



INVESTIGATION NO. 331

**ALLEGED SUBSIDISATION OF ROD IN COILS
EXPORTED FROM THE PEOPLE'S REPUBLIC OF CHINA**

EXPORTER VISIT REPORT

HUNAN VALIN XIANGTAN IRON & 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**

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ABBREVIATIONS

ABF	Australian Border Force
ADN	Anti-Dumping Notice
China	The People's Republic of China
Customs Act	<i>Customs Act 1901</i>
EQR	Exporter Questionnaire Response
PAD	Preliminary Affirmative Determination
Parliamentary Secretary	Assistant Minister for Science and the Parliamentary Secretary to the Minister for Industry, Innovation and Science
the applicant	OneSteel Manufacturing Pty Ltd
the Commission	Anti-Dumping Commission
the Commissioner	Commissioner of the Anti-Dumping Commission
the GOC	The Government of China
the goods	the goods the subject of the application (also referred to as the goods under consideration)
VAT	value added tax

BACKGROUND

On 17 February 2016, the Commissioner of the Anti-Dumping Commission (the Commissioner) gave public notice of his decision to initiate a subsidy investigation in respect of rod in coils exported to Australia from the People's Republic of China (China) in Anti-Dumping Notice (ADN) No. 2016/14. The background relating to initiation of this investigation is contained in Consideration report number 331 (CON 331).

This investigation follows the Commission's dumping investigation number 301 (INV 301), rod in coils exported from China. The final report and the Commission's findings regarding INV 301 was published on the Commission's website on 22 April 2016 and can be found using the following link www.adcommission.gov.au.

The investigation period and injury analysis period for INV 301 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 Hunan Valin Xiangtan Iron & Steel Group Co, Ltd (Hunan Valin) exported rod in coils to Australia from China during the investigation period.

Hunan Valin was one of the cooperating exporter's for INV 301 and was visited by the Commission to verify the information it provided regarding that investigation. The exporter visit report for Hunan Valin regarding INV 301 can be found at the Commission's website using the following link www.adcommission.gov.au.

The Commission notified Hunan Valin of initiation of the investigation, and sought its cooperation through the completion of an Exporter Questionnaire regarding rod in coils. Hunan Valin provided a completed response to the Exporter Questionnaire (EQR) and relevant attachments within the required legislative 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:

Rod in coils, whether or not containing alloys, that have maximum cross sections of less than 14mm.

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

Exclusions:

Goods excluded from consideration include hot-rolled deformed steel reinforcing bar in coil form, commonly identified as rebar or debar, and stainless steel in coils.

1.2 Like goods sold on the domestic market

In its EQR, Hunan Valin confirmed that it is a producer of various steel products including rod in coils. Further, Hunan Valin stated that it sells its products in both domestic and overseas markets. During the verification visit for INV 301, the visit team confirmed that Hunan Valin operates a fully integrated steel making process, utilising blast furnace equipment to convert iron ore, pellets, and coal into steel billets or slabs. These billets or slabs are further processed by Hunan Valin into a range of steel products.

During the visit we undertook a plant tour and sighted the process for rolling the steel billet into rod in coil. The visit team sighted Hunan Valin’s centralised production control station in the production management building. The visit team verified that Hunan Valin makes its own billets and these are cooled before being collected for use in the rolling mills, of which there are three rod in coil rolling lines, with exports predominantly made on one of them.

During the verification visit for INV 301, the team identified that there was no direct comparison standard for export goods which was recognised as a specific model sold domestically. It was further identified that the domestic market does not use the same steel grade which the export market (Australia) does. However, that visit team considered that the domestic sales of rod in coil were ‘sufficiently like’ to the goods exported to Australia.

A detailed discussion regarding the assessment of the like goods was done during the dumping investigation INV 301 visit to Hunan Valin and is contained in exporter visit report for that investigation.

1.3 Like goods – preliminary assessment

The visit team considers that the rod in coils produced by Hunan Valin for domestic sale have characteristics closely resembling those of the goods under consideration and are

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therefore 'like goods' in accordance with subsection 269T(1) of the *Customs Act 1901* (the Act)¹.

¹ All references in this report to sections of legislation, unless otherwise specified, are to the *Customs Act 1901*.

