Australian Government
Anti-Dumping Commission

INVESTIGATION INTO THE ALLEGED DUMPING OF HOT ROLLED STRUCTURAL STEEL SECTIONS JAPAN, THE REPUBLIC OF KOREA, TAIWAN AND THAILAND

EXPORTER VISIT REPORT

TUNG HO STEEL ENTERPRISE CORPORATION

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

MAY 2014

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1 BACKGROUND

1.1 Application

On 26 August 2013, OneSteel Manufacturing Pty Ltd (OneSteel) lodged an application *Customs Act 1901* (the Act), requesting that the then-relevant Minister, the Minister for Home Affairs, publish a dumping duty notice in respect of hot rolled structural steel sections (HRS) exported from Japan, the Republic of Korea (Korea), Taiwan and Thailand.

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

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

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

Public notification of the initiation of the investigation was made on 24 October 2013 in *The Australian* newspaper and through Anti-Dumping Notice (ADN) No. 2013/75, notifying of the initiation of the investigation and key procedural matters.

1.2 Background to meeting

Following the initiation of the investigation, a search of the Australian Customs and Border Protection Service's (ACBPS) import database indicated that Tung Ho Steel Enterprise Corporation, Limited (THS) exported HRS from Taiwan to Australia during the period 1 October 2012 to 30 September 2013 (the investigation period).

The Commission notified THS of the initiation of the investigation, sought its cooperation with the investigation, and provided an exporter questionnaire in respect of HRS for THS to complete.

THS completed the exporter questionnaire, and the non-confidential version of this questionnaire response is available on the Public Record.

1.3 Purpose of visit

The purpose of the visit was to verify information contained in the exporter questionnaire response submitted by THS.

THS' exporter questionnaire response consisted of a background to its activities, details of exports to Australia, details of exports to other countries, cost to make and sell information, details of domestic sales and information on adjustments to domestic selling prices. The exporter questionnaire response was supported by multiple attachments.

Following the visit, verified information has been used to make preliminary assessments of:

- who is the exporter and who is the importer;
- export prices and normal values for HRS manufactured by THS; and
- dumping margins.

1.4 Visit

COMPANY	Tung Ho Steel Enterprise Corporation, Limited (THS)
ADDRESS	6F, No 9 Sec 1 Chang-An East Rd Taipei City Taiwan 10441
DATES	14 - 18 and 21 January 2014

Note: on 14 January 2014, the verification team visited THS' Miaoli steel works and HRS mill, located at:

No 22 Pingding Erhu Village
Sihu Township
Miaoli County
Taiwan 36842

Attendees:

THS Representatives	
Mr Henry Ho	President
B. H. Huang	Vice President – Sales and Marketing Division
Jayden Wang	International sales Representative
M. C. Liu	General Manager – Miaoli works
Joshua Tung	Chief Financial Officer
Mobile Business Consultants	
Troy Morrow	Consultant

KPMG	
Bryant Kung	Supervising-Senior, Audit
Apple Wang	Assistant Manager, Audit
Anti-Dumping Commission	
Ms Andrea Stone Mr Carl Halpin	Manager, Operations 2 A/g Manager, Operations 3

In addition, numerous THS accounting and production staff were present at various stages of the visit.

1.5 Procedural matters

Following initiation of the investigation, the Parliamentary Secretary to the Minister for Industry (the Parliamentary Secretary) has assumed responsibility for antidumping decisions under the Act.

At the visit we provided a summary of the investigation process and timeframes and referred THS to ADN 2013/75 as they stood at the time of the verification visit.

Key points are as follows.

- The investigation period for the investigation is 1 October 2012 to 30 September 2013.

- The Commission will examine the Australian HRS industry from 1 July 2009 to determine whether that industry has suffered material injury.

- A PAD for the investigation is able to be made any time after 23 December 2013.

  A PAD will only be made if the Commission becomes satisfied, based on the information available, that there are sufficient grounds to make a PAD. If such a PAD is made, it will be placed on the public record. If a PAD is made, the Commissioner may also decide to require and take securities on goods entered of home consumption on or after a nominated date.

- The SEF for the investigation is due to be placed on the public record by 11 February 2014, or such later date as the Parliamentary Secretary allows under s.269ZHI of the Act.

  The SEF will set out the material findings of fact on which the Commission intends to base its recommendations to the Parliamentary Secretary and will invite interested parties to respond, within 20 days, to the issues raised therein (submissions received in response to the SEF will be considered by the

Commission when compiling the final report and recommendations to the Parliamentary Secretary).

- The final report to the Parliamentary Secretary is due no later than 28 March 2014, unless an extension to that date is approved by the Parliamentary Secretary.
- The Parliamentary Secretary will have 30 days from the date of receipt of the final report to make a final decision.
- Certain interested parties have the right to seek a review to the Anti-Dumping Review Panel in relation to the Parliamentary Secretary's final decision, or certain decisions that the Commissioner may make prior to the Parliamentary Secretary's decision (if any).

Since the verification visit, the Commission released a PAD (14 March 2014) and required and has taken securities under s.42 of the Act in respect of interim dumping duty that may become payable in relation to HRS exported to Australia from Japan, Korea, Taiwan and Thailand. This is on the basis of the Commissioner being satisfied that it is necessary to do so to prevent material injury to the Australian industry occurring while the investigation continues.

The securities will apply to imports of HRS from Japan, Korea, Taiwan and Thailand entered for home consumption on or after 14 March 2014.

In addition, following the verification visit to THS, the Parliamentary Secretary has, under section 269ZHI of the *Customs Act 1901*, extended the deadline for the publication of the SEF. The SEF will now be placed on the public record no later than 12 May 2014. This also extends the date which the Commission is due to make its final report and recommendations to the Parliamentary Secretary, which is now due on or by 26 June 2014.

During the verification, we advised THS that a visit report (this report) would be prepared following the verification, and provided to THS for review of confidentiality and accuracy. A non-confidential version of this report will be placed on the Commission's Public Record.

We advised THS that all information provided during the verification would be treated as confidential unless THS specifically advises otherwise.

1.6 Cooperation

THS was well prepared and co-operative during the verification, and supplied various requested documentation during the visit.

2 COMPANY INFORMATION

2.1 Company background and structure

THS is a publicly-listed Taiwanese-based steel products manufacturer, and is the largest private steel manufacturer in Taiwan. The company was listed in 1988.

THS Manufactures steel products from semi-finished steel intermediary products (billets, bloom, beam blanks and slab) that it casts itself, predominantly from steel scrap, using the electric arc furnace (EAF) steelmaking process.

THS operates three manufacturing sites in Taiwan:

- Taoyun works;
- Miaoli works; and
- Kaohsiung works.

For further information on the products produced and THS' manufacturing facilities, see Sections 2.2 and 3.4.

In its response to the exporter questionnaire, THS provided an organisation chart showing its major shareholder, and THS' subsidiaries and other related companies. This forms **Confidential Attachment GEN 1**.

