



INVESTIGATION 322

**ALLEGED SUBSIDISATION OF STEEL REINFORCING BAR
EXPORTED FROM THE PEOPLE'S REPUBLIC OF CHINA**

EXPORTER VISIT REPORT

SHANDONG SHIHENG SPECIAL STEEL GROUP 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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BACKGROUND

On 23 December 2015, the Commissioner of the Anti-Dumping Commission (the Commissioner) gave public notice of his decision to initiate a subsidy investigation in respect of steel reinforcing bar (Rebar) exported to Australia from the People's Republic of China (China) in Anti-Dumping Notice (ADN) No. 2015/152. The background relating to initiation of this investigation is contained in Consideration report number 322 (CON 322).

This investigation follows the Commission's dumping investigation number 300 (INV 300) rebar exported from China. The final report and the Commissioner's findings regarding INV 300 was published on the Commission's website on 13 April 2016 and can be found using the following link www.adcommission.gov.au.

The investigation period and injury analysis period for INV 300 and for this investigation are the same (i.e. investigation period is from 1 July 2014 to 30 June 2015; and the injury analysis period is from 1 July 2011 to 30 June 2015).

Following initiation of the investigation, a search of the Australian Border Force (ABF) import database indicated that Shandong Shiheng Special Steel Co., Ltd (Shiheng) exported rebar to Australia from China during the investigation period.

Shiheng was one of the cooperating exporter's for INV 300 and was visited by the Commission to verify the information it provided regarding that investigation. The exporter visit report for Shiheng regarding INV 300 can be found at the Commission's website using the following link www.adcommission.gov.au.

The Commission notified Shiheng of initiation of the investigation, and sought its cooperation through the completion of an Exporter Questionnaire regarding rebar. Shiheng provided a completed response to the Exporter Questionnaire and relevant attachments within the required timeframe.

1 THE GOODS AND LIKE GOODS

1.1 Goods Description

The goods under consideration (“the goods”) i.e. the goods exported to Australia at allegedly at dumped prices and in receipt of subsidies, are:

“Hot-rolled deformed steel reinforcing bar whether or not in coil form, commonly identified as rebar or debar, in various diameters up to and including 50 millimetres, containing indentations, ribs, grooves or other deformations produced during the rolling process.

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

Goods excluded from this application are plain round bar, stainless steel and reinforcing mesh.”

1.2 Like goods sold on the domestic market

Shiheng submitted in its EQR that it produced goods that are like to those exported to Australia. Shiheng submitted the main determinants for likeness were:

- Grade (noting only 500-grade products were exported to Australia during the investigation period);
- Type (e.g. coil vs. straight); and
- Technical specification (i.e. relevant standards or technical requirements).

A detailed discussion regarding the assessment of the like goods was done during the dumping investigation number 300 (INV 300) visit to Shiheng and is contained in exporter visit report for that investigation.

1.3 Like goods – preliminary assessment

The visit team considers that rebar produced by Shiheng 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*¹.

¹ A reference to a division, section or subsection in this report is a reference to a provision of the *Customs Act 1901*, unless otherwise specified.

2 VERIFICATION OF EXPORT SALES TO AUSTRALIA

The export sales data provided by Shiheng was also provided earlier for INV 300. The export sales information was verified and the export price was established during INV 300 for Shiheng. Therefore, the visit team did not verify the export sales data for this investigation. It is to be noted that the investigation period for INV 300 and for this investigation (INV 322) is same (i.e from 1 July 2014 to 30 June 2015).

The visit team used the export price that was established for the INV 300. A summary of findings during INV 300 regarding Shiheng that is relevant to this investigation is discussed below:

For all export sales during the investigation period, the visit team considers Shiheng and HK Lutai, (collectively Shiheng) to be the exporter² of the goods.

2.1 The importer

In relation to the goods exported by Shiheng during the investigation period, the customers listed in the consolidated Australian sales listing were the beneficial owners of the goods at the time of importation and therefore were the “importers” of the goods.

2.2 Related parties customers

Shiheng exported some goods to Australia via a related party trader (HK Lutai) during the investigation period. No other potential Australian or domestic customers which were related to Shiheng were identified, based on the company’s structure, sales data and audited statements.

2.3 Arms length

In respect of export sales of rebar to Australia by Shiheng and HK Lutai as a collapsed entity 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.

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, 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 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.

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The verification visit team therefore consider that all rebar export sales to Australia by Shiheng and HK Lutai as a collapsed entity during the investigation period were arms length³ transactions as established during INV 300.

