



CONTINUATION INQUIRY 379

**CONTINUATION INQUIRY OF DUMPING AND
SUBSIDISATION OF CERTAIN HOLLOW
STRUCTURAL SECTIONS EXPORTED TO
AUSTRALIA FROM THE PEOPLE'S REPUBLIC OF
CHINA, THE REPUBLIC OF KOREA, MALAYSIA,
AND TAIWAN.**

VISIT REPORT - EXPORTER

Huludao City Steel Pipe Industrial 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**

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1 BACKGROUND

1.1 Investigation Background

On 31 October 2016, the Commissioner of the Anti-Dumping Commission gave public notice of his decision to initiate an inquiry into whether the continuation of anti-dumping measures, in the form of a dumping duty notice in respect of certain hollow structural sections (the goods) exported from the People's Republic of China (China), the Republic of Korea (Korea), Malaysia and Taiwan, and a countervailing duty notice in respect of the goods exported from China, is justified in Anti-Dumping Notice (ADN) No. 2016/113.

The background relating to initiation of this continuation inquiry is contained in Consideration Report No. 279.

Following initiation of the inquiry, a search of the Australian Border Force import database indicated that Huludao City Steel Pipe Industrial Co., Ltd. (Huludao) exported HSS to Australia from China during the period 1 July 2015 to 30 June 2016 (the review period).

The Anti-Dumping Commission (the Commission) notified Huludao of initiation of the inquiry, and sought its cooperation through the completion of an Exporter Questionnaire regarding HSS.

2 THE GOODS AND LIKE GOODS

2.1 The goods exported to Australia

During the investigation period Huludao exported HSS ('the goods') to Australia via direct and indirect sales. The goods were hollow structural sections produced to Australian Standards AS1163 and AS 1074 using three grades of steel in a variety of different diameters and wall thicknesses.

2.2 Like goods sold on the domestic market

During the investigation period Huludao sold like goods on the domestic market to a variety of Chinese domestic standards. The verification team obtained copies of the relevant sections of each standard to enable team to enable the Commission to compare various products made for export against those sold on the domestic market.

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

- are not distinguished from the exported goods during production;
- 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:

- Grade (C250, C350)
- Finish (mill, painted, pre-galvanised)

2.3.1 Grade

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

Australia	China
OCTG (API5CT)	Nil Comparable
Line Pipe (API5L)	China Standard 9711
Structural Pipe (AS1163)	China Standard 13792 (CHS) China Standard 13793 (CHS) China Standard 6728 (RHS)

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Structural Pipe (AS1074)	China Standard 3091
Structural Pipe (BS1387)	Same as AS1074

2.4 Like goods – preliminary assessment

The verification team considers that HSS produced by Huludao 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).¹

¹ 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 Huludao's Australian sales listing by reconciling it to audited financial statements in accordance with ADN. No 2016/30.

The verification team identified one issue during this process relating to the exclusion of sales via an intermediary trader. Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

3.1.1 Indirect Sales

The verification team noted that during previous visits in 2012 and 2010 Huludao sold goods via an unrelated trader, Shanghai Minmetals to Australian customers. The team identified that these sales were not listed in the Australian sales spreadsheet of the REQ for this inquiry and were also excluded from the domestic sales data. Huludao advised that they did not include these transactions in either sales listing as, although they have a general awareness that these goods are likely to be shipped to Australia, they did have knowledge of the identity of the Australian customer for these transactions.

Huludao advised they negotiate directly with Shanghai Minmetals for each sale which is recorded as a domestic sale incurring VAT in their accounting system and have no interaction with the end customer (Australian importer) of the goods. The verification team obtained a detailed listing of all sales to the trader Shanghai Minmetals and identified that the majority of these sales were of goods made to the Australian standard, suggesting that these were sold to Australia. The verification team was unable to obtain any evidence to determine the end user of the goods in Australia.

The verification team considers that these sales were relevant and should be included as part of a complete Australian sales listing, noting that these transactions were made via an indirect sales route. The verification team have updated the Australian sales listing to include these transactions.

3.2 Verification of Australian sales to source documents

The verification team verified the accuracy of Huludao's Australian sales listing by reconciling it to source documents in accordance with ADN No. 2016/30. During this process the team identified two issues relating to the grades of steel and relating to the payment process for indirect sales. The verification team did not identify any further issues.

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

3.2.1 Grade Allocation

The verification team noted that the grade of steel listed for each transaction on the Australian sales data was lower than the grade listing identified on the mill certificates for each transactions. Huludao advised that when preparing the listing they had allocated the

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grade for both domestic and export sales based on the grade of the raw materials used in the production of the finished goods, and not the grade of the finished goods. Huludao explained that occurred to allow the comparison to the cost data which as prepared using the raw material grade. The verification team compared the difference in grades and found it to be reasonable, when compared to the expected difference provided by OneSteel ATM during exporter briefings prior to verification.

