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Australian Government
Anti-Dumping Commission

INVESTIGATION 223

**ALLEGED DUMPING OF HOT ROLLED STRUCTURAL STEEL
SECTIONS**

**EXPORTED FROM JAPAN, THE REPUBLIC OF KOREA,
TAIWAN AND THAILAND**

VISIT REPORT - IMPORTER

Sanwa Pty 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**

17 December 2013

HRS – Importer Visit Report – Sanwa Pty Ltd

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ABBREVIATIONS

| | |
|----------------|---|
| \$ | Australian dollars |
| ACBPS | Australian Customs and Border Protection Service |
| ADN | Anti-Dumping Notice |
| AUD | Australian Dollar |
| Commission | Anti-Dumping Commission |
| FAS | Free Along Side |
| FIS | Free in Store |
| FOB | Free On Board |
| GUC | Goods Under Consideration |
| OneSteel | OneSteel Manufacturing Pty Ltd |
| PAD | Preliminary Affirmative Determination |
| Sanwa | Sanwa Australia Pty Ltd |
| Sanwa Holdings | Sanwa Holding Ltd |
| SEF | Statement of Essential Facts |
| SG&A | Selling, general and administrative expenses |
| The Act | <i>Customs Act 1901</i> |
| the goods | the goods the subject of the application (also referred to as the goods under consideration or GUC) |
| the Minister | the Minister for Industry |
| USD | United States of America Dollar |

1 BACKGROUND AND PURPOSE

1.1 Background

On 26 August 2013, OneSteel Manufacturing Pty Ltd (OneSteel) (the applicant) lodged an application requesting that the then-relevant Minister, the Minister for Home Affairs, publish a dumping duty notice in respect of hot rolled structural steel sections (HRS) exported from Japan, the Republic of Korea (Korea), Taiwan and Thailand.

OneSteel provided further information and data in support of its application, the last of which was received on 1 October 2013, restarting the 20 day period for consideration of the application.

The applicant alleges that the Australian industry has suffered material injury caused by HRS exported to Australia from Japan, Korea, Taiwan and Thailand at dumped prices. The applicant claims the industry has been injured through:

- price depression;
- price suppression;
- reduced profits and profitability;
- reduced domestic revenues;
- reduced production capacity utilisation;
- reduced employment; and
- reduced attractiveness for reinvestment.

Public notification of the initiation of the investigation was made on 24 October 2013 in *The Australian* newspaper and Anti-Dumping Notice No. 2013/75.

Following initiation of the investigation, a search of Customs and Border Protection's (ACBPS) import database indicated that Sanwa Pty Ltd (Sanwa) had imported HRS from Taiwan during the investigation period (1 October 2012 to 30 September 2013). Sanwa was also identified as an importer of HRS in the application.

The Commission wrote to Sanwa advising the company of the initiation of the investigation, requesting co-operation with the investigation and provided the company with a copy of the importer questionnaire to complete. Sanwa was also provided with a list of its imports during the investigation period, extracted from the ACBPS import database, and identified a number of transactions from the list for verification.

Sanwa completed the importer questionnaire, providing details regarding the company, overseas supplier information, imports and importation costs and sales data, including selling, general and administrative (SG&A) expenses.

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1.2 Purpose of visit

The purpose of the Commission's visit to Sanwa was to:

- confirm that Sanwa is the importer of hot rolled structural steel sections (HRS) attributed to it within the commercial database and obtain information to assist in establishing the identity of the exporter of this HRS;
- verify information on imports of HRS to assist in the determination of export prices;
- establish whether the purchases of HRS were arms-length transactions;
- establish post-exportation costs;
- identify sales and customers and verify sales volume, selling prices and selling costs;
- obtain general information about the Australian market for HRS; and
- provide the company with an opportunity to discuss any issues it believed relevant to the investigation.

