



Australian Government
**Australian Customs and
Border Protection Service**

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**INVESTIGATION INTO THE ALLEGED DUMPING OF HOT
ROLLED COIL STEEL**

EXPORTED FROM

JAPAN, KOREA, MALAYSIA AND TAIWAN

IMPORTER VISIT REPORT

CITIC AUSTRALIA COMMODITY TRADING PTY LTD

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THEREIN WILL BE REVIEWED BY THE CASE MANAGEMENT TEAM AND
MAY NOT REFLECT THE FINAL POSITION OF CUSTOMS AND BORDER
PROTECTION**

July 2012

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2 BACKGROUND AND PURPOSE**2.1 Background to the current investigation**

On 15 June 2012, the Australia Customs and Border Protection Service (Customs and Border Protection) initiated an investigation into the alleged dumping of Hot Rolled Coil Steel (HRC) from Japan, the Republic of Korea (Korea), Malaysia and Taiwan following an application by BlueScope Steel Ltd (BlueScope), an Australian manufacturer of HRC.

The initiation of the investigation was publicised in *The Australian* on 15 June 2012. Australian Customs Dumping Notice No. 2012/30 provides further details of this investigation and is available at www.customs.gov.au.

Following initiation of the investigation, a search of Customs and Border Protection's import database indicated that CITIC Australia Commodity Trading Pty Ltd (**CITIC Australia**) had imported HRC from Taiwan during the investigation period (1 April 2011 to 31 March 2012). Customs and Border Protection wrote to CITIC Australia 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. CITIC Australia was also provided with a list of its imports during the investigation period, extracted from Customs and Border Protection's import database and identified a number of transactions from the list for verification.

CITIC Australia completed the importer questionnaire, providing details regarding the company, overseas supplier information, imports and expenses. The completed importer questionnaire can be found at **confidential attachment GEN 1**.

During the verification visit CITIC Australia provided an updated response to the importer questionnaire that provided some further information. This forms **confidential attachment GEN 2**.

2.2 Purpose of meeting

The purpose of the visit was to:

- confirm that CITIC Australia was an importer of HRC and clarify the relationship between CITIC Australia and the exporter;
- verify information on imports of HRC to assist in the determination of export prices from Taiwan;
- establish whether the purchases were arms length transactions;
- establish post exportation costs incurred in importing HRC;
- identify CITIC Australia's sales and customers and determine sales volume, selling prices and selling costs;
- recommend how export price may be determined under s. 269TAB; and
- provide the company with an opportunity to discuss any issues it believed relevant to the investigation.

2.3 Meeting

We advised CITIC Australia generally of the investigation process and timeframes.

- The investigation period is 1 April 2011 to 31 March 2012.
- The injury analysis period is from 1 April 2008.
- A preliminary affirmative determination (PAD) may be made no earlier than the 60th day following the date of initiation of the investigation (14 August 2012). Provisional measures may be imposed at the time of the PAD or at any time after the PAD has been made. Customs and Border Protection would not make such a determination until it was satisfied that there appears to be, or that it appears there will be, sufficient grounds for the publication of a dumping duty notice.
- A statement of essential facts will be placed on the public record by 3 October 2012 or such later date as the Minister allows. The statement of essential facts will set out the material findings of fact on which Customs and Border Protection intends to base its recommendations to the Minister. The statement of essential facts will invite interested parties to respond, within 20 days, to the issues raised. Submissions received in response to the statement of essential facts will be considered when compiling the report and recommendations to the Minister.
- Customs and Border Protection's report to the Minister is due no later than 17 November 2012, unless an extension to the statement of essential facts is approved by the Minister.

We advised CITIC Australia that we would prepare a confidential report on the visit. CITIC Australia would be given an opportunity to review the visit report for accuracy. A non-confidential version of this visit report would be prepared in consultation with the company and placed on the public record.