2.4 Export price – preliminary assessment

In relation to the goods exported by Shiheng and HK Lutai, the verification team accepts the recommendations made during INV 300, that 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 preliminary export price calculations are at **Confidential Appendix 1**.

³ 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 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.

3 SUBSIDY PROGRAMS

3.1 Program 1: Billet provided by the Government of China at less than adequate remuneration

Being a fully integrated company, Shiheng predominantly self-produced billet which was then used to manufacture the goods. At the visit confirm that Shiheng purchased only a minor volume of billet from an unrelated domestic private company. Shiheng stated that this was 'once off' purchases as they were not able to produce the required volume of billet at that point in time due to a very high demand of rebar both domestically and overseas.

We noted that the billet cost to make was verified in detail during the dumping verification visit and that there were no discrepancies identified, therefore, the visit team did not verify billet costs during this visit.

Having established that Shiheng is a private entity, at this stage the visit team found that Shiheng did not benefited from program 1.

3.2 Program 2: Coking coal provided by the Government of China at less than adequate remuneration

Upward verification - Given that an upward verification had already been completed during the dumping verification, Shiheng provided us with the details of the documentations and working papers that were collected during dumping visit. From the dumping visit report, we noted that there were no issues with the upward verification.

For completeness, we obtained inventory sub-ledger for coking coal (raw materials) and reconciled the value and volume of coking coal reported in the spreadsheet for this investigation. We are satisfied that Shiheng's coking coal data is complete and relevant.

Downward verification – when comparing the selected invoices with the ledger and reconciling it to the spreadsheet submitted in response to the exporter questionnaire (REQ), we noted that in the spreadsheet that was provided to us includes 'dry' weight of coking coal and 'wet' price. Shiheng explained that in its contract with its suppliers, 'wet' weight and 'wet' price has been provided. While Shiheng re-weighs and adjusts the weight in its record, it does not make any adjustments to the value of the coking coal.

The visit team made a positive adjustment to the purchase price of coking coal. The Commission used the weighted average price difference using four cooperating exporter's data. Shiheng's data and another cooperating exporter's data for this investigation and from two other cooperating whose data was verified by the Commission for rod in coils subsidy investigation (INV 331).

Details of the verification are contained within the verification work program at **Confidential Attachment 1**.

Having established that Shiheng is a private entity, the visit team considers that Shiheng benefitted from Program 2 by purchasing coking coal from SIE's. The amount of the benefit and subsidy margin calculated by the visit team is at **Confidential Appendix 3**.

3.3 Program 3: Coke provided by the Government of China at less than adequate remuneration

Upward verification: As discussed in section 4.2 of this report, Shiheng explained that the upward verification was done by the visit team during the dumping verification. For completeness, we obtained inventory sub-ledger for coke and reconciled the value and volume of coke reported in the spreadsheet for this investigation. The visit team is satisfied that Shiheng's coke data is complete and relevant.

Downward Verification: At the visit Shiheng provided us with the source documents for the selected transactions that was provided to Shiheng in the agenda for this meeting. The visit team noted that freight details were not included in the data that was provided to the Commission in REQ. We asked and Shiheng provided us with a revised coke data by including freight costs for each transaction.

Details of the verification are contained within the verification work program at **Confidential Attachment 1**.

Having established that Shiheng is a private entity, the visit team considers that Shiheng benefitted from Program 3 by purchasing coke from SIE's. The amount of the benefit and subsidy margin calculated by the visit team is at **Confidential Appendix 3**.

3.4 Program 4: Electricity provided by the Government of China at less than adequate remuneration

Upward Verification: Given that an upward verification was done during the dumping verification and that there were no major discrepancies identified, the visit team did not do any further upward verification.

Downward Verification: the visit team noted that, in REQ Shiheng only provided the Commission with the electricity purchased of the manufacturing plant only. The visit team noted that electricity data for holding company and Feicheng (a related company that supplies Shiheng with coke) were omitted. Shiheng demonstrated that its holding company is a 'shall' company and it had not purchased any electricity during the investigation period, however, Shiheng provided the total purchases of electricity by purchased by Feicheng during the investigation period.

Details of the verification are contained within the verification work program at **Confidential Attachment 1**.

3.5 Programs 5-9: Preferential tax policies

In response to exporter questionnaire, Shiheng stated that it did not any receive any subsidy regarding alleged subsidy program numbers 5, 6, 7, 8 and 9.