1.3 Meeting details

| | |
|----------------|--|
| COMPANY | Sanwa Pty Ltd |
| ABN | 96 000 904 987 |
| ADDRESS | Suite 201, 2nd Floor 100 New South Head Road Edgecliff, NSW 2013 |
| TEL NO | 02 9362 4088 |
| FAX NO | 02 9362 3622 |
| DATE | 17 December 2013 |

The following were present at various stages of the meetings.

| | |
|-----------------------|---|
| Sawna Pty Ltd | Ron Ferster, Managing Director David Roberts - Director & General Manager Mark Horwitz - Trader Jack Howard - Consultant, Staughtons |
| The Commission | Carl Halpin – A/g Manager Operations Team 3 Tim King – Supervisor Operations Team 3 |

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1.4 Investigation process and timeframes

We advised the company of the investigation process and timeframes as follows.

- The investigation period is 1 October 2012 to 30 September 2013.
- The injury analysis period is from 1 July 2009 for the purpose of analysing the condition of the Australian industry.
- A preliminary affirmative determination (PAD) may be made no earlier than day 60 of the investigation (23 December 2013) and provisional measures may be imposed at the time of the PAD or at any time after the PAD has been made.

The Commission will not make a PAD until (and if) it becomes satisfied that there appears to be, or that it appears there will be, sufficient grounds for the publication of a dumping duty notice.

This was distinguished from the 'reasonable grounds' threshold for initiation of the investigation.

- The Statement of Essential Facts (SEF) for the investigation was due to be placed on the public record by 11 February 2014; however on 11 February 2014 the Parliamentary Secretary has, under s.269ZHI of *the Customs Act 1901* (the Act), extended the time for the Commission to place the SEF on the public record. The SEF will now be placed on the public record on 12 May 2014.

The SEF will set out the material findings of fact on which the Commission intends to base its recommendations to the Minister, and will invite interested parties to respond, within 20 days, to the issues raised therein.

- Following receipt and consideration of submissions made in response to the SEF, the Commission will provide its final report and recommendations to the Minister.

This final report is due no later than 26 June 2014, unless an extension is approved by the Minister.

1.5 Visit report

We explained to the company that we would prepare a report of our visit (this report) and provide it to the company to review its factual accuracy, and to identify those parts of the report it considers to be confidential.

We explained that, in consultation with the company, we would prepare a non-confidential version of the report, and place this on the investigation's Public Record.

2 THE GOODS

2.1 Description

The goods the subject of the application (the goods) are:

Hot rolled structural steel sections in the following shapes and sizes, whether or not containing alloys:

- *universal beams (I sections), of a height greater than 130mm and less than 650mm;*
- *universal columns and universal bearing piles (H sections), of a height greater than 130mm and less than 650mm;*
- *channels (U sections and C sections) of a height greater than 130mm and less than 400mm; and*
- *equal and unequal angles (L sections), with a combined leg length of greater than 200mm.*

Sections and/or shapes in the dimensions described above, that have minimal processing, such as cutting, drilling or painting do not exclude the goods from coverage of the application.

Goods excluded from this application are:

- *hot rolled 'T' shaped sections, sheet pile sections and hot rolled merchant bar shaped sections, such as rounds, squares, flats, hexagons, sleepers and rails; and*
- *sections manufactured from welded plate (e.g. welded beams and welded columns).*

2.2 Tariff classification

Goods identified as hot rolled non-alloy steel sections as set out in section 2.1 above are classified to the following tariff subheadings in Schedule 3 to the *Customs Tariff Act 1995*:

- 7216.31.00 statistical code 30 (channels – U and C sections);
- 7216.32.00 statistical code 31 (universal beams – I sections);
- 7216.33.00 statistical code 32 (universal column and universal bearing piles – H sections); and
- 7216.40.00 statistical code 33 (equal and unequal angles – L sections).

For the tariff subheadings outlined above, the general rate of duty is 5% for goods imported from Japan and free for imports from Korea, Taiwan and Thailand.

The Commission received advice from the Tariff Policy section of the Australian Customs and Border Protection Service (ACBPS), indicating tariff subheading 7216.50.00 may be

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applicable to C sections, only in circumstances whereby these goods are differentiated by industry members and consumers from U sections. The Commission notes that OneSteel considers these products to be interchangeable and the Commission will seek further clarification on this matter during the course of the investigation.

Hot rolled other alloy steel sections

Goods identified as hot rolled other alloy steel sections, as per the specified shapes and sizes as set out above, are classified to tariff subheading 7228.70.00 in Schedule 3 of the *Customs Tariff Act 1995*. The applicable duty rate for imports from Japan, Korea and Taiwan is 5%, and Thailand is free.