2 VERIFICATION OF EXPORT SALES TO AUSTRALIA

The export sales data provided by Hunan Valin was also provided earlier for INV 301. The export sales information was verified and the export price was established during INV 301 for Hunan Valin. 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 301 and for this investigation (331) 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 301. A summary of findings during INV 301 regarding Hunan Valin, relevant to this investigation, is discussed below.

2.1 The exporter

For all export sales during the investigation period, the visit team considers Hunan Valin to be the exporter² of the goods.

2.2 The importer

In relation to the goods exported by Hunan Valin 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.

2.3 Arms length

The verification visit team consider that all rod in coils export sales to Australia by Hunan Valin during the investigation period were arms length³ transactions as established during INV 301.

2.4 Export price – preliminary assessment

In relation to the goods exported by Hunan Valin, the visit team accepts the recommendations made during INV 301, 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.

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.

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

The visit team conducted an inspection of the facility of Hunan Valin and confirmed that Hunan Valin is a fully integrated steel manufacturer that produces its own billets or slabs from the purchased raw materials such as iron ore, coke and coking coal through the operation of four blast furnaces, and then the billets or slabs are further processed by Hunan Valin into a range of steel products.

INV 301 found that the methodology that Hunan Valin uses to allocate costs for the raw materials of “coal, coking coal, iron ore and iron ore fines”⁴ from orders, purchasing and further processing accurately records the actual costs incurred.

3.2 Program 2 and 3: Coke and coking coal provided by the Government of China at less than adequate remuneration

In its EQR, Hunan Valin provided a list of all its coke and coking coal purchases for the investigation period. Hunan Valin purchased coking coal both domestically and imported, while all coke purchases were domestic.

Prior to the visit, the Commission analysed the purchases of coke and coking coal and selected five purchases of each for verification during the visit. Hunan Valin provided the visit team with a reconciliation workbook for all domestic purchases of coke and coking coal. The workbook showed reconciliation of each purchase to the accounting records. The reconciliation shows an exact match for quantity but a minor difference in the total sales value between what was reported in the purchases list and that reported in the accounting system. Hunan Valin explained that the difference is due to the inclusion of additional freight costs in the accounts, which are not shown in the purchases list, despite the purchases being reported as free into store (FIS). Hunan Valin noted that the resulting average prices in the purchases list are lower, therefore the difference does not favour Hunan Valin.

The visit team verified the accuracy of Hunan Valin’s coke and coking coal purchases by reconciling them to source documents (invoices and proof of payment) for the selected purchases in accordance with ADN No. 2016/30.

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

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

Hunan Valin purchases electricity from the electricity grid in addition to generating its own electricity using a thermal recovery plant. All purchases were from the one Government entity. In its EQR, Hunan Valin provided details and invoices for all purchases of electricity during the investigation period. Prior to the visit, the Commission reconciled the

⁴ See [Inv 301 Visit Report Hunan Valin, on page 9](#)

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purchases to the invoices provided and selected two months for further verification during the visit.

The Government of China (GOC) provided a copy of the tariff schedule for Hunan Province in its response to the government questionnaire. Hunan Valin stated that that it was subject to the "Large Industrial - Other" rate. During the verification visit, Hunan Valin provided a detailed breakdown of monthly electricity usage by period of usage and total cost. Periods of usage are broken down onto four categories: peak, top, valley and normal. The visit team verified the accuracy of Hunan Valin's electricity purchases by reconciling them to source documents in accordance with ADN No. 2016/30.

To determine whether Hunan Valin received a benefit under this program the visit team has assumed that the benchmark electricity price is the highest rate applicable to the "Large Industrial - Other" user category from the tariff schedule for Hunan Province provided by the GOC. The team has compared the average price paid for electricity for each month of the investigation period and found that in every month Hunan Valin paid a price higher than the benchmark price. The team therefore determined that, regardless of whether this program is found to be a countervailable subsidy in relation to rod in coil, if the benchmark price is based on the GOC tariff schedule, then Hunan Valin did not receive a benefit under this program.

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

3.4 Program 5 - Preferential Tax Policies for High and New Technology Enterprises

In its response to the EQR, Hunan Valin advised that they did not benefit from this program. During the visit the team confirmed this by checking and verifying Hunan Valin's 2011 to 2014 tax returns. The 2014 tax return shows that Hunan Valin paid no tax in this year, due to not having made a profit. Hunan Valin had not yet lodged its 2015 tax return at the time of our visit, however Hunan Valin did provide its financial audited statements, which showed that it similarly did not make a profit in 2015 and therefore no tax would be payable for 2015. As such, the visit team determined that, regardless of whether this program is found to be a countervailable subsidy in relation to rod in coil, Hunan Valin did not receive a benefit under this program.