Of note amongst these subsidiaries (for the purposes of this investigation) are:

- Tung Kang Structure Corp. (Tung Kang) – an entity that fabricates steel structures for use in the building industry;
- Tung Kang Engineering & Construction Corp (Tung Kang Engineering) – a subsidiary of Tung Kang that performs engineering services that support Tung Kang's operations and also undertakes some fabrication of its own; and
- Katec Creative Resources Corp. (Katec) – a processor that processes steelmaking by-products to meet environmental standards.

THS provided a listing of all of the company's major shareholders. This forms **Confidential Attachment GEN 2**.

2.2 Product range

2.2.1 All products

During the investigation period, THS produced and sold, domestically and to numerous export countries, a number of steel products.

These products can be broadly categorised as follows:

- hot-rolled structural sections;
- deformed bar (also known as reinforcing bar or 'rebar'); and
- universal mill plate.

THS manufactured these products across its three Taiwanese facilities, from semi-finished steel products that it manufactures from scrap, pig iron and shredder (treated scrap – mostly treated in-house by THS), using the EAF steelmaking process.

In addition to the above finished product sales, THS made small volumes of sales of semi-finished steel products (billets and blooms) on its domestic market.

THS also purchases some finished goods (mill plate and deformed bar) from an unrelated Taiwanese manufacturer of these products (China Steel Corporation) and on-sells these products, to supplement its range and supply (THS refers to this as 'outsourcing').

In its response to the exporter questionnaire, THS supplied a product brochure, listing the characteristics of all products within the company's product range (**Confidential Attachment GEN 3**).

2.2.2 Hot rolled structural sections

The goods subject to the investigation are certain types of hot-rolled structural sections, as further defined in Chapter 3.

THS manufactures and sells these sections both on the domestic, Australian, and third country export markets. These goods are manufactured to a number of shapes/profiles, standards, dimensions and steel grades.

THS classifies its hot rolled structural products into three broad shape-based categories:

- H-beams;
- channels; and
- I-sections (in fact tapered flange beams – see below).

In discussing its hot-rolled structural products, THS explained that the category of 'H-beams' in fact covers what are known in the Australian market as H-beams (or universal columns) <u>and</u> I-beams (or universal beams), which the Australian market defines based on the length of the flange in comparison with the centre part of the section.

THS explained that both these types of products are known collectively as 'H-beams' or 'H-sections' in Taiwan, and are referred to as such by THS as a matter of practice.

THS further explained that it makes and sells:

- MRT rails (essentially steel tracks for MRT rails systems);
- welded H-beams; and
- cut 'T' sections

which it classifies as part of its H-beams product category as well.

Conversely, the products identified as ‘I-sections’ are in fact what is known in the Australian market as ‘tapered flange beams’, which are I-shaped sections where flanges taper outwards as opposed to the standard straight flanges.

Throughout this report, references to H and I sections/beams will be taken to have the meaning used by THS (i.e. ‘I-sections’ refers to tapered flange beams, and ‘H-beams’ refers to what are considered H and I-beams in Australia).

2.3 Accounting

THS’ financial year is the calendar year, 1 January to 31 December.

THS explained that its accounts operate one company-wide profit centre, and two cost centres:

- reinforcing bar; and
- sections (all other products including universal mill plate).

However, the company’s accounts record more detailed revenue, including products by a three digit product code (see Section 4.2) and customer number.

THS explained that its company has four operating divisions (one for each works and one for ‘outsourced’ goods, which has its own facility in Taichung) and several non-operating divisions.

In its response to the exporter questionnaire, THS provided translated copies of:

- THS’ unconsolidated audited financial statements for the financial years:
  - 2011; and
  - 2012
- the THS group (THS and all subsidiaries which THS owns at least 50% share in) audited consolidated financial reports for:
  - the 2011 financial year;
  - the 2012 financial year; and
  - Q1 – Q3 2013.

THS explained that, during the 2011 and 2012 financial years, the company’s accounts followed the generally accepted accounting principles of Taiwan, but in 2013, the company switched to the International Financial Reporting Standards (IFRS), as was required by the Taiwanese government.

THS explained that, under IFRS, it is not required to keep unconsolidated audited financial statements, and hence only consolidated audited statements are available for 2013.

These statements form **Confidential Attachment GEN 4**.

We examined these audited statements, and observed the unqualified auditors' opinion in each that the accounts fairly presented the financial position of THS (and its subsidiaries where relevant) and are kept in accordance with the relevant accounting standards and principles applicable to each period.

2.4 Related parties

THS engages in several different types of transactions with its related parties, as outlined below.

2.4.1 Suppliers

THS purchases:

- some (very small amounts) of scrap steel from Tung Kang, which the subsidiary produces as part of its steel fabrication business; and
- small volumes of pig iron from Katec, which isolates this material as part of its environmental treatment process.

[redacted] [related entity arrangement]. We have examined the reasonableness and impact of these related party transactions throughout this report.

THS has no relationship with any other supplier.

2.4.2 Customers

THS sells HRS domestically to two related customers:

- Tung Kang; and
- Tung Kang Engineering.

These customers represent [redacted]% and [redacted]% of THS' domestic sales volume, respectively. We have examined and assessed these sales for reasonableness in use in determining normal values, as detailed in Chapter 7 of this report.

THS has no relationship with any other of its domestic or export customers.

3 THE GOODS AND LIKE GOODS

3.1 The goods the subject of the applications (the goods)

3.1.1 Description

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

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

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

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

Goods excluded from this investigation are:

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

In support of the goods description, OneSteel stated in their application:

In Australia the goods are commonly known as universal beams, universal columns, universal bearing piles, parallel flange channels and both equal and unequal angles. Universal columns typically have their web lengths similar to their flange lengths, whereas universal beams typically have longer webs than flanges. In some other countries the term "H beams" applies to both universal beams and universal columns and the term "I beams" denotes tapered flange beams.

The common grades of steel that the goods subject to this application are sold to are grade 300 and grade 350. The minimal yield stress of the grade 300 refers to 300 Mega Pascals (MPa) and the minimal yield stress for grade 350 is 350 MPa.

The type of alloys that may be incorporated into the HRS steel sections include but is not limited to boron (typically with a boron amount above 0.0008 per cent *or chromium above 0.3%). For clarity, the inclusion of alloy(s) is limited to the shapes and sizes identified above.*

The majority of the goods that are subject to this application are manufactured to comply with or exceed the requirements set out in AS/NZS 3679.1:2010 Structural steel Part 1: Hot-rolled bars and sections.

Imported goods are mostly quoted to AS/NZS 3679.1, but if not will generally be quoted to an international standard that stipulates nominal yield strength of 300 Mega Pascals (MPa).

3.1.2 Tariff classification

The goods are classified to the following tariff subheadings in Schedule 3 to the *Customs Tariff Act 1995*:

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

For the tariff subheadings outlined above, the general rate of duty is 5% for goods imported from Japan, and 0% for imports from Korea, Taiwan and Thailand.

The Commission has received advice from the Tariff Policy section of ACBPS, indicating tariff subheading 7216.50.00 may also be applicable to C sections, only in circumstances whereby these goods are differentiated by industry members and consumers from U sections.

Goods identified as hot rolled other alloy steel sections, as per the specified shapes and sizes described above, are classified to tariff subheading 7228.70.00 in Schedule 3 of the *Customs Tariff Act 1995*. The applicable duty rate for imports from Japan, Korea and Taiwan is 5%, and Thailand is 0%.

