



Date 15 June 2015

**Response to ADC Communication of 2 June 2015**

**Received on 17 June 2015**

In an email dated 2 June 2015, Saha Thai was invited by the ADC to provide further evidence to justify its request for an adjustment to Normal Value for exempted duties in inputs of hot rolled coil used in the production of goods for export. Such an adjustment clearly is required under Australian antidumping law. However, the ADC has asked that Saha Thai provide evidence that the exempted duties have an impact on Normal Value. Below we provide additional analysis to support Saha Thai's claim for an exempted duties adjustment to Normal Value.

The nexus between the exempted duties and NV is simple. Products that are sold in the home market cost more to produce than those sold in export markets because they are either: 1) made using imported hot rolled coil (HRC) that is not exempt from the normal Thai customs duty ; or 2) they are made using domestically produced HRC that is higher priced because of the duty. Therefore, as a first step, Saha Thai will establish that, as a practical matter, the cost of products sold in the home market are higher than comparable products sold for export. In a second step, Saha Thai will demonstrate that, because of higher costs, products sold in the home market have higher prices, and that those higher prices are consistent with the amount of exempted duties. These two steps clearly establish the nexus between the exempted duties and Normal Value and eliminate any remaining doubts about the legitimacy of Saha Thai's claim for an exempted duty adjustment.

**Step 1: Products Sold in the Home Market Cost More to Produce than Products Sold in Export Markets**

At verification, Saha Thai demonstrated that duties, at the rate of [REDACTED] percent of entered value, are paid on any imported HRC used for goods that are sold in Thailand. Moreover, these import duties have an additional impact on Saha Thai's production costs for goods sold in the domestic market. Thailand is a marginal producer of HRC in the global market, accounting in 2013 for only around ½ percent of total worldwide production. See CONF **Attachment 1**. Further, imports are a major part of the Thai HRC market, accounting for almost half total Thai HRC consumption in 2013. Thus, Thai HRC producers are price takers, and must set their prices at world market levels in order to compete with imports.

The cost of steel to HRC users in Thailand, therefore, should be equal to the world market price for HRC, plus the cost of freight and duties. Because HRC is a commodity, domestic Thai producers can set their home market prices at a level that includes the duty costs that would be borne by HRC users if they chose to purchase imports.

Saha Thai's HRC purchase data clearly shows that HRC costs from domestic sources are higher than comparable import costs. Included at CONF **Attachment 2** is an analysis of quarterly domestic and imported HRC costs paid by Saha Thai during the POI. As is shown in the analysis, on average, during the POI, Saha Thai's domestic steel costs were consistently higher than its imported steel purchased costs. The additional cost reflects smaller volumes, but also the cost of regular (and also antidumping) duties on imported steel.

Thus, either because it is produced using duty-paid imported steel or duty-protected domestic steel, products made for domestic consumption are priced higher. Saha Thai knows this and adjusts its home market prices accordingly.

Saha Thai concedes that its accounting records do not reflect this cost differential between products sold to the domestic market and those sold for export. The simple reason is this: to be compliant with generally accepted accounting principles, Saha Thai must have a single cost for each specific type of goods in inventory. Since specific products sold to domestic and export markets have the same physical characteristics (regardless of source of HRC), Saha Thai is required to have a uniform cost for inventory valuation purposes. Thus, even though the cost differential is real, the differential is not reflected in the inventory values, which are established by the costs of manufacturing. Nevertheless, the above analysis shows that the costs differential is calculable from Saha Thai's normal accounting and production records.

## **Step 2: Products Sold in the Home Market are Priced Higher, in Order to Recover the Duty-Related Costs**

Saha Thai knowingly sets prices in the home market to recover the cost of duties. Like all companies, Saha Thai seeks to earn a reasonable rate of return on all sales. Although many elements dictate how prices are set, costs are a paramount driver for Saha Thai. Basically, if Saha Thai cannot recover its HRC costs plus fabrication expenses, it does not make the sale. Saha Thai has been consistently profitable for many years.

If, as is demonstrated in step one above, home market costs are higher because of duties (either the duties themselves or their impact on domestic coil prices), then home market prices should also be higher. Included at CONF **Attachment 3** is an analysis of home market prices. Because prices for individual products are function of many factors, it is necessary to create group averages to get an accurate picture of how prices in the two markets differ. The attached analysis is based on products that were used by the ADC in its dumping calculations (all Australian export prices and all Thai matching product prices), and then grouped by quarter and finish. As

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the attached analysis shows that Thai domestic prices are higher than Australian prices ■ percent of the time.

Saha Thai's analysis is confirmed by the ADC's own dumping margin calculations. If no adjustment for duty exemption is allowed, the ADC calculates a dumping margin of 5.7 percent, but if the duty exemption adjustment is made to NV, the dumping margin goes to below ■ percent.