Company	CITIC Australia Commodity Trading Pty Ltd
Address	Level 7, 99 King Street, MELBOURNE VIC
Telephone no.	03 9926 9244
Fax no.	03 9614 7157
Date	25 July 2012
Present	
CITIC Australia	Kelvin Chan, Vice-President and Chief Financial Officer Kit Cheng, Management Accountant
Wright Steel	Griff Wright, Director Mark Kay, Trading Manager
Customs and Border Protection	Lydia Cooke, Manager Operations 1 Pamela Garabed, Supervisor Operations 1

Prior to the meeting we forwarded an agenda to CITIC Australia. A copy of the agenda is at **confidential attachment GEN 3**.

CITIC Australia was co-operative during the visit and provided requested documentation as necessary.

3 THE GOODS**3.1 Goods the subject of the application**

The goods the subject of the application are described as:

Hot rolled coil (including in sheet form), a flat rolled product of iron or non-alloy steel, not clad, plated or coated (other than oil coated).

Goods excluded from this application are hot rolled products that have patterns in relief (known as checker plate) and plate products.

Further detailed information on the goods is contained in ACDN 2012/30.

3.2 Tariff classification

The tariff classifications and statistical class codes in Schedule 3 to the *Customs Tariff Act 1995* and relevant rates of duty for HRC are shown below.

Tariff Classification	Statistical class code	Rate of duty - Japan	Rate of duty - Korea	Rate of duty - Malaysia	Rate of duty - Taiwan
7208.25.00	32	5%	0%	0%	0%
7208.26.00	33	5%	0%	0%	0%
7208.27.00	34	5%	0%	0%	0%
7208.36.00	35	5%	0%	0%	0%
7208.37.00	36	5%	0%	0%	0%
7208.38.00	37	5%	0%	0%	0%
7208.39.00	38	5%	0%	0%	0%
7208.53.00	42	5%	0%	0%	0%
7208.54.00	43	5%	0%	0%	0%
7208.90.00	30	5%	5%	4%	5%
7211.14.00	40	5%	0%	0%	0%
7211.19.00	41	5%	0%	0%	0%

Customs and Border Protection's Tariff Section identified that HRC may also be classified under 7208.51.00 (statistical class code 40) and 7208.52.00 (statistical class code 41), however, the goods classified under these headings are predominately plate or other products.

3.3 'Like' goods

CITIC Australia advised that it had imported the following grades of HRC during the investigation period, and provided the Australian industry equivalent for each grade:

Grade sold	Australian industry equivalent	Product description
SPHT 2	HA250	Unpickled and unoiled, mill edge, skin passed
ASTM A570 GRADE 45	HA300	Unpickled and unoiled, mill edge, skin passed
ASTM A570 GRADE 45	HA350	Unpickled and unoiled, mill edge, skin passed
SPA-H	HW350 (CORTEN)	Unpickled and unoiled, mill edge, skin passed
SPHD	HA3	Pickled and oiled, trimmed edge, skin passed
SPA-H 490	XTRAFORM 400	Pickled and oiled, trimmed edge, skin passed

CITIC Australia confirmed that it sells these products in thicknesses within the range of 1.35 to 9.00 mm, and widths within the range of 780 to 1860 mm.

We advised CITIC Australia that plate is currently excluded from the investigation, and that Customs and Border Protection has taken the view that plate is sheathed coil of thicknesses greater than 4.75 mm. CITIC Australia commented that the description of plate differs and that it considered plate sometimes referred to sheathed coil of thicknesses greater than 5.5 mm. CITIC Australia had no further comment in relation to the classification of the goods.

CITIC Australia confirmed that the HRC products outlined above are manufactured using a blast furnace, in a production process equivalent to that of the Australian industry.

We consider that the imported goods sold by CITIC Australia are like goods. The process of manufacture is similar to that of Australian industry and the grades imported are comparable to grades sold by BlueScope. The goods appear to be interchangeable with those produced by industry and both functionally and commercially.

4 COMPANY BACKGROUND**4.1 Company background**

CITIC Australia is a privately owned proprietary company, limited by shares, registered in Australia from 21 January 1994 under the ABN 16 063 221 509. CITIC Australia is the sole underlying business of CITIC Australia Trading Pty Limited (CATL). CATL is a wholly owned subsidiary of CITIC Resources Holdings Limited, which is a publicly listed company on the Hong Kong Stock Exchange.