In Consideration Report 223 (CON 223), the Commission indicated that Tariff Concession Order (TCO) 0513491 and 0513492 may apply to such goods that are classified to tariff subheading 7216.32.00 and 7228.70.00, respectively. After further examination of the description of the goods under consideration and relevant technical specifications, as well as the goods description contained in TCO 0513491 and 0513492, the Commission has determined that neither of the TCOs applies to the goods under consideration.

As of 5 January 2014, TCO 0513492 has been revoked due to two years of non-use. The revocation of TCOs, which have not been used for a period of two years, is part of the review of Schedule 4 of the Customs Tariff Act 1995, and was announced as part of the Government's better regulation and micro-economic reform agenda[1].

[1] See ACN 2010/18 – Review of Schedule 4 of the *Customs Tariff Act 1995* refers.

3.2 Exported goods

During the period of investigation, THS manufactured and exported HRS to one Australian customer, Sanwa Australia Pty Ltd (Sanwa). In making these sales to Sanwa, THS was aware that the goods were destined for export to Australia.

During the investigation period, THS exported a total of [redacted] kg of HRS to Sanwa. This HRS was of various:

- shapes/profiles (namely H-beams, I-sections and channels);
- dimensions; and
- lengths.

All HRS exported to Australia was non-alloy carbon steel, of 300 grade, and sold as meeting the relevant Australian standard (AS/NZ 3679.1:2010).

In addition to the above, during the investigation period, THS exported some:

- H-beams of a height of 100mm; and
- deformed bar

to Australia, both of which are considered to not be the goods (H-beams too small and reinforcing bar a different category of product). These products are not included in the above-quoted volume figure.

3.3 Domestic sales

On the domestic market, THS sold [redacted] kg of HRS of during the investigation period.

As with Australian sales, this HRS was of various:

- shapes/profiles (namely H-beams, I-sections, channels, and tapered flange beams);
- dimensions; and
- lengths.

This HRS was manufactured to 300 and 350-grade equivalents, and sold as meeting various international standards, but predominantly sold under the relevant Japanese (JIS) or American (ASTM) standards.

THS' domestic sales of HRS were both of:

- non-alloy carbon steel; and
- alloyed steel.

THS also sold on its domestic market:

- H-beams that are not like to the goods subject to the investigation, being of a height that is too short (100 – 130mm) or too tall (650mm+);
- welded H-beams (specifically excluded from the goods); and
- deformed bar, universal plate, and some semi-finished steel products (billets and bloom), all of which are not hot-rolled structural steel sections and hence not subject to the investigation.

These products are not included in the above-quoted volume figure.

In its response to the exporter questionnaire, THS identified that all sales of HRS made on the domestic market (within the size range of the goods subject to investigation) are considered to be like goods to the HRS sold to Australia.

However, THS submitted that, for the purposes of comparison, certain domestic models are considered 'identical' to those exported to Australia, by reference to a Product Control Number (PCN).

This was further refined by THS during the verification, with the addition of an additional (sixth) classification number, as discussed further in Section 4.3 of this report.

3.4 Production

3.4.1 THS' manufacturing sites

As discussed above, THS has three manufacturing facilities in Taiwan:

- Miaoli mill – which has an EAF that manufactures semi-finished products, and a rolling mill that produces larger steel sections and mill plate (manufactured from semi-finished products made at the works);

- Taoyun works – which has an EAF that manufactures semi-finished products and a rolling mill that only manufactures deformed bar (no sections); and

- Kaohsiung mill – that does not have an EAF but has a rolling mill that produces smaller sized sections and deformed bar from semi-finished products manufactured either at Miaoli or Taoyun.

THS also has a warehousing facility at Taichung, where its own and 'outsourced' products are distributed from.

3.4.2 Production process

We visited THS' Miaoli works and observed the production process of HRS on the rolling mill. While the EAF was not running at the time of our visit, we also observed the EAF facilities, as well as THS' raw materials storage and feed yards, the HRS warehousing and despatch facilities, and various testing and quality control points of the production process.

THS also provided a diagram depicting these processes (part of the product brochure at Confidential Attachment GEN 3).

This production process (from steel raw materials to finished HRS) is as follows.

- Steel raw materials (scrap and pig iron, as well as small amounts of ‘shredder’ when required) are delivered to THS’ premises and stored on site.
- Some scrap (higher quality) is fed through the shredding process to make steel ‘shredder’.
- Scrap, pig iron, shredder and small amounts of other sub-materials are fed into electric arc furnace where they and melted and combined into liquid metal.
- The liquid metal feeds into a refining furnace, where it is blended and refined.
- The steel is then fed into a continuous caster (combination) where it is cast into various forms of semi-finished product.
- The semi-finished product is cooled and sent for storage, where it is marked with an identifier of what ‘heat’ it was made during (i.e. what steel-making run) and what section of the caster it was made through (i.e. which channel of the continuous caster).
- When needed for production, the semi-finished product is transferred to the rolling mill, where it is first re-heated in a furnace (in the case of HRS, these semi-finished products are beam blanks or blooms).
- The beam blanks or blooms are descaled and fed through a ‘break-down mill’.
- The blooms and beam blanks then progress through the rolling mill, passing through a combination of horizontal and vertical rollers a number of times to elongate and shape the product, before passing through a finishing mill and being cut to length by a hot saw.
- The HRS is then transferred to cooling beds, before being fed through a straightener (cold-rolled) and visually inspected.
- The products are then bundled and warehoused, prior to being delivered to THS’ domestic customers, or directly to the port for export.

THS explained that the HRS process is the same at Kaohsiung, except:

- as that mill does not have an EAF, competed semi-finished products are delivered and stored prior to being fed into production; and
- the rolling mill does not have a ‘hit saw’ to cut the product to length, but uses a ‘cold saw’ instead.

3.4.3 'Rolled in' brand identifier

THS advised that, during the HRS rolling process, the company 'rolls in' a brand marking identifying the goods as being manufactured by THS, for all products, both domestic and export.

THS explained that this rolled-in brand identifier is 'THAS' on all goods.

[redacted]

[redacted] [Confidential explanation of roll-in brand identifier].

During our factory inspection, we observed that THS manufactured HRS incorporated this 'THAS' rolled-in branding, and sighted the branding on goods bound for both the domestic and export market (including goods destined for countries other than Australia).

We are satisfied that there is no difference in rolled-in branding between THS' HRS manufactured and sold for domestic and export markets.

3.5 Like goods – preliminary assessment

We consider that like goods produced by THS for domestic sale have characteristics closely resembling those of the goods under consideration and are therefore "like goods" in accordance with subsection 269T(1).

4 DOMESTIC AND EXPORT SALES – GENERAL MATTERS

4.1 Data provided

4.1.1 Australian sales

In its response to the exporter questionnaire, THS provided an *Australian sales* spreadsheet, listing sales data of all exports of HRS to Australia during investigation period (generated on invoice date).