2.3 'Like' goods

Sanwa advised that, amongst various steel products imported, it imports goods which match the description of the goods that are the subject of this application. Sanwa advised that it imports the goods under consideration which meet the requisite Australian Standard, *AS/NZS 3679.1:2010 Structural steel Part 1: Hot-rolled bars and sections*.

Sanwa confirmed that it believes that the Australian industry makes like goods which match the goods description prescribed in the application.

Sanwa further advised that it would be difficult to sell HRS which did not meet the minimum requirements of the Australian Standard. Sanwa advised that the Australian market for HRS is built around the Australian Standard and standardised measurements. To directly compete in this market, competitors to OneSteel have to produce structural steel that is interchangeable with the OneSteel HRS product.

[Details regarding products that Sanwa had not imported].

3 COMPANY DETAILS

3.1 Company background

Sanwa Pty Ltd is an Australian-based international trading company, which specialises in importing metals and plastics into Australia and New Zealand. Sanwa is privately owned and has been operating since 1971 and has approximately 200 employees.

Sanwa advised that it has an association with another company through its holding company, [REDACTED]

[REDACTED] [company names]. However this company is run independently of Sanwa, has no commercial dealings with Sanwa and does not trade in the goods under consideration in this application. On the basis of these discussions, the Commission is satisfied that this company is not relevant to this investigation.

Sanwa advised that the NSW Edgecliff office is its main office in Australia.

3.1.1 General background

In Australia, Sanwa trades in various steel and plastic related products which it sells to its customers throughout Australia. Sales of structural steel are predominantly made to independent distributors within Australia. [REDACTED]

[REDACTED] [Confidential market practices].

Sanwa advised that sales are made to parties in which it has no financial interest and that it considered these were unrelated parties.

Purchases of steel products from overseas mills are completed on the back of sales made to customers in Australia. Sanwa advised that is unusual for it to maintain any steel inventory in Australia and that any imported steel is almost always distributed directly to the customer who placed the order for the steel products. Inventory may only be occasionally maintained where customers' orders are not of sufficient quantity for the overseas mills production requirements. Sanwa does not maintain any storage facilities to store inventory.

Sanwa advised that it provided an alternative supply source to Australian distributors of steel products who were unable to directly purchase steel products from steel mills within Australia. Sanwa advised that its customers were directly competing with OneSteel's distribution network. Various Sanwa's customers were unable to purchase HRS from OneSteel distributors as they would be unable to the purchase the product at competitive prices.

3.2 Accounting

Sanwa operates on a 1 July to 30 June financial year. A copy of Sanwa's financial statements for the year ending 30 June 2013 was provided to the Commission. Sanwa confirmed that these accounts are audited on an annual basis.

Individual files and costing calculations were maintained for each sale. These costing calculations provided information on the budgeted, actual costs and profit on each sale.

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3.3 Relationship with suppliers

During the investigation period, Sanwa purchased the largest proportion of HRS from [REDACTED]. A small proportion [REDACTED] was purchased from [REDACTED], also based in [REDACTED]. However, the [REDACTED] purchased from [REDACTED] did not meet the description of the goods under consideration in this investigation.

Sanwa indicated that it had no relationship with its suppliers other than a commercial relationship of buyer and seller. Sanwa considered that the transactions were completed on an arms length basis.

Sanwa also explained that it does not receive any rebates or discounts from its suppliers. We found no evidence of any discounts or rebates being provided to Sanwa by any of its suppliers.

3.4 Relationships with customers

In part C of the importer questionnaire, we were able to identify Sanwa's customers.

Sanwa advised that there were no rebates or discounts given to any of its Australian customers during the investigation period, and that the invoiced price to its customers was the price paid.

Sanwa stated that it was not related to any of its Australian customers and that sales were made at arms-length and were made on commercial terms.

[REDACTED]

No other information was identified by the Commission during the verification visit to indicate that Sanwa is related to any of its other customers.

As such, the Commission is satisfied that all sales of the goods under consideration were made at arm's length and that sales were completed at the stated invoice value.