The verification team consider that this allocation was reasonable and was consistent with expected grade variations between raw materials and finished goods provided by the applicant and consistent with the approach taken in the 2012 verification.

3.3 The exporter

For direct Australian export sales during the review period, the verification team considers Huludao to be the exporter of the goods.²

For indirect sales to Australia, whilst the verification team does not have all the facts and circumstances of indirect export sales made through the trader, the team considers that Huludao is the exporter for these sales as:

- Huludao are the owner of the goods in the country of export and delivered the goods to the port of export at FOB terms at the instructions of the intermediary, Shanghai Minmetals,
- Shanghai Minmetals are an intermediary in the export sale, acting as selling agents to facilitate price, quantity, specification and transport negotiations.
- Huludao manufacture the goods to Australian standards and have a general knowledge that the goods are produced for the Australian market, and price these goods using the same consideration as for direct Australian sales.

3.4 The importer

In relation Huludao's direct sales of HSS exported to Australia by Huludao, the verification team considers that the customer listed in the Australian sales listing was the beneficial owner of the goods at the time of importation, and therefore was the 'importer' of the goods.

In relation to Huludao's indirect sales of HSS via a trader, the verification team does not have information available to determine the Australian customers for each transaction and thus cannot accurately assess the importer of the goods.

3.5 Related party customers

The verification team did not identify any information that might suggest the Australian importers were related to Huludao or any of Huludao's related entities, based on the

² 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.

company's response to the Exporter Questionnaire, sales data and audited financial statements.

3.6 Arms length

In respect of direct and indirect Australian sales of the goods made by Huludao to importers 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.
- the buyer, or an associate of the buyer, was directly or indirectly reimbursed, compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.³

The verification team therefore considers that export sales to Australia made by Huludao during the review period were arms length transactions.

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 for direct sales be determined under paragraph 269TAB(1)(a), as the price paid by the importer to the exporter less transport and other costs arising after exportation.

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

³ Section 269TAA of the Act refers.

4 COST TO MAKE AND SELL

4.1 Verification of costs to audited financial statements

The verification team verified the completeness and relevance of Huludao's cost to make and sell (CTMS) spreadsheet by reconciling it to audited financial statements in accordance with ADN No. 2016/30. During this process, the verification team did not identify any issues.

4.2 Verification of costs to source documents

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

The verification team did not observe any issues during this process relating to the allocation of raw material costs.

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 Huludao, 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 Huludao's CTMS spreadsheet to audited financial statements and to source documents, the verification team is satisfied that the CTMS spreadsheet is complete, relevant and accurate.

Huludao's CTMS spreadsheet is at **Confidential Appendix 2**.

5 VERIFICATION OF DOMESTIC SALES

5.1 Verification of domestic sales to audited financial statements

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

The verification team verified the completeness and relevance of the domestic sales of non like goods for the purpose of determining profit under Regulation 45(3)(a).

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

5.2 Verification of domestic sales to source documents

The verification team verified the accuracy of Huludao's domestic sales 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**.

5.3 Related party customers

The verification team did not identify any domestic customers that might be related to Huludao, based on the relevant response to the Exporter Questionnaire, sales data and audited financial statements.

5.4 Arms length

5.4.1 Related Party Customers

In respect of domestic sales of same general category goods made by Huludao the verification team found no evidence that there was any consideration payable for, or in respect of, the goods other than its price. 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.

5.5 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, then they are taken not to have been sold in the ordinary course of trade (OCOT).

The verification team compared the revenue (at ex-works) for each domestic sale of HSS to the corresponding quarterly domestic CTMS (excluding inland freight expenses) to test whether those sales were profitable.

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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 investigation period. Those sales found to be unrecoverable were considered not to be in the OCOT.

5.6 Suitability of domestic sales

Subparagraph 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 there was a sufficient domestic sales volume made in OCOT for a number of identical models exported to Australia during the investigation period. For those models where there were insufficient domestic sales made in OCOT, the verification team used surrogate models based on the model matching hierarchy (discussed in section **Error! Reference source not found.**) and made specification adjustments outlined in section 6.6.

5.7 Domestic sales – summary

The verification team is satisfied that the domestic sales listing provided by Huludao is complete, relevant and accurate, and can be used for assessing normal value under subsection 269TAC(1) for certain models. For those models which were exported to Australia during the inquiry period but not sold on the domestic market, normal values will be ascertained under section 269TAC(2)(c).

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

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 subsection 269TAC(9).

6.1.1 Credit terms

The verification team considers that a downward adjustment to the normal value for domestic credit is necessary to ensure a fair comparison to the FOB export price. The verification team has applied this adjustment based on the number of credit days listed for each domestic transaction and the weighted average interest paid on revolving credit during the investigation period.