This data included details as to the:

- customer;
- level of trade;
- product details (model, grade, shape, dimensions);
- THS' standard product code;
- product control number (PCN - see below);
- [redacted];
- invoice number and date;
- order number, customer order number and ex-factory order number;
- invoiced price in USD;
- exchange rates and the converted invoice price in New Taiwan Dollars (NTD) based on two exchange rates (see Chapter 5);
- theoretical weight (in kg);
- actual weight (in kg);
- shipping and payment terms;
- inland freight;
- packaging costs; and
- export handling charges.

Verification of this sales data is discussed in Chapter 5 of this report.

4.1.2 Domestic sales

In its response to the exporter questionnaire, THS provided a *Domestic sales* spreadsheet, which listed all domestic sales of HRS invoiced during the investigation period.

This data included details as to the:

- customer;
- level of trade;
- product details (model, grade, shape, dimensions);
- THS' standard product code;
- PCN;
- invoice number and date;
- order number and ex- factory order number;
- delivery and payment terms;
- invoiced price in NTD;
- actual weight (kg);
- theoretical weight (kg);
- inland freight; and
- packaging costs.

Verification of this sales data is discussed in Chapters 5 and 7 of this report.

4.1.3 Third country sales

In its response to the exporter questionnaire, THS also provided aggregate (by country) volume and value data for sales to other export (third) countries.

During the verification, we determined that this data inadvertently included sales of products that are not considered to be like goods, but this has had no impact on the outcome of the calculations in this report (see Section 4.5 for further discussion).

4.2 Product codes and product control numbers (PCNs)

Within its Australian and domestic sales listings, THS provided a five-digit 'PCN' for each line of sales data.

In its response to the exporter questionnaire, THS explained that it had generated these PCNs, based on its standard three-digit product code, as a means of identifying each product sold by its key characteristics and certain pricing categories, to allow for a proper comparison between export and domestic sales, and easy identification of the goods not subject to the investigation (i.e. H-beams not within the required size range).

THS explained that its standard three-digit product code identified the following three characteristics of HRS by each respective digit.

Digit one – identifies product shape (H-beam, channel, tapered flange beam, universal mill plate, deformed bar, and semi-finished goods)

Digit two – categorises height range, or special product type, for example:

- for H-beams an identifying number exists for goods:
    - below 200mm in height
    - between 200 and 399mm in height
    - between 400mm and 599mm in height
    - above 600mm in height
- welded beams have their own identifying number;
- MRT rail have their own identifier; and
- parallel flange channels have their own number

Digit three – denotes steel grade, split into:

- carbon steel for general structures (grades SS400, A36, 3679G300, 300SO, etc);
- carbon steel for welded structures (grades SM400A and SM400B);
- alloy steel for welded structures (SM490A, SM490B, SM490D, A572G50A, S355JR, etc.)
- carbon steel for building structure (SN400A, SN400B and SN400BF); and
- alloy steel for building structures (SN490B, SN490BD, SN490C, A992 and A992M).

However, THS explained that the dimensions within digit two of the standard product code did not allow for:

- identification of the goods sizes subject to the investigation (i.e. sizes of H-beams that are too small or too large); or

- isolation of narrow or wide flange H-beams, or standard vs. heavy channel (of which only narrow flange H-beams and light channel are sold to Australia, but a pricing difference for each is present on the domestic market – see below for further discussion).

Consequently, THS extended its standard product numbers to five-digit PCNs to allow for more precise categorisation of the product sold by each line of sales data, by turning the second digit of the product code into three digits, the first two identifying a more specific size range and the third identifying the type of channel or beam.

OneSteel made a submission[2] to the investigation that argued that domestic grade SM490A should be used for comparison with the export grade 3679G300. We noted that the PCN system adopted by THS placed these grades in separate categories.

THS explained that when classifying grades into the PCN system, it first considered whether there are any special requirements for that steel grade. These special requirements included phosphor and sulphur limitations, PCM requirements, TMCP process and tolerances of dimensions. The second consideration was whether it was necessary to add any fine grains (ferroalloy) to the steel.

THS stated that it designed the chemical composition and production process based on the total quality requirements, which were not limited to strength alone. To simplify the production process, THS groups different grades of steel within the PCN system, ensuring that each grade within that group meets the required standards of all grades within that group. This allows THS to produce steel within the 5 grade groups, and roll that accordingly rather than having to manage semi-finished goods across a wide range of grades.

THS stated that the addition of a ferroalloy has a significant cost which impacts on the cost of the goods, and that differences between steel grades on the basis of strength have a minor impact on the cost of goods. Thus, THS did not consider it appropriate to group 3679G300 with SM490A, as the latter has ferroalloys added which increased the cost of that grade when compared to 3679G300.

We considered the approach presented by THS and considered that this methodology was appropriate.

The workings of the PCN system are outlined in THS’ response to the exporter questionnaire.

4.3 Pricing extras and ‘digit six’ - additional product identifier

4.3.1 Pricing extras structure

During the verification, it was discovered that pricing extras apply both domestically and for Australian exports for goods of various non-standard physical characteristics

[2] OneSteel Submission of 13 January 2014

Australian market extras

For the Australian market, a pricing extra applies only to larger-height channels. In the Australian market:

- smaller height channels are sold at the standard price;
- channels that are 230, 250 and 300mm in height attract a price extra; and
- 350mm channels attract a higher extra.

THS explained that is unable to achieve any price extras on the Australian market other than for larger channel sizes, due to the nature of the market and strong competition from other imported goods.

THS explained that it does not keep a standard extras list for its Australian price extras. However, THS explained that these extras are apparent in the Australian sales contracts, which we confirmed.

Domestic market extras

Conversely, on the domestic market, there is a complex system of various pricing extras that apply to HRS. These are outlined below:

Channels:

- larger height (of the same size categories as the Australian market); and
- heavy channels.

THS explained that the value of these domestic channels extras is greater on the domestic market than for export.

H-beams:

- size category, taking into account:
    - height; and
    - flange width (narrow or wide).

Common extras (both channels and H-beams):

- transportation of longer-length products;
- remote location shipping;
- failure to meet minimum order requirements of special request sizes; and
- non-standard steel grade.

We did not examine the extras for I-sections with THS in detail, as no I-sections were exported to Australia during the investigation period.

In discussing these domestic extras, THS explained that, in relation to the extras relating to sizes (i.e. H-beam size categories and channel size extras) there is no significant difference in cost to make between products of different sizes, but the price extras it is able to charge are market-related and are what the market will tolerate as a price extra for larger sized sections.

THS explained that it maintains a domestic pricing extras sheet for H-beams (which also list the common extras), but that the existence of channel extras can only be seen by referring to the contract prices for channels (no such list exists).

THS provided copies of its H-beams pricing extras sheet that was in operation during the investigation period, which is attached as **Confidential Attachment SALES 1**. In relation to channels, we examined the sales contracts for selected domestic sales (see Chapter 7) that contain sales of channels. We were able to confirm the addition of price extras to both H-beams and standard channels price for the above-listed product characteristics.

4.3.2 'Digit six' identifiers

THS noted that the following domestic extras are already accounted for in the five-digit PCNs developed by THS:

- non-standard steel grades;
- heavy channels; and
- H-beam flange width.

THS submitted that further consideration should be given to the other extras where possible in comparing domestic and export sales, to ensure a like-to-like comparison.