An ASIC search has identified that CATL was successfully privatised and delisted from the Australian Securities Exchange in January 2009.

4.2 Commercial operations

The CITIC Resources website outlines that CITIC Australia's "primary focus is on trade between Australia and China". Its main imports include steel, tyres and battery from China and other Asian countries into Australia. Its exported products include aluminium ingot, iron ore, alumina and coal sourced from Australia and other countries to China.

CITIC Australia is in a joint venture arrangement with Wright Steel Sales Pty Ltd (Wright Steel) in relation to the import and sale of HRC. *[Confidential text removed - details of joint venture arrangement]*

Currently, CITIC Australia's operations within Australia are carried out solely through its Melbourne office where its imports, including HRC are delivered from the port of importation to its Australian customers.

4.3 Accounting

CITIC Australia explained that it uses SUN accounting software and its financial year is from January to December.

4.4 Relationship with Wright Steel

CITIC Australia outlined that there is no joint ownership between itself and Wright Steel *[Confidential text removed - details of joint venture arrangement]*

4.5 Relationship with suppliers

CITIC Australia does not appear to be related to its identified suppliers, *[Confidential text removed]*. Further discussion about this is set out below in section 7.

4.6 Relationships with customers

[Confidential text removed - information relating to supply arrangements with customers]

[Confidential text removed - customer details]

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CITIC Australia advised that its relationships with its customers in Australia were purely on the basis of commercial transactions, and that it has no other relationships, equity or otherwise, with its customers. CITIC Australia also advised that it does not grant rebates, or discounts to any of its customers in the Australian market.

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5 IMPORTS

5.1 Introduction

Customs and Border Protection's import database indicated that CITIC Australia imported [confidential text removed] metric tonnes of HRC during the investigation period. Of the total, [confidential text removed] metric tonnes was imported directly from [confidential text removed] whilst [confidential text removed] metric tonnes was imported through a trading company [confidential text removed]. [Confidential text removed] has been identified as an overseas supplier and manufacturer of the goods in CITIC Australia's questionnaire response. [Confidential text removed - supplier information]

5.2 Ordering process and price

[Confidential text removed - information outlining order process, supplier arrangements and price]

5.3 Verification

Prior to the visit, we selected 12 shipments so that CITIC Australia could provide Customs and Border Protection the following source documents:

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

The source documents are at **confidential attachment IMP 1**.

For each shipment we used the source documents provided to list the quantity, invoice value, ocean freight and insurance, exchange rate, customs duty, importation costs, expenses and average selling prices in the importer transaction form. We confirmed the following:

	████	████████████████
Delivery terms	FOB	FOB
Payment terms	████	████
Currency	USD	USD

5.3.1 Shipment costs

CITIC Australia provided supplier invoices for ocean freight. The weighted average was determined for the selected transactions and is available in the table below.

In relation to marine insurance, CITIC Australia provided evidence from its insurance broker, [confidential text removed], outlining the premium rate of [confidential text removed] for the period 30 April 2011 to 30 September 2011 and a rate of [confidential text removed] for the period 1 October 2011 to 30 March 2012. Confirmation of these insurance premiums is at **confidential attachment IMP 2**. The amount included for

insurance on CITIC Australia's importer questionnaire response, was calculated by multiplying the insurance premium by the FOB rate for each shipment.

Item	Weighted average cost (AUD/tonne)
Ocean freight	██████
Marine and local transportation insurance	██████
Total	██████

5.4 Importation costs

Under the heading of 'Australian Importation Costs' in the importer transaction form, CITIC Australia entered amounts for port service charges, customs entry fees, customs broker fees, delivery and bank charges. We compared the relevant importation cost invoices to the importer questionnaire response.

Using the verified data in the importer questionnaire response, we calculated the average post free on board expenses for the selected shipments, which are summarised in the following table (expressed in Australian dollars per tonne). Our working is at **confidential appendix 1**.