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4 IMPORTS

4.1 Introduction

Customs and Border Protection's import database indicated that Sanwa imported HRS from [REDACTED] suppliers in [REDACTED], as seen in Table 1, below. The volumes in the import database however, included a wide range of product, some of which is outside the goods description for the investigation.

The Commission provided the import listing to Sanwa who identified which imports were the goods under consideration ("GUC") at Confidential Appendix 1.

| Country | Supplier | Total Quantity (MT) (Customs Database) | GUC Quantity (MT) (Sanwa's Classification) |
|------------|------------|---|---|
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |

Table 1

4.2 Ordering process and price

Sanwa explained it negotiated prices [REDACTED] with its suppliers and customers.

Price offers from its overseas supplying mill [REDACTED], were received [REDACTED]. Based on this price, Sanwa would establish [REDACTED] pricing for its Australian customers. [REDACTED]. Sanwa would then seek orders from its customers based on this pricing. There may be some discussions between Sanwa and their customers in relation to final pricing of any proposed orders.

Once orders from its customers are confirmed, Sanwa will place the orders with the overseas mills, arrange for the importation of the goods and the delivery of the goods to its Australian customers under the agreed terms. Sanwa predominantly orders from overseas mills on the back of confirmed orders from Australian customers and very rarely holds any stock. We found no evidence of any of the selected orders being held in stock.

Sanwa purchases from [REDACTED] are made in [REDACTED]. Sanwa has foreign exchange cover to hedge against any currency fluctuation once orders are confirmed. Prices for the sale to the Australian customer and the purchase order to the overseas mill are set on [REDACTED].

Sanwa's orders are sold by the exporter on [REDACTED] basis.

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4.3 Verification

Prior to the visit, we selected 8 shipments which were identified on the sales route spreadsheet (Confidential Appendix 2) and asked Sanwa to provide the Commission with the following source documents:

- commercial invoices;
- packing lists;
- purchase orders;
- bills of lading; and
- Customs broker and domestic freight invoices.

Sanwa provided us with the source documents for all 8 shipments. These documents are contained in **confidential attachment IMP1**.

For each shipment we used the source documents provided to check the listed quantity, invoice value, ocean freight and insurance, exchange rate, customs duty, importation costs, expenses and average selling prices in the import sales spread sheet. We verified a sample of these documents for proof of payment of the shipment and post exportation costs. We were able to reconcile the shipment number, quantity, value, price and delivery terms for the selected shipments with the data in the import list.

Some minor discrepancies were found in the data reported in the importer questionnaire response. Discussions with Sanwa indicated that discrepancies mainly related to the initial use of some budgeted cost figures as opposed to the actual cost figures in the data provided. Adjustments to the data were made to ensure that actual cost figures were used.

It was also identified that quarantine charges per shipment [REDACTED] were not included in the costs data. These costs were added to the cost calculations provided by Sanwa.

All shipments reviewed during the verification visit were completed on a [REDACTED] basis. [REDACTED]

[REDACTED] Commission's view on certain costs].

4.3.1 Commercial Invoices

Copies of invoices for each shipment were provided to the Commission. These invoices were used to verify the applicable data provided by Sanwa, including the goods description and value. Payment of the invoice and the exchange rate applied were also verified to source documents for a sample of the transactions.

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4.3.1 Freight Costs

Sanwa provided freight documentation for each of the selected importations which reconciled to the amounts shown in the import route spreadsheet. We obtained proof of payment for a selection of the invoices provided and were satisfied that the costs for freight shown in the import route spreadsheet were accurate. We calculated the weighted average freight costs for the sample selected to be \$ [REDACTED] / T as shown in Table 2 below.

4.3.2 Freight Insurance

Freight Insurance costs were allocated to each of the sampled transactions based on the [REDACTED] specified under an [REDACTED] policy taken out by Sanwa. A copy of this policy was provided by Sanwa (**Confidential Attachment IMP 3**). The Commission believes considers the methodology Sanwa applied for allocating the insurance premium cost to each shipment was reasonable and reflected the total insurance costs incurred.