THS explained that it was able to identify within its sales listings the dimensions of H-beams and channels, and group these according to categories of pricing extras (noting that the sizing extras applicable to channels and H-beams are more specific than the size ranges already accounted for in the PCN coding system).[3]

THS subsequently inserted an additional column of data in both the Australian and domestic sales listings to add a sixth digit to its PCNs[4] and allow the Commission to group products in line with its size-related pricing extras, to further refine a PCN-only based product grouping comparison.

[3] For example, in relation to channels the PCNs group channels of 200 – 399mm dimensions collectively, but extras start at channels of 230mm+ dimensions.

[4] From A to F.

We confirmed the accuracy of this sixth digit by reference to the verified pricing extras and the dimensions data in the sales listings (which itself is verified to source documents – see Chapters 5 and 7).

Our assessment of the reasonableness of adopting this consideration in comparing domestic and export sales is contained in Chapter 9 of this report.

THS submitted that it did not keep detailed records to be able to accurately identify which line of its domestic sales data attracted length, remote location, or failure to meet minimum order requirements extras, and that this subsequently could not be taken account of in further sub-categorising its domestic sales.

Noting that these specific price extras do not apply to the equivalent goods sold on the Australian market, and the impact that not taking account of these price extras would have in calculating weighted average normal values (i.e. using a weighted average that includes these extras to compare with export prices that do not include extras, instead of isolating domestic sales that do not have these extras for a like-to-like comparison with export prices), we consider it reasonable to not further account for these pricing extras.

4.4 Theoretical and actual weight comparison

Prior to the verification, the Commission received a submission from OneSteel that raised potential issues between comparing the invoiced weight of domestic and export sales, due to potential differences in actual weight tolerances between the standards HRS is sold under domestically and for export.[5]

During the verification, we confirmed with THS that it was selling HRS both domestically and for export by theoretical weight (rather than actual weight). This was confirmed to source documents (see Chapters 5 and 7).

THS explained that, despite selling on a theoretical weight basis, it also records the actual weight of all HRS sold, by physically weighing each product sold at the point of exiting its factories (using weighbridges to determine the weight of goods on the truck and tracing the shipped goods back to ex-factory order numbers). We observed this process at the Miaoli mill.

THS explained that, although it was aware of the theoretical weight tolerance differences between the Australian and other standards (including those on the domestic market), it is THS' policy is to <u>not</u> take advantage of theoretical to actual weight tolerances as a matter of practice, and aims to produce HRS that's actual weight is close to the theoretical weight it is sold at.

[5] For example, one standard may allow for a +/- 5% tolerance while the other only a +/-2% tolerance, and manufacturers may take advantage of the tolerances by manufacturing products that come close to the tolerance range and therefore use less steel inputs.

In the *Australian sales* and *Domestic sales* listings, THS included data of the theoretical and actual weights of each line of sales. We verified these weights to source documents – see Chapters 5 and 7.

We observed that, as a weighted average, the difference between theoretical and actual weights for these sales during the investigation period was as follows:

Market	Difference between theoretical and actual weights of HRS sold
Australia	[redacted]%
Domestic (Taiwan)	[redacted]%

Table 1: weighted average difference between theoretical and actual weights (as a percentage of theoretical weight)

We consider the above demonstrates that there is no significant differences between the theoretical and actual weights of HRS sold to Australia or on the Taiwanese market during the investigation period.

4.5 THS' sales data – inclusions and exclusions

As discussed in Section 2.2.2, THS' range of hot rolled structural sections includes:

- H-beams that are too small or too large to be considered the goods; and
- welded beams (not the goods –excluded in the description of the goods).

In addition, THS' structural sections range includes cut 'T' sections and MRT rails.

During the verification, THS explained that, for the purposes of completing the exporter questionnaire, it considered that:

- over/under-sized H-beams and welded beams were not like to the goods; but
- T-sections and MRT rails were like goods, and had been included in sales data. We indicated to THS that we considered that T-sections are not like goods and are excluded from the goods description, and that MRT rail is also not the goods, although it is a modified type of H-beam.

THS explained that, during the investigation, T-sections and MRT rails were only sold to third countries, and would not appear in our domestic or Australian sales listings. As a result, these sales would not affect export price analysis or normal values based on domestic sales.

We examined the product details in the Australian sales and domestic sales listings (which have been verified for their accuracy – see Sections 5.7 and 7.8) and confirmed that no sales were of MRT rails or T-sections. We also observed that no products appeared to be welded beams or over/under-sized H-beams.

Further, we examined a detailed listing of all of THS' sales in the investigation period. In this listing we sighted how THS was able to filter this listing to MRT rails and T-sections, which demonstrated how all were destined for export to third countries and not to Sanwa or Australia, or sold domestically (by reference to customer number).

To further verify the exclusion of over/under-sized H-beams from our data, THS provided Australian and domestic sales listings for these sized beams, in the same format as the Australian and domestic HRS sales listings submitted in response to the exporter questionnaire. These listings form **Confidential Attachment SALES 2**.

We examined the dimension data recorded in these listings, and agreed that the listings appeared to only show H-beams of too small or too large a size. We selected two invoices from both the domestic and export listings and confirmed the dimensions listed are correct (**Confidential Attachment SALES 3**).

We are therefore satisfied that the *Australian sales* and *Domestic sales* listings do not contain sales of MRT rails, T-sections, or over/under-sized H-beams. This is further confirmed through our verification of these listings to THS' audited accounts, as discussed at Section 5.7.

5 EXPORT SALES TO AUSTRALIA

The *Australian sales* listing spreadsheet (see Section 4.1.1) forms **Confidential Attachment EXP 1**.

5.1 Export volume

As discussed above, THS exported [redacted] kg of HRS to Australia during the investigation period.

This figure is based on the reported theoretical weight of exports.

5.2 Export pricing

5.2.1 Price setting

THS advised that its export price to Sanwa (its sole Australian customer) is set based upon the prices of other HRS imports to Australia (THS' competitors).

THS explained that, on a monthly basis, Sanwa contacts THS with market intelligence as to what the predominant import price offer is for HRS being imported to Australia. In doing so, Sanwa requests THS to make an offer to match this import pricing.

THS considers the reported predominant price, and determines whether it is able to make an offer to match this price, which it will do if possible. THS explained that its decision to match the predominant import price is not necessarily linked to its CTMS, but involves a consideration of several factors, including the relationship with Sanwa and the need to ensure their competitiveness in the Australian market.

To demonstrate this process, THS provided a copy of an email exchange with Sanwa notifying of Australian market offers, and THS' reply making an offer to meet this price. This forms **Confidential Attachment EXP 2**.

5.2.2 Discounts and rebates

THS explained that it does not offer any discounts or rebates to its Australian (or any other export) customers.

We saw no evidence of any discounts or rebates to THS' Australian customers during the verification, as discussed throughout this Chapter (net sales data verified to audited accounts and evidence that invoice price is the price paid).

