



INVESTIGATION NO. 331

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

EXPORTER VISIT REPORT

JIANGSU SHAGANG GROUP

**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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PUBLIC RECORD

CONTENTS

CONTENTS.....	2
ABBREVIATIONS.....	3
BACKGROUND.....	4
1 THE GOODS AND LIKE GOODS.....	5
1.1 THE GOODS EXPORTED TO AUSTRALIA	5
1.2 LIKE GOODS SOLD ON THE DOMESTIC MARKET	5
1.3 LIKE GOODS – PRELIMINARY ASSESSMENT.....	5
2 VERIFICATION OF EXPORT SALES TO AUSTRALIA.....	6
2.1 THE EXPORTER	6
2.2 THE IMPORTER	6
2.3 ARMS LENGTH.....	6
2.4 EXPORT PRICE – PRELIMINARY ASSESSMENT	6
3 SUBSIDY PROGRAMS	7
3.1 PROGRAM 1: BILLET PROVIDED BY THE GOVERNMENT OF CHINA AT LESS THAN ADEQUATE REMUNERATION.....	7
3.2 PROGRAM 2 AND 3: COKING COAL AND COKE PROVIDED BY THE GOVERNMENT OF CHINA AT LESS THAN ADEQUATE REMUNERATION	7
3.3 PROGRAM 4: ELECTRICITY PROVIDED BY THE GOVERNMENT OF CHINA AT LESS THAN ADEQUATE REMUNERATION.....	8
3.4 PROGRAM 5 - PREFERENTIAL TAX POLICIES FOR HIGH AND NEW TECHNOLOGY ENTERPRISES	9
3.5 PROGRAM 6 - PREFERENTIAL TAX POLICIES IN THE WESTERN REGIONS.....	9
3.6 PROGRAM 7 - LAND USE TAX DEDUCTION	9
3.7 PROGRAM 8 - TARIFF AND VAT EXEMPTIONS ON IMPORTED MATERIALS AND EQUIPMENT	10
3.8 PROGRAM 9 - VAT REFUND ON COMPREHENSIVE UTILISATION OF RESOURCES.....	10
3.9 PROGRAM 45 - UNPAID DIVIDEND	10
3.10 PROGRAM 46 - PREFERENTIAL LOANS	10
3.11 FINANCIAL GRANTS ALLEGED IN THE APPLICATION	11
4 SUBSIDY MARGIN	13
5 APPENDICES AND ATTACHMENTS.....	14

PUBLIC RECORD

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 Jiangsu Shagang Group Ltd. (Shagang) exported rod in coils to Australia from China during the investigation period.

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

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

1 THE GOODS AND LIKE GOODS

1.1 The goods exported to Australia

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

Shagang manufactures three different models of rod in coils.

- (i) [REDACTED] quality wire rod;
- (ii) [REDACTED] quality wire rod; and
- (iii) [REDACTED] quality wire rod.

The goods exported to Australia by Shagang are all [REDACTED] quality wire rod. Shagang included details of these goods in their Australian sales spreadsheet (**Confidential Appendix A**).

All three models of rod in coils above are sold in the domestic market. In relation to the [REDACTED] quality wire rod that is exported to Australia, boron is added to the product, which is generally not used in domestic like goods. The inclusion of boron is not a significant cost given the immaterial amount added. As such, the Commission is of the view that the exclusion of boron in the goods sold domestically does not materially impact the comparison with the exported goods.

A detailed discussion regarding the assessment of the like goods was done during the dumping investigation INV 301 visit to Shagang 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 Shagang for domestic sale have characteristics closely resembling those of the goods under consideration and are 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 Shagang was also provided earlier for INV 301. The export sales information was verified and the export price was established during INV 301 for Shagang. 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 Shagang, relevant to this investigation, is discussed below.

2.1 The Exporter

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

2.2 The importer

In relation to the goods exported by Shagang during the investigation period, the visit team in INV 301 confirmed that all export sales are made to one customer. Shagang's one export customer is the beneficial owner of the goods at the time of importation and therefore is the importer of the goods.

2.3 Arms length

The verification visit team consider that all rod in coils export sales to Australia by Shagang 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 Shagang, the visit team accepts the recommendations made during INV 301, that export price be determined under subsection 269TAB(1)(c) of the Act, being a price that the Assistant Minister for Science and Parliamentary Secretary to the Minister for Industry, Innovation and Science (the Parliamentary Secretary), determines having regard to all the circumstances of the 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

Steel billet is the major raw material used to manufacture rod in coils. In its EQR, Shagang stated that it is a privately owned, large scale vertically integrated group of companies that manufacture and supply a range of steel products, including rod in coils. Shagang sells its products both in the domestic and export markets.

Shagang's organisational and operational structure comprises various entities that each performs a manufacturing or sales function. Therefore, each entity is treated as a manufacturing or a sales department within Shagang's integrated operations.