At the visit, Shiheng confirmed that the company has not received any subsidy benefits under these programs. From the examination of income tax returns, VAT returns, financial reports, asset register and general ledgers we did not find any evidence that suggest that Shiheng or any of its affiliated companies benefitted from programs 5,6,7,8 and 9.

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Details of the verification are contained within the verification work program at **Confidential Attachment 1**.

3.6 Programs 10-42: Financial grants alleged in the application

In response to exporter questionnaire, Shiheng stated that it did not receive any subsidy regarding alleged subsidy program numbers 10 to 42.

While Shiheng did not declare a benefit from the particular final grants programs alleged in the application, Shiheng provided us with details of the subsidy programs that it benefited from other financial grants programs, please see section 4.10 of this report.

At the visit, Shiheng confirmed that the company has not received any subsidy benefits under these programs. From our examination of financial reports, asset register and general ledgers we did not find any evidence that suggest that Shiheng or any of its affiliated companies benefited from programs from 10 to 42.

Details of the verification are contained within the verification work program at **Confidential Attachment 1**.

3.7 Programs 43 - 45: Equity Programs

In response to exporter questionnaire, Shiheng stated that it did not receive any subsidy regarding alleged subsidy program numbers 43, 44 and 45.

At the visit, Shiheng confirmed that the company has not received any subsidy benefits under these programs. From our examination of financial reports, asset register and general ledgers and online research, we did not find any evidence that suggest that Shiheng or any of its affiliated companies benefited from programs from 43, 44 and 45.

Details of the verification are contained within the verification work program at **Confidential Attachment 1**

3.8 Programs 46 and 177: Preferential loans and loan guarantee

The applicant alleged that the exporters of rebar benefited from subsidised interest rates from State Owned Commercial Banks and government banks in accordance with the Government of China policy to support and develop the expansion of the Chinese steel industry under the five year plans.

In response to exporter questionnaire, Shiheng stated that it did not receive any benefit from the alleged subsidy program number 46. Additionally, in the response to the exporter questionnaire, Shiheng indicated that most of their loans were required to have a guarantor. At the visit, the visit team verified the ownership of the guarantor companies and noted that two of Shiheng's loans were guaranteed by a company that is partly (approximately 35%) owned by an SIE and therefore we also considered whether or not Shiheng received any benefit under program 177.

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At the visit, we conducted upward and downward verification by examining Shiheng's financial reports, short-term and long-term loan general ledger accounts, and sample documentation for loans selected by the visit team. Shiheng also provided evidence that satisfied the visit team that they had provided information regarding all of their current loans. However, Shiheng did not provide complete information regarding the details of some of their loans. Specifically, for the loans referred to as "Loan 13 and 14", Shiheng did not provide a start date, an end date, a loan term or length or a clear interest rate for the loan. Also, in relation to loans referred to as "Loans 4 and 5", the interest rate applicable was not clearly stipulated. Furthermore, Shiheng did not provide complete information about the Government ownership of some of the banks and in some cases, information provided by Shiheng in relation to the proportion of government ownership of the banks, contradicted information provided by other exporters. In order to maintain consistency of treatment, the visit team compared the information provided by all exporters in relation to Government ownership of banks and supplemented this information with research of publicly available information. . For the purpose of completing preliminary calculations, if a bank's largest shareholder was a Government body or an SIE, then the visit team considered it to be a public body. Where no information was given by the exporter and no reliable information could be found on the public record, a bank was assumed to be a public body.

The visit team compared the interest paid by Shiheng during the period, to the rate recommended by the People's Bank of China. Shiheng also provided evidence to show that they held two non-Chinese Yuan loans during the period and those loans were provided at a rate calculated with reference to Libor plus a specified number of basis points.

In relation to program 177, the visit team also noted that most of Shiheng's loans were guaranteed by unrelated private companies. However, for the loans referred to as 'loan 4 and loan 12', the guarantor of the loan is a company whose largest shareholder is a state owned company. As the largest shareholder of this company is state owned, the visit team considered the guarantor company to be an SIE, and hence a public body. During the visit, the visit team discussed the loan guarantee system with Shiheng and understood from Shiheng's explanation that without a guarantor, Shiheng would not be able to obtain the loans without a guarantor.