5.3 Sales process

THS explained its Australian sales process to be as follows:

- after price is established, Sanwa will place order inquiries with THS for upcoming supply;

- THS will internally 'audit' these inquiries to determine whether it is able to produce the requested HRS (having regard to production schedules and other orders) and whether the upcoming shipping schedule will allow for the goods to be exported;
- if the audit determines that the sale is possible, THS will accept the order with Sanwa, and a sales contract will be developed and signed by both parties;
- once the contract has been signed, Sanwa will secure and issue the letter of credit for payment of the order;
- THS arranges production of the goods;
- THS delivers the goods to the Taiwanese port and arranges all necessary paperwork and clearance to the free-alongside-ship (FAS) point;
- once shipped, THS arranges for the payment of the letter of credit.

5.4 Level of trade

THS' Australian sales were all to Sanwa, a large importer and on-seller of steel products. In its response to the exporter questionnaire, THS identified Sanwa as being at the distributor level of trade, which was confirmed during verification with Sanwa itself.

5.5 Delivery and payment terms

The goods sold to Australia were at FAS terms, and payment terms were letter of credit (L/C) at sight of shipping documents.

We were able to verify these terms to source documents provided for selected Australian sales (see below).

5.6 Date of exchange

In the export sales worksheet, THS listed the USD price of the invoiced HRS, and converted the USD sale amount into NTD using two identified exchange rates:

- the Taiwan customs rate at date of customs declaration; and
- daily spot rate of the Central Bank of the Republic of China (Taiwan) at date of invoice.

We were able to verify the listed exchange rates with THS to historical rates available on Central Bank of the Republic of China's website, and THS' Taiwan customs export records.

During verification to THS' audited accounts (discussed below), we observed that the Taiwanese customs rate was in use throughout the investigation period (reconciling the NTD export value using this rate).

THS submitted that there are general inaccuracies with the Taiwanese customs rate (averaging across period rather than a spot rate), and that it would be more accurate to use the central bank.

We agree with the above, and have adopted the central bank exchange rate in converting Australian export prices to NTD equivalents, for the purposes of s.269TAF of the Act.

5.7 Verification of sales to audited financial statements – export and domestic sales

Note: for the purposes of this report, the 'upwards' verification of export and domestic sales is discussed collectively in this section. Separate discussion of domestic sales generally and the verification of those sales to source documents is found in Chapter 7 of this report.

THS prepared a comprehensive sales reconciliation package to demonstrate how the detailed export and domestic sales listings can be traced to the company's audited income statements. Using this package, we were able to follow the below-described reconciliation between THS' Australian and domestic sales listings to the company's audited accounts.

Prior to undertaking this reconciliation, THS explained that its accounts recognise revenue at the ex-factory date (the date the goods depart the factory for delivery to the port/domestic customer) and not invoice date, and that these two dates can be a few days apart (with invoicing generally being earlier than the ex-factory date).

THS advised that the Australian and domestic sales listings, as well as third country data provided in the response to the exporter questionnaire were prepared on invoice date (as requested by the questionnaire). Consequently, THS explained that a reconciliation is required to trace the sales listings (invoice date) to THS' income statement and audited accounts (ex-factory date). This is discussed below.

5.7.1 Turnover spreadsheet

To assist with the verification of THS' sales listings to its audited accounts, THS made reference to its *Turnover* spreadsheet, which was submitted in its response to the exporter questionnaire (attached as **Confidential Attachment EXP 3**).

The *Turnover* spreadsheet reported sales volume and value data for 2012 and the investigation period, which was divided into turnover segments of:

1) the company turnover;
2) the 'sector' including the goods and like goods; and
3) the goods and like goods.

These were again sub-categorised into domestic, Australian and third country sales.

Sector of the goods and like goods (segment 2)

THS explained that the 'sector' of the goods included all sales of its product categories of:

- H-beams excluding welded beams (which are categorised by THS' product code system as within the H-beams shape product category);
- I-sections; and
- channels.

Turnover of the goods and like goods (segment 3)

Of the above-described sector of the goods and like goods (segment 2):

- the entire I-sections and channels categories encompass goods subject to the investigation; while
- the H-beams (already excluding welded beams) category includes goods subject to the investigation, as well some goods that are not.

During our verification, we assessed that the H-beams category includes the following goods that are not subject to investigation:

- over/under-sized H-beams;
- MRT rails; and
- T-sections.

In deriving its goods-only data (segment 3), THS removed sales of goods that the company considered do not fall under the subject of the investigation, namely over/under-sized H-beams, and kept MRT rails and T-sections win this data (as discussed above). Regardless, this only impacts third country export sales data and does not affect our dumping calculations (as discussed in Section 4.5 above).

Invoice date and ex-factory date data

THS explained that the data in the *Turnover* spreadsheet was a combination of data compiled on invoice date and ex-factory date. Specifically:

- all 2012 data is based on ex-factory date;
- data for turnover of all products (segment 1) for the investigation period is based on ex-factory date; and
- investigation period turnover for:
    - the sector including the goods and like goods (segment 2), and
    - the goods and like goods themselves (segment 3)

      is based on invoice date.

For clarity, a summary of the turnover spreadsheet is included below.

<table>
<tr><th rowspan="2">Category (further split into Australian, domestic and third country sales)</th><th rowspan="2">Data included</th><th colspan="2">Dated based on</th></tr>
<tr><th>2012</th><th>Investigation period</th></tr>
<tr><td>Segment 1) - All company turnover</td><td>All sales</td><td>Ex-factory date</td><td>Ex-factory date</td></tr>
<tr><td>Segment 2) - Turnover of the sector including the goods and like goods</td><td>Sales of I-sections, channels and H-beams <u>excluding</u> welded beams</td><td>Ex-factory date</td><td>Invoice date</td></tr>
<tr><td>Segment 3) - Turnover of the goods and like goods</td><td>Sales of:
I-sections
Channels
H-beams that fit within the size range,
MRT rails and T-sections (third country sales only)</td><td>Ex-factory date</td><td>Invoice date</td></tr>
</table>

Table 2: summary of data included in THS' *Turnover* spreadsheet

<u>Reconciling sales listings to *Turnover* spreadsheet</u>

We were able to directly reconcile the provided investigation-period volume and value data for the *Domestic sales* and *Australian sales* listings directly to the *Turnover* listing at the goods and like goods level (segment 3), as well as the aggregate third country data provided. As discussed above, these listings and aggregate data were provided based on invoice date (i.e. goods invoiced during the investigation period), and hence reconciled directly to the invoice date-based figures in the *Turnover* spreadsheet.

Consequently, we focussed the remainder of our verification on the data contained in the *Turnover* spreadsheet.

5.7.2 Step one: all sales revenue to audited income statements (segment 1)

THS demonstrated how the total sales value (segment 1) recorded in the *Turnover* sheet for 2012 reconciled directly to the net revenue figure in the 2012 unconsolidated (THS only) audited income statement (within Confidential Attachment GEN 4).

To isolate sales for Q4 2012 (the beginning quarter of the period of investigation) from the 2012 figure, THS:

- provided a copy of THS' Q1 – Q3 2012 audited income statement (**Confidential Attachment EXP 4**); and then
- calculated a Q4 2012 sales revenue figure by deducting the Q1 – Q3 net revenue from the 2012 audited income statement figure.