Shagang has a total of twelve related separate legal entities involved in both the manufacture and sale of rod in coils. Six manufacturing plants are involved in the production of rod in coils; four trading entities exclusively sell on the domestic market, while two other trading entities are involved in the export of the goods to Australia.

Shagang sources all billet from associated entities. Given that Shagang is a private company self-producing all of its billets from within the group, and that the billet cost to make was verified in detail during the dumping investigation, the visit team did not undertake further verification of the details of the cost to make pertaining to billets.⁴ At this stage the visit team found that Shagang did not benefited from program 1.

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

In its EQR, Shagang provided a list of all its coking coal and coke purchases for the investigation period. However, the list provided only identified related party traders and not the originating external suppliers.

Prior to the visit, the Commission requested Shagang provide a list of purchases of all coke and coking coal from suppliers external to the group during the investigation period. The Commission advised Shagang that during the visit the team would select certain transactions for verification to the source documents.

During the visit, the team confirmed that all Shagang's coke and coking coal purchases were made by two related trading companies, one that manages domestic purchases and one that manages import purchases.

Shagang advised the visit team that more than two thirds of coke and coking coal purchased domestically was from producers that they were unable to identify as State Owned Enterprises (SOEs) or private companies. Consistent with the approach taken in previous cases, the visit team has assumed that these purchases are from SOEs.

During the verification visit Shagang advised that the list of purchases actually included purchases of all coal types, including thermal coal types (anthracite and bitumite). Shagang

⁴ See [Inv 301 Visit Report Shagang](#).

PUBLIC RECORD

provided evidence that these two types of coal were consumed in the production of electricity and not coke.

Shagang provided the visit team with a reconciliation sheet for all domestic purchases of coke and coking coal from the purchases list and from its accounting system. The reconciliation shows an exact match for quantity but a 1.9% difference in the total sales value between what was reported in the purchases list and the accounting system. Shagang 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). Shagang noted that the resulting average prices in the purchases list are lower, therefore the difference does not favour Shagang.

The visit team verified the accuracy of Shagang's coke and coking coal purchases by reconciling them to source documents in accordance with ADN 2016/30. At the request of the visit team, Shagang provided source documentation for selected purchases of coke and coking coal. The visit team matched the purchase information contained in the purchases list to the source documents.

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

Having established that Shagang is a private entity, the visit team considers that Shagang benefitted from Programs 2 and 3 by purchasing coke and 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 4: Electricity provided by the Government of China at less than adequate remuneration

The visit team verified the accuracy of Shagang's electricity purchases by reconciling them to source documents in accordance with ADN 2016/30. At the request of the visit team, Shagang provided source documentation for all monthly purchases of electricity during the investigation period. The visit team matched the purchase information contained in the purchases list to the source documents.

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

Shagang claimed that it was subject to the "Large Industrial - Other" rate for electricity and provided a schedule of applicable tariff rates. This was consistent with the tariffs provided by the Government of China (the GOC) in its questionnaire response.⁵

However, according to Shagang, those rates only applied from 20 April 2015. At the visit, Shagang provided the schedule of rates that applied from 1 December 2011 until the rate change on 20 April 2015. This information showed that the rates applicable prior to April 2015 were higher than the rates that applied from that date.

⁵ See [GOC Questionnaire attachment 19](#).

PUBLIC RECORD

Shagang advised that the rate of electricity paid depends on the period of the day (classified as top, peak, normal and valley) and the size of the transformer used. Shagang runs 110 KV and 220 KV transformers and provided the breakdown of the electricity consumption and price per transformer and period of the day for a selected month (May 2015). The total amount paid reconciled to the relevant invoices and payments.

To determine whether Shagang received a benefit under this program the visit team used the May 2015 breakdown of consumption by transformer and period (top, peak, normal and valley) to determine the average rate payable and the average rate that would have been payable prior to the tariff changes on 20 April 2015. The team compared these rates to the actual rates paid by Shagang during the investigation period and found that on a weighted average basis Shagang paid an amount for electricity approximately 1.2% more than the published prices according to the schedule of applicable tariff rates.

The team therefore determined that, regardless of whether this program is found to be a countervailable subsidy in relation to rod in coil, Shagang did not receive a benefit under this program.

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

In its response to the EQR, Shagang advised that this program is not applicable to them and in years where the company makes a profit they are subject to a 25% tax rate. During the visit the team confirmed this by checking and verifying the Shagang Group 2013 and 2014 tax returns and the tax rates paid. During the visit, the visit team asked Shagang to provide the 2015 consolidated revenue information for the Shagang group. This was provided subsequent to the visit and accords with the information previously provided by Shagang. 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, Shagang 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, Shagang confirmed that the company is based in the eastern region of China so this program is not applicable to them. During the visit the team asked about Program 153 which is entitled "Award for Westernization Trial Entity". Shagang explained that "Westernization" in this context refers to the western world, not the western regions of China. 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, Shagang did not receive a benefit under this program.