As export sales are sold on cash terms, the verification team considers that a corresponding upwards adjustment for export credit terms is not required.

6.1.2 Inventory carrying cost

Because domestic sales are mostly sold from existing inventory, while export sales are produced for specific orders, the verification team will adjust the normal value downwards by the amount equal to the cost of carrying domestic inventory.

6.1.3 Timing

In calculating quarterly weighted average normal values, there were certain quarters for particular models where there were no domestic sales. In these instances, the verification team based the normal value for that quarter on the normal value of another quarter of the same model, plus a timing adjustment. The verification team made the timing adjustment based on the percentage price difference of the corresponding quarters of a high volume domestic model.

6.1.4 Non-deductable VAT on exported goods

The verification team considers that an upward adjustment to normal value is required for the non-deductable VAT expense that Huludao incurred during the investigation period to ensure fair comparison.

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

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Adjustment Type	Deduction/addition
Domestic credit	Deduct the cost of domestic credit.
Inventory carrying cost	Deduct the cost of carrying inventory for domestic sales
Timing	Add or deduct the difference in timing.
Non-deductable VAT on exported goods.	Add the value of non-deductable VAT to normal value.

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

7 NORMAL VALUE

The Commission has calculated normal values under subsection 269TAC(2)(c) using the CTMS data supplied by Huludao relating to the goods exported to Australia during the period of investigation. As in the original investigation, Huludao's raw material costs have been uplifted due to the market situation finding relating to the provision of HRC at below adequate remuneration.

To uplift Huludao's raw material costs, the Commission calculated the percentage difference between Huludao's actual purchases of HRC during the investigation period and benchmark price derived from verified actual purchases of HRC from a basket of HSS producers from Malaysia, Korea, and Taiwan.

The Commission collated all HRC purchases from the exporters during the inquiry period and calculated a quarterly weighted average HRC purchase cost in Chinese RMB for black and pre-galvanised finishes. The Commission then uplifted the raw material cost by the difference between the price actually paid by Huludao and the price of the comparable competitive market benchmark that has been established from the selected exporters in Korea, Malaysia and Taiwan.

For the purpose of constructing the normal value of the goods under subsection 269TAC(2)(c), the verification team considers that the production costs of HSS exported to Australia can be worked out under Regulation 43(2), using the costs of production as set out in Huludao's records, specifically as detailed in Huludao's CTMS spreadsheets.

The verification team also considers that an amount for SG&A costs should be worked out under Regulation 44(2), using the SG&A costs associated with the sale of like goods as set out in Huludao's records.

Further, the verification team considers that an amount for profit should be worked out under Regulation 45(3)(a), using the actual amounts realised by the exporter or producer from the sale of the same general category of goods in the domestic market of the country of export.

The verification team considers that certain adjustments, in accordance with subsection 269TAC(9), are necessary to ensure fair comparison of normal values with export prices, as outlined in Chapter 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 Australian export prices to the corresponding quarterly weighted average normal value for the investigation period, in accordance with paragraph 269TACB(2)(a) of the Act.

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

Normal values were constructed under subsection 269TAC(2)(c) and, as required by subsections 269TAC(5A) and 269TAC(5B), in accordance with sections 43, 44 and 45 of the Regulations.

On this basis, the preliminary dumping margin in respect of the goods exported to Australia by Huludao for the investigation period is **20.4%**.

Details of the preliminary dumping margin calculation are at **Confidential Appendix 5**.

9 SUBSIDIES

9.1 Preferential Tax Programs

The verification team noted that Huludao provided tax returns from 2011 to the recent tax return (2015) as part of the exporter questionnaire response. The team noted that the last tax benefit obtained by Huludao was in 2011, since which time Huludao has not received any tax benefits.

9.2 Grants

The verification team verified the completeness of the grants list declared in the exporter questionnaire by reconciling the amounts to the non-operating income ledger over the investigation period. The team was satisfied that all grants obtained by Huludao were accurately captured in the exporter questionnaire response.

9.3 Provision of inputs at less than adequate remuneration

The verification team verified that Huludao uses hot-rolled coil in the manufacture of HSS. The verification team verified that the purchase prices of raw materials were accurately captured as part of the cost to make and sell verification process.

The verification team also verified Huludao's electricity consumption records and payments to their electricity supplier. The verification team found no evidence of any discounts received by Huludao for the provision of electricity.

10 APPENDICES AND ATTACHMENTS

Confidential Appendix 1	Australian export sales
Confidential Appendix 2	Revised CTMS spreadsheet
Confidential Appendix 4	Normal value
Confidential Appendix 5	Dumping margin
Confidential Attachment 1	Verification work program, with attachments