As discussed in Section 2.3, THS only provided consolidated audited reports from January 2013 onwards, which included an income statement of THS and its subsidiaries.

To arrive at THS' all sales revenue for Q1 – Q3 2013, THS provided a THS/subsidiary revenue split report that the company had generated for Q1 – Q3 (**Confidential Attachment EXP 5**), showing the net revenue for THS and its subsidiaries separately. The total of the revenue for THS and its subsidiaries in this report reconciled directly to the net revenue for the consolidated companies in the Q1 – Q3 2013 audited income statement (within Confidential Attachment GEN 4).

To support its THS/subsidiary report, THS provided a report showing the Q1 – Q3 2013 income statements of THS and all of its subsidiaries separately. From this income statement report, we selected one major subsidiary and collected an income statement for that company, which reconciled directly to the income statement report. These documents form **Confidential Attachment EXP 6**).

The company then summed the THS Q4 2012 all revenue figure derived from the 2012 accounts to the net revenue figure for THS alone derived from the consolidated Q1 – Q3 2013 audited income statement to arrive at an investigation period revenue figure for THS. This reconciled to the investigation period all revenue (segment 1) figures in the *Turnover* sheet.

5.7.3 Step two: all company sales split into markets

We asked THS to demonstrate the split in the *Turnover* spreadsheet of all sales (segment 1) into the Australian, third country and domestic markets.

THS explained that its accounting system is able to easily identify which sales are domestic, and which are export with reference to THS' customer codes, which begin with 'D' for domestic sales or 'E' for export.

However, THS explained that it was not as easily able to identify Australian sales as a sub-category of all export sales, as its system does not record destination country and, although sales to Australia were only made to Sanwa, THS also makes sales of goods to Sanwa for export to Papua New Guinea and New Zealand, which are collectively recorded under the one 'E' customer code for Sanwa.

THS provided general ledger sales summary reports for Q4 2012 and Q1 – Q3 2013 (**Confidential attachment EXP 7**). These listings included total sales volumes and values for each period, by product number, split into domestic and export sales.

We observed:

- the total sales value of these listings reconciled exactly to the segment 1) figures in the *Turnover* sheet;
- the total domestic sales volume and value for all products from the general ledger listings reconciled to the domestic figures in the *Turnover* sheet; and
- the export sales volumes and values of all products in the general ledger listings reconciled to the sum of the Australian and third country export figures reported in the *Turnover* spreadsheet

for both 2012 and the investigation period.

To identify Australia-only sales, THS produced a sales listing of all sales to Sanwa (regardless of destination) from January 2012 – September 2013 (using Sanwa's customer code), attached as **Confidential Attachment EXP 8**. The listing was reconciled to a general ledger summary of sales to Sanwa (**Confidential Attachment EXP 9**).

In this listing, THS identified which sales were destined for Australia manually by reference to Taiwan Customs export records showing the destination port. THS explained that it reported only these Australian-destined sales as being Australian exports within the *Turnover* spreadsheet, and the *Australian sales* listing (after further cleansing of the data was undertaken to remove goods not subject to the investigation – see below)

To test THS' manual identification of Australian and other country Sanwa sales, we selected several invoices within the Sanwa listings that had been identified as non-Australian sales, and verified their destination in provided sales contracts and shipping records (attached as **Confidential Attachment EXP 10**).

We observed that the Sanwa sales listing, when filtered to only include sales to Australia, reconciled to the Australian all products turnover (segment 1) volume and value in the Turnover spreadsheet (for 2012 and the investigation period).

5.7.4 Step three: split into the 'sector' of the goods and like goods (segment 2)

THS demonstrated how, using the previously-discussed ledgers and Sanwa sales listing, it was able to identify sales of products considered to be in the 'sector' of the goods subject to investigation (i.e. H-beams excluding welded beams, channels and I-sections) by isolating sales by product code (first digit identifies shape, second allows isolation of welded beams), which is provided for in the general ledger listings.

This reconciled precisely to the *Turnover* sheet data for 2012, which was compiled on ex-factory date.

However, discrepancies existed between the general ledger and sales listing, and the *Turnover* spreadsheet for the investigation period, due to the general ledger being based on ex-factory date and the *Turnover* listing for this data being based on invoice date (see above).

THS provided a reconciliation package that included explanations for each discrepancy, supporting reconciliation documents and sales ledger printouts, which allowed us to reconcile *Turnover* spreadsheet to the general ledger for the sector of the goods and like goods (**Confidential Attachment EXP 11)**.

5.7.5 Step four: split into the goods subject to investigation (segment 3)

To isolate only goods that are subject to the investigation, THS explained that it would need to remove sales of H-beams that are not within the size range of the goods.

THS explained that this process was performed manually, by reference to complete sales listings of product codes for channels, I-sections and H-beams (excluding welded beams).

To demonstrate, THS provided its working sales listings of all domestic, Australian and third country sales that it classified as not within the goods size ranges (not including welded beams). These form **Confidential Attachment EXP 12**.

We observed that these listings, when summed with the *Australian sales* listing, *Domestic sales* listing, or aggregate third country data provided in response to the exporter questionnaire, reconciled to the segment 2) figures in the *Turnover* spreadsheet.

We selected several lines of data from these listings, and were provided copies of the commercial invoices and other supporting documentation confirming that these sales were in fact of H-beams that were either above or below the size limitations of the investigation. These form **Confidential Attachment EXP 13**.

We also examined the dimensions data of the submitted Australian and domestic goods-only sales listings and confirmed that the listed goods appeared to be in the required size range (and verified the dimensions data in this listing to selected source documents, as discussed below).

5.7.6 Conclusion

Having been able to reconcile THS' HRS *Australian sales* and *Domestic sales* spreadsheets, and the provided aggregate third country sales data to THS' audited financial statements, we are satisfied that the sales listings and aggregate data included in the exporter questionnaire response are complete, contain all relevant sales and do not contain any irrelevant sales.

5.8 Verification of export sales to source documents

In its response to the exporter questionnaire, THS provided source documentation to verify two Australian sales listed in the submitted sales listing.

Prior to the verification, we selected a further eight sales for verification. At the verification, THS provided comprehensive document packages to verify each of these selected sales.

These packages included:

- sales contract;
- commercial invoices;
- a pivot table (sourced from the sales listing) showing the volume, value, order and invoice number of consignments shipped with the selected transaction, to assist in verifying exportation costs;
- bill of lading
- packing list;
- letter of credit;
- evidence of letter of credit fulfilment and associated letter of credit charges and bank fees;
- evidence of inland transportation costs;
- evidence of actual weight;
- evidence of export handling charges; and
- evidence of liability for and payment of a 'Trade Promotion Charge.'

These documents form **Confidential Attachment EXP 14**.

5.8.1 Invoice and sales contract details

We were able to match the sales information in the source documents to the data contained in the detailed *Australian sales* spreadsheet for all invoices, including sales volumes and values. This included invoice theoretical weight, value, invoice date and number, goods characteristic (dimensions, grade, shape and product code), customer details, contract number, and shipping and payment terms.

We observed that the provide letter of credit reconciled to the applicable sales contract, and the evidence of payment demonstrated that THS received the full invoiced amount.