3.6 Program 7 - Land Use Tax Deduction

In its response to the EQR, Shagang claimed that they have not benefited from this program. During the visit, Shagang explained to the visit team that the company does not pay a land use tax, rather they pay for land for business via entering into either a 50 or 70 year lease. Shagang further explained that the recent GOC policy allows that these business land leases can be extended for a further 70 year period. Shagang provided a

PUBLIC RECORD

number of land ownership certificates showing the details of the land leased, the amounts paid and the period of the leases. 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, Shagang did not receive 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.

During the verification visit Shagang advised that the majority of its equipment is purchased domestically. Shagang also stated that this program has very strict criteria governing possible exemptions. Shagang provided a list of all international equipment purchases during the past few years and provided details of the VAT paid. The visit team determined that, regardless of whether this program is found to be a countervailable subsidy in relation to rod in coil, Shagang did not receive a benefit under this program.

3.8 Program 9 - VAT refund on comprehensive utilisation of resources

In its questionnaire response the GOC stated that this program was ceased in 2008, reinstated in 2011, and amended on 1 July 2015. Currently, the program applies to "building materials produced with waste and used resources". In both the EQR and during the visit Shagang advised that this program only applies to very specific materials. Shagang stated that the program does not apply to raw materials used for steelmaking.

Shagang advised the visit team that no tariffs apply to imported iron ore and confirmed this by demonstrating that the relevant import tariff for iron ore on the China Customs Website is zero. Shagang further provided copies of its VAT payment returns demonstrating that there were no exemptions, deductions or rebates applied to the VAT it paid.

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, Shagang did not receive a benefit under this program.

3.9 Program 45 - Unpaid dividend

Shagang advised in its EQR that this program is not relevant to the company. During the visit the visit team confirmed that the shareholders in the company are private and 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 Shagang.

3.10 Program 46 and 177 - Preferential loans and guarantees

Shagang provided a list of all loans effective at the end of the investigation period. In addition, Shagang provided sample loan contracts with each of the current lenders as part

PUBLIC RECORD

of its EQR, however most of these sample contracts did not include evidence of the interest rates payable. The visit team selected four loans for full verification while at the visit. Shagang provided the full loan agreements and evidence of loan details including repayments and interest rates.

In relation to Government ownership of banks, some information provided by Shagang was inconsistent with information provided by other exporters. In order to maintain consistency of treatment, the Commission compared the information provided by all exporters in relation to Government ownership of banks 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.

Additionally, in the response to the exporter questionnaire, Shagang indicated that most of their loans were required to have a guarantor and therefore we also considered whether or not Shagang received any benefit under program 177. While at the visit, we verified the ownership of the guarantor companies and noted that Shagang only 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 Shagang did not receive a benefit under Program 177.

3.11 Financial grants alleged in the application

In its EQR, Shagang identified the grant programs received since 2010, including those grants received in 2014 and 2015. During the visit Shagang stated that all companies in the group record any subsidy income received to a nominated account number. Shagang advised that it did not receive any records of the grants received other than record of payment.

The visit team asked Shagang to explain how this process worked and why the company did not obtain details of the grants it was receiving. Shagang explained that many of these grants are recurring in nature and that Shagang may have applied for them in years gone past but submitted the application papers to the relevant government issuing authority and did not keep any copies. Shagang further stated that it is the major contributor of the Zhangjigang local government's revenue therefore, the local government provides numerous grants to Shagang. The visit team noted that the Zhangjigang government provides majority of the subsidies to Shagang.

The visit team verified four selected grants for to Shagang's accounts and available source documents.

The visit team also queried the nature of some of the other listed grants and was provided with Shagang's understanding of the basis of the grants, as follows:

- "Import Discount Interest" grants. These grants are intended to support the payment of interest that may be incurred to purchase imported equipment for encouraged industries.

PUBLIC RECORD

- "Special Interest Discount of Loan" grants are intended to support the payment of interest that may be incurred on "Walkout Loans" taken out to invest overseas (Shagang advised that it is not relevant whether a company has actually taken out such a loan or not).
- "Seagull Plan" relates to the temporary engagement of foreign workers to increase expertise (for example in engineering).
- Grants related to the Chinese Communist Party (CCP) and its members are provided to encourage CCP focused activities.

As such, depending on whether these programs are determined to be countervailable subsidies in relation to rod in coil, the visit team determined that Shagang receive a benefit from these grants, equal to the amount of the grant received. The benefit has been calculated at **Confidential Appendix 3**.

4 SUBSIDY MARGIN

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

The subsidy margin in respect of rod in coils exported to Australia by Jiangsu Shagang Group for the investigation period is **1.60 per cent**.

The preliminary subsidy margin calculation is at **Confidential Appendix 3**.

PUBLIC RECORD

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