4.3.1 Finance Costs

Sanwa identified its interest costs in the sales route exercise which relate to the costs associated with providing payment terms to the Australian customers. These costs were calculated internally based on the number of payment days and were charged at rates varying between [REDACTED]% and [REDACTED]%. Sanwa provided details of these calculations for each consignment selected. Discussions were held with the director responsible for the treasury function at Sanwa in relation how these rates were established. Sanwa advised that these calculations were based on rates [REDACTED]. We were satisfied with the explanation provided and the basis on which this cost was calculated was reasonable.

4.3.2 Debtors Insurance

Sanwa takes out debtors insurance for its domestic sales to cover the event of non-payment. During the course of the verification visit the actual cost of this insurance and the methodology for the allocation of this cost was reviewed. A copy of Sanwa's debtors' insurance policy is contained in **Confidential Attachment IMP 2**. The Commission was satisfied with the basis on which this cost was established and the allocation methodology applied to the goods.

4.3.1 Australian Importations Costs

Sanwa provided invoices from their broker for each of the selected importations which outlined the importation costs shown in the import route spreadsheet. The items shown in these invoices were all listed on, and the values reconciled to, the import route spreadsheet. We obtained proof of payment for a selection of the invoices provided and were satisfied that the importation costs shown in the import route spreadsheet were accurate. We calculated the weighted average importation costs for the sample selected to be \$ [REDACTED] / T as shown in Table 2 below.

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4.3.1 Delivery Charges

Sanwa sold goods to its customers at free into store rates. Sanwa provided domestic freight documentation for each of the selected importations which reconciled to the amounts shown in the import route spreadsheet. We obtained proof of payment for a selection of the invoices provided and were satisfied that the costs for delivery shown in the import route spreadsheet were accurate. We calculated the weight average delivery costs for the sample selected to be \$ [REDACTED] / T as shown in Table 2 below.

4.3.3 Importation costs

We calculated the average post free on board expenses for the selected shipments. These calculations are summarised in Table 2 below (expressed in Australian dollars per tonne).

| Cost | Weighted average cost per unit (tonne) |
|---|--|
| Ocean freight | [REDACTED] |
| Marine Insurance | [REDACTED] |
| Australian importation costs (excluding GST) | [REDACTED] |
| Australian Delivery Charges | [REDACTED] |
| Bank Charges | [REDACTED] |
| Credit Insurance | [REDACTED] |
| Finance Costs | [REDACTED] |
| Selling, general and administrative expenses (based on average selling price) | [REDACTED] |

Table 2

The basis of these calculations is contained in **Confidential Appendix 2**.

4.4 Export prices for shipments

Based on sales data provided by Sanwa, we calculated the weighted average [REDACTED] export price (in [REDACTED]) for hot rolled structural steel over the investigation period. These calculations are summarised in Table 3, below:

| Goods Description | Principal Original Country | Supplier Full Name | USD FAS (Tonne) |
|-------------------|----------------------------|--------------------|-----------------|
| Beams | [REDACTED] | [REDACTED] | [REDACTED] |

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| | | | |
|----------|------------|------------|------------|
| Channels | [REDACTED] | [REDACTED] | [REDACTED] |
| Columns | [REDACTED] | [REDACTED] | [REDACTED] |

Table 3

4.5 Forward Orders

In Sanwa's importer questionnaire response the volume and value of forward orders were provided. The table below summarises the volumes of forward orders for November to January as follows:

| Supplier | Nov-13 (MT) | Dec-13 (MT) | Jan-14 (MT) |
|------------|----------------|----------------|----------------|
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |

Table 4

4.6 Who is the importer

We noted that Sanwa:

- is named as the customer on supplier invoices;
- is named as the consignee on the bill of lading; and
- pays for delivery of the goods to the customer.

We consider Sanwa was the beneficial owner of the goods at the time of importation and is therefore the importer.

4.7 Who is 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 in the hands of a carrier, courier, forwarding company, or their own vehicle for delivery to Australia; or
- a principal will be a person in the country of export who owns, or who has previously owned, the goods but need not be the owner at the time the goods were shipped.

Where there is no principal in the country of export the Commission will normally consider the exporter to be the person who gave up responsibility for the goods as described above.

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It is common for traders and other intermediaries to play a role in the exportation of the goods. These parties will typically provide services such as arranging transportation, conducting price negotiations, arrange contacts with the producer, etc.