Item	Weighted average cost (AUD/tonne)
Port service charges	██████
Customs entry fee	██████
Customs brokers fee	██████
Delivery	██████
Wharf detention charges	██████
Total	██████

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

In its response to the importer questionnaire, CITIC Australia provided its SG&A as *[confidential text removed]*. During verification, CITIC Australia provided us with a breakdown of SG&A costs. This breakdown forms **confidential attachment IMP 3**. We confirmed that the total SG&A was taken from CITIC Australia's management reports for the investigation period. This was then calculated as a percentage of total sales for 2011.

[Confidential text removed - information relating to commissions paid]

Item	Weighted average cost (AUD/tonne)
SG&A	██████
Commission	██████
Bank charges	██████
Total	██████

5.6 Export prices for shipments

Based on verification of all selected shipments, we calculated weighted average FOB export price (in AUD) for the goods over the investigation period.

Product	FOB export price (AUD/tonne)
HRC dry coil	██████
HRC P&O coil	██████
HRC dry sheet	██████
Total	██████

5.7 Who is the Importer

We noted that CITIC Australia:

- 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 CITIC Australia was the beneficial owner of the goods at the time of importation and is therefore the importer.

5.8 Who is the exporter?

Customs and Border Protection 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 Customs will normally consider the exporter to be the person who gave up responsibility for the goods as described above.

Upon review of the documentation provided we are satisfied that:

- the commercial invoices identify the supplier;
- the bills of lading identify the supplier as the shipper of the goods; and
- the supplier arranges and pays for the goods to be transported to the wharf and loaded onto the ship in the country of export; and
- CITIC Australia pays the relevant supplier.

Based on the information available we are satisfied that *[confidential text removed]* are the exporter of the goods.

6 AUSTRALIAN MARKET AND SALES**6.1 General**

CITIC Australia outlined that it did not consider the Australian industry to be its main competitor, as they cannot compete with them in terms of service and price. However CITIC Australia stated that there is demand for the imported product as it fills the gap in the market for products no longer produced by Australian industry, and also provides a product of superior quality to that which is sold by the Australian industry.

In terms of competition, it considers other importers to be its main competitors, particularly New Zealand Steel Limited (**NZ Steel**), a fully owned subsidiary of Bluescope Steel Australia, which makes a product of similar quality to that produced [confidential text removed]. CITIC Australia also considered NZ Steel to be the price setter in the market, but noted that it cannot provide the whole range of HRC products available and extended payment terms.

CITIC Australia outlined that in relation to the current investigation, exporters from Japan did not compete in the same market as they operate. Exporters from Japan primarily deal in the automotive sector. It noted that Korean exporters sold into the manufacturing sector but did so sporadically, often only in circumstances of excess production.

6.2 Australian sales

As outlined at 3.3 above, CITIC Australia imports and sells six grades of HRC in thicknesses ranging from 1.35 to 9.00mm, and widths ranging from 780 to 1860mm. In its response to the exporter questionnaire, CITIC Australia could not provide the specific grade, thickness or width for each sales transaction, as this information was not recorded in its system. Instead, sales were listed in three distinct categories:

- HRC dry coil: Unpickled and oiled, mill edge, skin passed
- HRC dry sheet: Unpickled and oiled, mill edge, skin passed
- HRC P&O coil: Pickled and oiled, trimmed edge, skin passed

Price differs by base product, grade, thickness and width.

[Confidential text removed - details of overall sales by CITIC Australia]

[Confidential text removed - customer information]

6.3 Price and distribution arrangements

HRC free in to store (FIS) to all customers.

CITIC Australia confirmed that all HRC is delivered to the closest port to its Australian customer. CITIC Australia currently arranges for freight from the port of export to Brisbane, Sydney, Melbourne, Adelaide and Fremantle. CITIC Australia then engages transport companies within each city to deliver the goods directly to the Australian customer.

[Confidential text removed - details of sales arrangements with customers]. These documents are attached at **confidential attachment SALES 1**.

6.4 Rebates and discounts

CITIC Australia confirmed that it does not provide discounts or rebates to its customers.