3.5 Program 6 - Preferential Tax Policies in the Western Regions

In its response to the EQR, Hunan Valin confirmed that the company operates entirely in the south eastern region of China and, therefore this program is not applicable to them. As such, the visit team determined that, regardless of whether this program is found to be a countervailable subsidy in relation to rod in coil, Hunan Valin did not receive a benefit under this program.

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3.6 Program 7 - Land Use Tax Deduction

In its response to the EQR, Hunan Valin claimed that it has benefited from this program. During the visit, Hunan Valin explained to the team that the information showing the approval of the local tax bureau as provided with the EQ was only applicable to the 2013 calendar year.

During the visit, Hunan Valin provided a copy of the local tax bureau approval for 2014, which was given in June 2015. The benefit derived from this program is applicable to all production. At the time of the visit the approval for 2015 had not yet been received but Hunan Valin confirmed that the approval was expected.

The visit team determined that Hunan Valin receives a benefit under this program.

3.7 Program 8 - Tariff and VAT Exemptions on Imported Materials and Equipment

In the GOC questionnaire response the GOC states that this program is available for all industries in China.

In its response to the EQR, Hunan Valin stated that it imported equipment from 1 July 2005 to 30 June 2015 for production of rod in coil and declared receipt of a benefit under this program.

During the visit, Hunan Valin claimed that of all its imported equipment, only five purchases of equipment were eligible for the program and, of these five, only two purchases were granted the exemption. Hunan Valin provided a list of the eligible equipment and information from the China Customs database showing receipt of the exemption for these two pieces of equipment. China Customs rejected the exemption request on the other three eligible pieces.

Hunan Valin provided the visit team a full copy of its assets register and filtered it for imported equipment. In addition to the purchases mentioned above the visit team selected two purchases for verification to source documents. Hunan Valin provided copies of invoices for the selected purchases and evidence of payment of the import duty and value added tax (VAT) on the selected purchases and the equipment that was eligible for the program but rejected by China Customs.

The visit team determined that Hunan Valin receive a benefit under this program.

3.8 Program 9 - VAT refund on comprehensive utilisation of resources

In its response to the EQR, Hunan Valin claimed receipt of this benefit on a monthly basis since 2013.

In its questionnaire response the GOC stated that this program relates to "building materials produced with waste and used resources". During the visit, Hunan Valin stated

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that it receives this subsidy program in relation to the electricity it produces using the gas and heat/steam from its steel-making process, i.e. "waste resources". The visit team selected a quarter of the investigation period for verification and Hunan Valin provided copies of the monthly VAT returns showing refunds for the selected months and the certificates of eligibility for the equipment used to generate electricity for this program.

The visit team also found an independent website that appears to confirm the eligible equipment used by Hunan Valin.⁵

As such, the visit team determined that Hunan Valin receive a benefit under this program.

3.9 Program 36 – Reducing pollution discharging and environment improvement assessment award

In its response to the EQR Hunan Valin declared that it received a benefit under this program in 2010 only.

During the visit, the team examined Hunan Valin's accounting system and were satisfied that this grant was not paid during the investigation period. The visit team determined that, regardless of whether this program is determined to be a countervailable subsidy in relation to rod in coil, there was no benefit received by Hunan Valin during the investigation period.

3.10 Program 41 - Environmental Prize

In its response to the EQR, Hunan Valin declared that it received a benefit under this program in 2011 only.

During the visit, the team examined Hunan Valin's accounting system and were satisfied that this grant was not paid during the investigation period. The visit team determined that, regardless of whether this program is determined to be a countervailable subsidy in relation to rod in coil, there was no benefit received by Hunan Valin during the investigation period.

3.11 Programs 43 to 45 – Debt for Equity Swaps, Equity Infusions and Unpaid dividends

In its response to the EQR, Hunan Valin declared that these programs are not applicable and no benefits have been received.

Hunan Valin provided the Commission with a copy of their 2015 audited accounts. These accounts indicate that Hunan Valin had not been involved in debt for equity swaps or received any infusions of equity from its government-owned shareholders.