In such cases, the trader typically acts as an intermediary who, although one of the principals, is essentially a facilitator in the sale and shipment of the goods on behalf of the manufacturer. Typically the manufacturer as a principal who knowingly sent the goods for export to any destination will be the exporter. In this case there is no trader involved, and thus based on information collected during the visit, we are satisfied that [REDACTED] is an exporter of HRS to Australia.

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5 Sales

5.1 General

Sanwa reported revenue of approximately [REDACTED] during the 2013 financial year. This is based on the financial statements provided by Sanwa to the Commission.

Sales data was also provided by Sanwa for the investigation period (1 October 2012 to 30 September 2013). This data indicates that the total invoiced value of the GUC sold during the investigation period was approximately [REDACTED].

5.2 Sales

Sanwa identified that it sold predominantly to Australian distributors of steel products. The sales data provided by Sanwa identified that sales of the goods under consideration were made to [REDACTED] during the investigation period. Reviews of these customers websites identified that they varyingly describe themselves as steel distributors, steel merchants and steel suppliers. Sanwa's major customers during the investigation period were:

[REDACTED]

The other [REDACTED] customers each individually accounted for [REDACTED] of the sales.

The following table includes a summary of Sanwa's sales volume and total value during the investigation period for each type of product sold.

| Product | Volume (MT) | Value | WA Unit Price |
|--------------|-------------|------------|---------------|
| Beams | [REDACTED] | [REDACTED] | [REDACTED] |
| Channel | [REDACTED] | [REDACTED] | [REDACTED] |
| Columns | [REDACTED] | [REDACTED] | [REDACTED] |
| Total | [REDACTED] | [REDACTED] | [REDACTED] |

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5.3 Price and distribution arrangements

All sales are made on [REDACTED] basis.

Sanwa explained it negotiated prices on a monthly basis with its suppliers. Offers from overseas mills were received on a monthly basis. Based on this price Sanwa would establish pricing for its Australian customers,

[REDACTED] [Confidential pricing strategy] Sanwa would then seek orders from its customers based on this pricing.

All sales to their customers are in [REDACTED] [currency]. All sales sold on credit terms are done so with credit insurance. During the investigation period these credit terms varied between [REDACTED] [credit terms].

5.4 Rebates and discounts

[REDACTED]
[REDACTED] [Confidential pricing strategy] During the verification visit it was established that the invoiced price was the price paid on those transactions tested.

5.5 Sales verification (accuracy)

Sanwa provided us with a line by line sales list of its sales of steel products for the investigation period.

At the visit Sanwa provided copies of commercial invoices for sales related to the 8 shipments selected from their total imports. Copies of these documents are at **confidential attachment IMP 1**. One of the shipments did not include any of the goods under consideration. The other shipments included varying amounts of the goods under consideration. The commercial documents provided for the invoice numbers, quantity, amount and customer's names reconciled with the information in the sales list.

We were also able to reconcile these selected shipments and respective sales to the sales spread sheet at Part C of the importer questionnaire.

We received proof of payment for the goods for the invoices examined which evidenced payment confirming that Sanwa had been paid the full invoiced amounts.

We were satisfied that the sales data provided in the importer questionnaire response was accurate.

5.6 Upwards verification (relevance and completeness)

We were provided with Sanwa's financial statements for the year ended 30 June 2013. A copy of this document is at **Confidential Attachment IMP 4**. Sanwa were able to demonstrate using their financial management system a sales listing of all products sold across the company. From this listing we were able to filter and identify all sales made of the goods, which reconciled directly to the sales listing provided.

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As the investigation period spanned across 2 financial years, we were able to filter the sales data to each year and reconcile to the relevant YTD financial records. As we were able trace the value of the HRS sales figures to the complete set of sales to the completed financial statements we were satisfied of the relevance and completeness of the sales data provided.

5.7 Selling, general and administrative expenses (SG&A)

Sanwa included in its cost to import and sell spread sheet at Part B of its importer questionnaire response, with SG&A expenses of \$ [REDACTED] per metric tonne. Sanwa advised that to calculate this amount, they

[REDACTED]. [Allocation methodology] Following an examination of the financial statements (see **Confidential Attachment IMP 4**) and the departmental report we were able to verify that this as being accurate reflection of the actual SG&A costs for the 2013 financial year.