6.5 Sales verification (accuracy)

As part of its questionnaire response, CITIC Australia provided us with a line by line sales list of its sales of HRC for the period from 1 April 2011 to 31 March 2012.

At the visit we sought source documents for the following six selected transactions:

Invoice Number	Date of invoice
[REDACTED]	6/04/2011
[REDACTED]	15/06/2011
[REDACTED]	20/07/2011
[REDACTED]	6/12/2011
[REDACTED]	23/02/2012
[REDACTED]	15/03/2012

CITIC Australia provided us with commercial invoices and freight invoices (where applicable) for the selected sales. Copies of these documents are at **confidential attachment SALES 2**. The invoice numbers, date, amount and customers reconciled with the selected sales information in the sales list. The values in the freight invoices reconciled with the freight amounts identified in the commercial invoices.

In relation to invoice number [confidential text removed] we observed an unusually low unit price for the invoiced item. CITIC Australia explained that these sales related to goods damaged whilst in transit between Taiwan and Australia. The damaged goods were subject to an insurance claim and sold at a much lower price. We are satisfied that this sale is not indicative of the average unit price for the goods.

Based on the source documents provided we are satisfied that the values in the revised sales list are accurate.

Proof of Payment

We requested proof of payment for the goods for invoice numbers [confidential text removed]. We were provided with NAB Statement Reports to prove payment of the invoices which are included in the source documents at **confidential attachment SALES 2**. The documents confirmed that payment had been made for the amounts identified in the CITIC Australia invoice.

6.6 Upwards verification (completeness)

We were provided with CITIC Australia's audited Financial Report for the year ended 31 December 2011. This is at **confidential attachment SALES 3**.

As CITIC Australia's audited Financial Report period did not match with the investigation period, CITIC Australia also provide management reports in order to determine total sales for the investigation period. These documents confirmed the total steel sales reported by CITIC Australia.

In order to ascertain the total HRC sales for the investigation period, CITIC Australia provided a line by line sales report for the period. This included sales of imports from both Taiwan and China. To determine total sales of imports from Taiwan, CITIC Australia provided us with a complete listing of sales of imports from China. We deducted this figure from total sales of HRC to get the total sales of HRC imports from Taiwan.

We are satisfied that the sales list provided is complete.

6.7 Profitability of sales and selling price

We calculated profitability for the selected imports by deducting total costs of importation (including freight, insurance, post importation costs and SG&A) from the average selling price of the related sales to the selected import transaction.

Our analysis found that all selected transactions were profitable, with an average profitability of [confidential text removed]. Our working is at **confidential appendix 1**.

The following table shows the weighted average selling price of the three products for each month of the investigation period:

Month	DRY COIL	DRY SHEET	P&O COIL
April 2011	██████	██████	██████
May 2011	██████	██████	██████
June 2011	██████	██████	██████
July 2011	██████	██████	██████
August 2011	██████	██████	██████
September 2011	██████	██████	██████
October 2011	██████	██████	██████
November 2011	██████	██████	██████
December 2011	██████	██████	██████
January 2012	██████	██████	██████
February 2012	██████	██████	██████
March 2012	██████	██████	██████
Weighted average over whole investigation period	██████	██████	██████

6.8 Forward orders

CITIC Australia identified in its questionnaire response that it had forward orders with *[confidential text removed - supplier information]* of HRC due for delivery between 31 July 2012 and 31 August 2012. This was made up of *[confidential text removed]* of the HRC – Dry product *[confidential text removed]* – P&O product.

Wright Steel confirmed that this amount was in line with its *[confidential text removed]*.

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7 ARMS LENGTH

In determining export prices under s.269TAB(1)(a) and normal values under s.269TAC(1), the legislation requires that the relevant sales are arms length transactions.

Section 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;
- 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.

Furthermore, where:

- goods are exported to Australia otherwise than by the importer and are purchased by the importer from the exporter (whether before or after exportation) for a particular price; and
- the Minister is satisfied that the importer, whether directly or through an associate or associates, sells those goods in Australia (whether in the condition in which they were imported or otherwise) at a loss;

The Minister may treat the sale of those goods at a loss as indicating that the importer or an associate of the importer will, directly or indirectly, be reimbursed, be compensated or otherwise receive a benefit for, or in respect of, the whole or a part of the price.