On review of the Commission's report, Shiheng wished to clarify its statements. Whilst Shiheng accepts that it may not have been provided the loan without a guarantor, this isn't a reflection of its creditworthiness or risk profile. To highlight by example, the largest loan by Shiheng during the IP was from the same bank as loan 4 and the bank did not require any guarantee to secure the loan. This loan was only 3 months later than loan 4 and in Shiheng's view clearly demonstrates that the loan is not contingent on having a guarantor and not contingent on the status of the guarantor, whether a private or public enterprise. In its view, this would confirm that Shiheng's creditworthiness or risk profile is not a factor in it securing loans.

Shiheng suspects that the requirement for guarantees by banks in some cases and not in others, simply reflects their requirement to maintain a certain minimum threshold of secure loans.

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Shiheng was unable to provide any further evidence regarding the guarantor relationships, stating that there was no formal contract between Shiheng and the companies providing the guarantee, no record of any fees being paid for the guarantee, and no other formal record of the arrangements between the guarantor companies and Shiheng. Shiheng stated the guarantee relationships were informal arrangements between the companies. Given the lack of information regarding the loan guarantee arrangements, the visit team relied on the discussions with Shiheng to conclude that indeed without the guarantees, the loans would not be available. As such, the visit team concluded that Shiheng benefitted under program 177 in relation to these two loans. The visit team calculated the benefit to be equal to the full value of the loan.

The subsidy margin calculations for Program 46 and Program 177 is at **Confidential Appendix 3**. Details of the verification are contained within the verification work program at **Confidential Attachment 1**.

3.9 Programs 47 to 86: Miscellaneous grants

In response to exporter questionnaire, Shiheng stated that it did not receive any subsidy regarding alleged subsidy program numbers 47 to 86

At the visit, Shiheng confirmed that the company has not received any subsidy benefits under these programs. From our examination of financial reports, asset register and general ledgers we did not find any evidence that suggest that Shiheng or any of its affiliated companies benefited from programs from 47 to 86.

However, in response to response to the exporter questionnaire and at the visit, Shiheng declared additional financial grant programs (program numbers 87 to 108).

Details of the verification are contained within the verification work program at **Confidential Attachment 1**.

3.10 Programs 87 and 108: Financial grants received by Shiheng

In response to exporter questionnaire, Shiheng stated that it benefitted from other subsidy grants which were note stated in the application (subsidy program numbers to 87 to 108).

Following the visit, the Commission provided a subsequent⁴ government questionnaire regarding these 'new' subsidy programs and including 'new' programs that was determined from other cooperating exporters to the Government of China (the GOC) seeking additional information regarding these programs.

At the visit, Shiheng confirmed that the company has received benefits under programs 87 to 108. We collected additional information in relation to these programs and calculated the amount of benefit under each program.

⁴ An initial government questionnaire was provided to the GOC when the investigation was initiated.

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Details of the verification are contained within the verification work program at **Confidential Attachment 1**. Calculation of benefit and subsidy margin for each program is at **Confidential Appendix 3**.

3.11 Programs 109 and 176: Other financial grants

At the visit, Shiheng confirmed that the company has not received any subsidy benefits under programs 109 to 176. From our examination of financial reports, asset register and general ledgers we did not find any evidence that suggest that Shiheng or any of its affiliated companies benefited from programs from 109 to 176.

Details of the verification are contained within the verification work program at **Confidential Attachment 1**.

3.12 Verification of Shiheng's costs up to audited financial statements

The visit team verified the completeness and relevance of Shiheng's cost to make and sale spreadsheet by reconciling it to audited financial accounts in accordance ADN 2016/30.

The visit team is satisfied that the cost data provided by Shiheng's is complete and relevant.

3.13 Verification of costs down to source documents

The visit team verified the accuracy of Shiheng's cost raw materials spreadsheet by reconciling it to source documents in accordance with ADN 2016/30.

The visit team is satisfied that the cost data provided by Shiheng's is complete and relevant.

Details of the verification are contained within the verification work program at **Confidential Attachment 1**.

4 SUBSIDY MARGIN

The subsidy margin has been assessed in accordance with paragraph 269TACD(2) of the Act.

The preliminary subsidy margin in respect of rebar exported to Australia by Shandong Shiheng Special Steel Co., Ltd for the investigation period is **3.71%**.

Details of the preliminary subsidy margin calculation is at **Confidential Appendix 3**.

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5 APPENDICES AND ATTACHMENTS

Confidential Appendix 1	Export price
Confidential Appendix 2	Assessment of subsidy programs
Confidential Appendix 3	Subsidy margin
Confidential Attachment 1	Verification work program