5.8 Profitability of sales and selling price

We compared the selling prices into the Australian market with the corresponding full cost to import and sell those shipments for each of the consignments on the import route spreadsheet [REDACTED]

[REDACTED] [Confidential Calculation methodology] The aggregated sales data provided by Sanwa indicates that sales during the investigation period were overall made on a profitable basis.

6 ARMS LENGTH

In determining export prices, s. 269TAB(1)(a) of the Act requires that the relevant sales are arms length transactions.

S.269TAA outlines the circumstances in which the price paid or payable shall not be treated as arms length. These are where:

- there is any consideration payable for in respect of the goods other than price;
- the price is influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; and
- in the opinion of the Minister, the buyer, or an associate of the buyer, will, directly or indirectly, be reimbursed, be compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.

We reviewed the documentation for the selected shipments for and did not find any evidence, in respect of the purchase of HRS, that:

- there is any consideration payable for or in respect of the goods other than price;
- the price was influenced by a commercial or other relationship between Sanwa or an associate of Sanwa, and its suppliers or an associate of the supplier; and/or
- Sanwa or an associate of Sanwa was directly or indirectly reimbursed, compensated or otherwise received a benefit for or in respect of the whole or any part of the price.

We are satisfied that import transactions between Sanwa and its suppliers are at arms length in terms of s. 269TAA.

7 General Comments

Sanwa advised that prior to the global financial crisis (GFC) there had been a run up in demand and prices for HRS within the Australian market. At this time, they believe that OneSteel did not have sufficient production capacity to meet all the demand for HRS in the Australian market. They believe that imported HRS played a role in supplementing OneSteel's production to ensure that market demand was met.

However, after the GFC both prices and demand fell for HRS. Overall, demand has remained reasonably static since the GFC. Any variations have largely occurred in the relative market shares held between various importers and OneSteel.

Sanwa believe that some major project contractors may be making orders to overseas mills directly when they require significant quantities of HRS. Further, they believe that there may be a move to importing pre-fabricated HRS sections which have been fabricated for specific projects.

Sanwa believe that OneSteel are the price setters in the market as they are the largest distributor of HRS in Australia and that they have an advantage of shorter delivery times over imported product. This provides them with a significant lead time in setting prices in the market place.

In relation to the injury suffered by OneSteel, Sanwa believe that factors other than the dumping of HRS are causing this injury. These factors include:

- Poor management practices at OneSteel;
- A reluctance to invest in new technology (at its Whyalla steelworks);
- The relatively high Australian dollar; and
- The possible loss of a major contract with Queensland Rail. Sanwa explained that OneSteel's HRS manufacturing plant also produces rail, and the loss of the rail contract increased the allocation of costs to the HRS products.

They believe that OneSteel has number of advantages which enable it to set a price premium over imported HRS. These are:

- An national distribution network;
- Technical assistance available to customers in Australia;
- A capacity to manufacture in a shorter period than can be achieved by exporters; and
- An ability to rapidly distribute HRS to customers.

8 RECOMMENDATIONS

From our investigations, we are of the opinion that, for the goods imported by Sanwa from [REDACTED]

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

Subject to further inquiries with the exporter, we recommend that the export price for HRS imported by Sanwa from [REDACTED] can be established under s.269TAB(1)(a) of the Act, using the invoiced price, plus additions to the FOB level as required.

PUBLIC RECORD

9 APPENDICES AND ATTACHMENTS

| Title | Description |
|---------------------------------------|---|
| Confidential Appendix 1 | Import data |
| Confidential Appendix 2 | Sales route spreadsheet (GUC) and Import cost calculations |
| Confidential Appendix 3 | Sales data and analysis |
| Confidential Attachment GEN 1 | Sanwa response to import questionnaire Part A |
| Confidential Attachment GEN 2 | Spread sheets provided by Sanwa in response to import questionnaire |
| Confidential Attachment IMP 1 | Source documents for selected transactions provided by Sanwa |
| Confidential Attachment IMP 2. | Insurance Policy - Credit |
| Confidential Attachment IMP 3 | Insurance Policy - Marine |
| Confidential Attachment IMP 4 | Profit & Loss statement for 2012 |