In its response to the EQR, Hunan Valin stated that it had not paid any dividends during the period 2005 to 2015. Tax returns, in addition to Hunan Valin's complete Articles of

⁵ <http://www.hzsjob.com/news/nk5wi7W4JSGLCSTa.html>

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Association, were submitted with the EQR. These documents indicate that Hunan Valin has not made a profit since at least 2011.

During the visit, Hunan Valin submitted an extract of its Articles of Association referencing the distribution of profits. Hunan Valin also provided copies of the minutes of board decisions confirming that there were no dividend distributions.

The visit team determined that, regardless of whether this program is found to be a countervailable subsidy in relation to rod in coil, there was no benefit received by Hunan Valin.

3.12 Program 46 and 177 - Preferential loans and guarantees

In its supplementary response to the EQR, Hunan Valin provided a full list of all of its loans outstanding at the end of the investigation period in addition to a copy of loan contracts for 23 of these loans. The Commission attempted to reconcile the list of loans to the contracts provided and identified a number of errors and issues that required clarification, particularly the formula used to calculate the number of days during the investigation period for which interest was payable.

During the visit, the visit team discussed these errors with Hunan Valin. The visit team were satisfied with the explanations given by the company. Subsequent to the visit Hunan Valin provided:

- a revised version of the loans information with the errors and issues corrected;
- screenshots from the company accounting system showing the entry of the loan into the system at the end of the month in which the loan was taken out and, for loans made in USD, exchange rates and corresponding loan amounts in RMB; and
- the supplementary loan contract relevant to one particular loan.

The Commission compared the loan details provided to the audited financial statements for 2014 and 2015 and are satisfied that Hunan Valin has reported all outstanding loans.

In relation to Government ownership of banks, Hunan Valin explained that they are not able to get access to any information on this issue. Due to lack of any information provided by Hunan Valin on this issue, the Commission compared the information provided by all exporters in relation to Government ownership of banks that were also banks used by Hunan Valin and supplemented this information with public record research. For the purpose of completing preliminary calculations, the Commission considered that if a bank's major shareholder was a Government body or an SIE, then it was a public body. Where no information regarding Government interest in the banks was reasonably available, the Commission assumed the bank to be a public body.

Additionally, in the response to the exporter questionnaire, Hunan Valin indicated that most of their loans were required to have a guarantor and therefore we also considered whether or not the company received any benefit under program 177. While at the visit, we verified the ownership of the guarantor companies and noted that Hunan Valin received a guaranteed from one of its own parent and related companies. This is considered to be within commercial business practices and is therefore not considered to be countervailable, and the Commission concluded that Hunan Valin did not receive a benefit under Program 177.

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3.13 Financial grants alleged in the application

In its response to the EQR, Hunan Valin identified a number of grant programs, inclusive of the amount received under the program of VAT-refund on comprehensive utilisation of resources that they received since 2010, additional to those listed in the application. During the visit, Hunan Valin explained that the grants they receive are treated either as a subsidy with the full amount of the grant recognised as revenue in the year of receipt, or as a deferred subsidy with the full amount of the grant allocated to revenue on a quarterly basis over a specified number of years. Hunan Valin explained that deferred subsidies related to the purchase or upgrading of assets, hence they were allocated in a similar manner to the recognition of depreciation. The company provided a revised version of its grants list that identified whether the grants were fully recognised in the year of receipt or deferred. The visit team confirmed that in either case the grant is recognised as non-operating (subsidy) revenue in the accounts.

The visit team undertook an upwards verification of the grants received to Hunan Valin's audited financial statements. In addition to the grants received, Hunan Valin recorded other non-operating income received in 2014 and 2015. The team verified that this income did not include grants or other subsidies. The team verified the annual allocations of deferred subsidies and were satisfied that deferred subsidies related to assets. The team was satisfied that all grants were reported accurately.

In its response to the supplementary EQR, Hunan Valin stated that its parent company, Hunan Valin Iron & Steel, only received one subsidy for repayment of interest on a loan. The team verified this amount to the audited financial statement.

Depending on whether these programs are determined to be countervailable subsidies in relation to rod in coil, the visit team determined that Hunan Valin receive a benefit from these grants, equal to the amount of the grant received or allocated (in the case of deferred subsidies) during the investigation period. The amount of the benefit has been calculated at **Confidential Appendix 3**.

4 SUBSIDY MARGIN

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

The subsidy margin in respect of rod in coils exported to Australia by Hunan Valin for the investigation period is **26.46%**.

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