As outlined above, our analysis shows that the selected sales between CITIC Australia and its suppliers were not at a loss overall. Considering this, and based on the information provided, we did not find any evidence that:

- there is any consideration payable other than price; and
- that the price is influenced in CITIC Australia's favour by a commercial or other relationship between CITIC Australia and its suppliers.

We confirmed during our verification that the price invoiced by exporter was the price paid by CITIC Australia. We note that export sales by *[confidential text removed]* will be verified by Customs and Border Protection. At this stage, we consider that sales between CITIC Australia and its suppliers are arms length transactions.

8 CAUSATION AND MATERIAL INJURY

CITIC Australia and Wright Steel accepted that BlueScope's business suffered during the investigation period, but did not consider that this was as a result of dumping. Instead, they claimed that poor business decisions and the rise of the Australian dollar impacted BlueScope's ability to be competitive in the market.

Wright Steel did not consider its business would be impacted by the anti-dumping investigation, as it considers it sells a better quality and wider range of HRC products than that which is produced by Australian industry. Wright Steel considered that there would continue to be demand for imports due to product availability and quality issues.

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9 UNSUPPRESSED SELLING PRICE

Unsuppressed selling price and non-injurious price issues are examined at an early stage of an investigation and, where possible and appropriate, preliminary examinations are made during the application consideration period for the purpose of assessing injury and causal link and therefore the appearance of reasonable grounds for the publication of a dumping duty notice.

Customs and Border Protection generally derives the non-injurious price by first establishing a price at which the applicant might reasonably sell its product in a market unaffected by dumping. This price is referred to as the unsuppressed selling price.

Customs and Border Protection's preferred approach to establishing unsuppressed selling prices observes the following hierarchy:

- industry selling prices at a time unaffected by dumping;
- constructed industry prices – industry cost to make and sell plus profit; or
- selling prices of un-dumped imports.

Having calculated the unsuppressed selling price, Customs and Border Protection then calculates a non-injurious price by deducting the costs incurred in getting the goods from the export free on board point (or another point if appropriate) to the relevant level of trade in Australia. The deductions normally include overseas freight, insurance, into-store costs and amounts for importer expenses and profit.

At the time of the visit CITIC Australia and Wright Steel noted that the determination of an unsuppressed selling price will be difficult given the wide range of rebates offered by BlueScope.

10 RECOMMENDATIONS

Based on the information available, the HRC exported by [confidential text removed] to CITIC Australia:

- has been exported to Australia otherwise than by the importer;
- appears to have been purchased by the importer from the exporter;
- the purchases of the goods by the importer were arms length transactions; and
- the goods were subsequently sold by the importer to a person who is not an associate of the importer.

Subject to further inquiries with the exporter, we are of the view that in relation to sales by [confidential text removed], the export price should be established under section 269TAB(1)(a) using the sales price less deductions.

In respect of indirect export sales of HRC by [confidential text removed], we consider that:

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

However, as the goods were not purchased by the importer from the exporter we consider that the export price for indirect export sales from [confidential text removed] can be established under section 269TAB(1)(c) using the sales price less deductions.

Lydia Cooke

Manager, Operations 1

Pamela Garabed

Supervisor, Operations 1

11 ATTACHMENTS AND APPENDICES

Confidential appendix 1	Imports and sales working
Confidential attachment GEN 1	Completed importer questionnaire response
Confidential attachment GEN 2	Revised importer questionnaire response
Confidential attachment GEN 3	Visit agenda
Confidential attachment IMP 1	Importation source documents
Confidential attachment IMP 2	Insurance premium details
Confidential attachment IMP 3	SG&A expenses breakdown
Confidential attachment SALES 1	<i>[confidential text removed]</i> base offers
Confidential attachment SALES 2	Sales source documents
Confidential attachment SALES 3	CITIC Australia's audited Financial Report 2011