding weighted average CTMS over the review period. Those sales found to be unrecoverable were considered not to be in the OCOT.

### **5.6 Suitability of domestic sales and profit**

Subsection 269TAC(2)(a)(i) provides that the normal value of goods exported to Australia cannot be ascertained under subsection 269TAC(1) where there is an absence, or low volume, of sales of like goods in the market of the country of export.

Low volume is defined by subsection 269TAC(14) as less than 5% of the total volume of the goods under consideration that are exported to Australia. The verification team found that for three models there was an insufficient volume of domestic sales made in the OCOT for comparable grades of HSS exported to Australia during the review period.

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The verification team constructed normal value for those three models of HSS in accordance with 269TAC(2)(c).

The profitability of domestic sales of like goods has been calculated by comparing the selling price with the corresponding quarterly CTMS. In calculating the profit, the verification team has only included domestic sales made in the ordinary course of trade<sup>5</sup>.

### **5.7 Domestic sales – summary**

The verification team is satisfied that the revised domestic sales listing is complete, relevant and accurate, and can be used for assessing normal value for the models that were found to be in sufficient volume in the OCOT, under subsection 269TAC(1). For the models that were insufficient, normal value was assessed under subsection 269TAC(2).

The revised domestic sales listing is at **Confidential Appendix 3**.

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<sup>5</sup> Section 45(2) of the *Customs (International Obligation) Regulation 2015*

## **6 ADJUSTMENTS**

To ensure the normal value is comparable to the export price of goods exported to Australia at free-on-board (FOB) terms, the verification team has considered the following adjustments in accordance with subsections 269TAC(8) and (9).

### **6.1 Credit terms**

The verification team considers that a downward adjustment to the normal value for domestic credit and an upward adjustment for export credit are necessary to ensure a fair comparison to the FOB export price.

The verification team has applied this adjustment based on the average number of credit days of the selected domestic sales and used the short-term interest rate during the review period.

The verification team has applied an upward adjustment for export credit based on the average number of credit days in the selected export sales and used the short-term interest rate during the review period.

### **6.2 Inland Freight**

The verification team considers that a downward adjustment to the normal value for domestic freight expenses is necessary to ensure a fair comparison to the FOB export price. The verification team has applied this adjustment based on the inland transport costs listed for each domestic transaction.

The verification team also considers that an upward adjustment for export inland freight expenses is required, to ensure a fair comparison to the FOB export price. The verification team has applied this adjustment based on the weighted average cost (per tonne) for those expenses over the review period.

### **6.3 Export Handling**

The verification team considers that an upward adjustment for export handling expenses is required to ensure a fair comparison to the FOB export price. The verification team has applied this adjustment based on the weighted average cost (per tonne) for those expenses over the review period.

### **6.4 Bank charges**

The verification team considers that an upward adjustment for export bank charges is necessary to ensure a fair comparison to the FOB export price. The verification team has applied this adjustment based on the weighted average bank charges paid during the review period.

### **6.5 Packaging**

Kukje claimed in their response to the Exporter Questionnaire that there were no significant differences between the packaging of export and domestic sales. However,

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during the verification, Kukje acknowledged that there is extra packaging required for export sales and provided details of the additional packaging costs per tonne of Australian exports of the goods.

Therefore, the verification team considers that a downward adjustment for domestic packaging expenses and an upward adjustment for the export packaging expenses is required to ensure a fair comparison to the FOB export price.

The verification team has applied this adjustment based on the packaging costs calculation provided by Kukje and verified by the verification team.

### 6.6 Specification

There were certain export models where surrogate domestic models were required for model matching purposes. As there were specification differences between the export model and surrogate domestic model, the verification team considers that a specification adjustment is required to ensure a fair comparison. The specification adjustments were made for the specification differences and calculated based on the cost differences plus a gross margin or selling price differences.

### 6.7 Adjustments – conclusion

The verification team is satisfied that there is sufficient and reliable information to justify the following adjustments, in accordance with subsection 269TAC(8) and (9), and considers these adjustments are necessary to ensure a fair comparison of normal values and export prices:

<b>Adjustment Type</b>	<b>Deduction/addition</b>
Domestic credit	<b>Deduct</b> the cost of domestic credit.
Domestic freight	<b>Deduct</b> the cost of domestic freight.
Domestic packaging	<b>Deduct</b> the cost of domestic packaging.
Export inland freight	<b>Add</b> the cost of export inland freight.
Export handling	<b>Add</b> the cost of export handling.
Export bank charges	<b>Add</b> the cost of export bank charges.
Export packaging	<b>Add</b> the cost of export packaging.
Export credit	<b>Add</b> the cost of export credit.
Specification	<b>Add or deduct</b> the differences in specification

The verification team's preliminary adjustment calculations are included in normal value calculations at **Confidential Appendix 4**.

## 7 NORMAL VALUE

The verification team found some domestic sales of HSS have sufficient volumes of comparable domestic sales models exported to Australia that were arms length transactions and at prices that were within the OCOT. The verification team is therefore satisfied that the prices paid in respect of those models of domestic sales of HSS are suitable for assessing normal value under subsection 269TAC(1)(a).

The other models exported to Australia either did not have sufficient volumes of comparable domestic sales models or were not sold in the domestic market. The verification team has therefore constructed normal values under subsection 269TAC(2)(c), using the CTM for Australian export sales; plus SG&A applicable to goods sold domestically; plus profit of domestic OCOT sales of the closest export model.

The verification team considers that certain adjustments, in accordance with subsections 269TAC(8) and (9), are necessary to ensure fair comparison of normal values with export prices, as outlined in Section 6 of this report.

The verification team's preliminary normal value calculations are at **Confidential Appendix 4**.

## **8 DUMPING MARGIN**

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

The preliminary dumping margin in respect of certain hollow structural sections exported to Australia by Kukje Steel Co., Ltd from Korea for the review period is **-3.6%**.

A detail of the preliminary dumping margin calculation is at **Confidential Appendix 5**.



**9 APPENDICES AND ATTACHMENTS**

<b>Confidential Appendix 1</b>	Australian export sales
<b>Confidential Appendix 2</b>	CTMS spreadsheet
<b>Confidential Appendix 3</b>	Domestic sales
<b>Confidential Appendix 4</b>	Normal value calculations
<b>Confidential Appendix 5</b>	Dumping margin calculations
<b>Confidential Attachment 1</b>	Verification work program and Attachments