5.8.2 PCN and 'digit six'

Having verified the product characteristics details in the sales listing to source documents, we checked the accuracy of THS' reported PCNs (having to again refer to source documents for certain features not included in the sales listing e.g. narrow or wide flange H-beams).

We are satisfied that the PCNs recorded in the *Australian sales* listing accurately reflect the PCN categories established by THS.

We also sought to verify the accuracy of THS' 'digit six,' which further categorises PCNs into sub-categories that attract size pricing extras on the domestic market, and for larger channels on the Australian market.

This categorisation was undertaken by THS purely based on the size of the sections.

We confirmed the accuracy of these categorisations with reference to the dimensions of the product (verified to invoice and contract details) and are satisfied that THS has accurately identified each category.

5.8.3 Actual weight

THS provided its internal weighbridge records for each selected invoice and demonstrated the accuracy of the actual weights recorded in the export sales listing. THS explained that the weighbridge readings were rounded to the nearest 5kg as the weighbridge was certified to plus or minus 5kg. THS explained that this would be standard practice in most mills.

5.8.4 Inland transportation

THS explained that it records the actual inland transport applicable to each sale of goods to Australia, line-by-line, in accordance with the rates applicable in its inland freight contract (provided as part of the export sales source documents package – Confidential Attachment EXP 1).

THS supplied internal records of this, which we were able to verify precisely to the Australian sales listing.

5.8.5 Bank fees and letter of credit charges

As discussed above, THS provided letters from its bank advising that the letter of credit for each shipment had been fulfilled. Each letter also included details of associated bank fees and letter of credit charges.

THS provided calculations of how these fees were attributed to each line of sales in the sale listing by attributing the fees and charges to the invoice by invoice value as a percentage of the value of all invoices covered by the letter of credit (as the letter of credit covers an entire sales contract, which covers numerous orders and subsequent invoices – we were able to verify the total of these invoices to the letter of credit amount).

We are satisfied as to the reasonableness of this allocation method and the accuracy of the calculations undertaken.

5.8.6 Export handling charges

THS explained that its export handling costs are comprised of:

- customs broker fees;
- export inspection charges;
- pier through fees; and
- port service charges.

Each charge was calculated separately on a line-by-line basis in the Australian sales listing.

For each charge, THS provided the applicable charges invoice, and identified which export orders each invoice is attributable to (using remittance advices for each fees that list the applicable order numbers).

THS then demonstrated how these invoiced amounts were allocated across the applicable orders by reference to the volume of each order as a percentage of the total volume of all orders related to the charged invoice.

We are satisfied as to the reasonableness of this allocation method and the accuracy of the calculations undertaken.

5.8.7 Packaging

THS provided line-by-line packing costs calculations in its *Australian sales* listing.

THS explained that its export packaging to Australia (and all export destinations) consists of:

- steel wire (double-looped around the product at several points along the length of the goods); and
- two packing labels:
    - one being THS' standard product and mill identification label;
    - the other being an export customer-specific label.

THS explained that this was roughly double to domestic packaging, which consists of steel wire single-looped around the product at several points along its length, and the one standard sticker.

THS provided a working spreadsheet to demonstrate the calculation of its export packaging costs in the *Australian sales* listing. This forms **Confidential Attachment EXP 15**.

THS' submitted that its packaging costs include the cost of:

- steel wire;
- labels;
- the printer ribbons used to print the labels; and
- the variable labour of packing staff.

We observed within the spreadsheet how the per-bundle (as goods are sold in bundles) cost of each component was calculated (for both domestic and export packaging), on a monthly basis, with reference to:

- the number of bundles sold each month to Australia, third countries and on the domestic market;
- the total cost of each packing materials for each month, attributed to each market on the 2:1 export to domestic ratio;
- the labour hours required to pack one bundle; and
- the packing staff labour rate per hour and number of bundles that can be packed in an hour.

A unit (NTD/kg) amount was then calculated from this per bundle figure.

To verify the amounts used in these calculations, we collected THS' general ledger for packaging materials (including all three materials) for the investigation period, and observed how this reconciled to the packaging calculations. These general ledger printouts form **Confidential Attachment EXP 16**.

We are satisfied as to the reasonableness of this calculation method and the accuracy of the calculations undertaken.

5.8.8 Conclusion

Having been able to reconcile THS' *Australian sales* listing down to source documents, we are satisfied that the spreadsheets are accurate.

5.9 The exporter

We consider THS to be the exporter of HRS to Australia from Taiwan.

THS:

- is the contracting party in the sales contract for the goods;

- is the manufacturer of the goods;

- is listed as the supplier on the bill of lading;

- invoiced the customer for the goods;

- arranged and paid the inland freight and export handling fees;

- is the principal in the transaction located in the country of export from where the goods were shipped that gave up responsibility by knowingly placing the goods in the hands of a freight forwarder for delivery to Australia
- sent the goods for export to Australia and was aware of the identity of the Australian end customer of the goods; and
- received payment for the goods from the Australian customer.

5.10 The importer

Having reviewed applicable information gathered at the THS verification, we consider that for THS' export sales of HRS, Sanwa should be considered the importer of the goods.

It is observed that Sanwa:

- is listed as the importer on the Customs entry;
- is listed as the consignee on the Bill of Lading;
- arranges for the post-FAS charges and shipment of the goods;
- is invoiced by THS' for the goods; and
- pays THS directly (via letter of credit) for the goods.

Consequently, we consider Sanwa to be the beneficial owner of the goods at the time of importation, and therefore the importer.

5.11 Arm's length

In respect of THS' sales to Sanwa, we 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, will, subsequent to the purchase or sale, directly or indirectly, be reimbursed, be compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.

We consider the export sales of HRS by THS to Sanwa were arm's length transactions.

5.12 Export price – assessment

For all sales we are satisfied that:

- the goods have been exported to Australia otherwise than by the importer;
- the purchases of the goods were arm's length transactions; and
- the goods were purchased by the importer from the exporter.

Consequently, we consider that export price should be established under s.269TAB(1)(a) of the act, being the price paid by the importer (i.e. the invoiced price).

Details of the export price calculations are at **Confidential Appendix 1**.

6 COST TO MAKE AND SELL

6.1 Verification of Production Costs to Source Documents

We sought to verify the cost to make and sell (CTMS) data that was submitted by THS as part of its exporter questionnaire response (Confidential Appendix CTMS 1) to source documents to verify its accuracy. At the start of verification, THS explained the methodology it had developed for transferring their cost records into the CTMS formats requested by the Commission. THS advised that their standard accounting systems did not produce reports that satisfied the requirements to demonstrate CTMS directly into the Commission's requirements. Thus, THS advised that it had prepared several calculation spreadsheets to link their regular systems to the requirements of the Commission.

THS advised that it had separated their costs into the following categories and we calculated the relative percentage that each element comprised of the total cost to make:

- Material Cost ([redacted]%)
- Direct Labour ([redacted]%)
- Manufacturing Overheads ([redacted]%)
- Other Costs ([redacted]%)

As shown in Figure 1 below THS allocated cost components from the two production phases (steel making and rolling) into the categories above to determine a total cost to make the goods. We assessed the allocation methods described in the diagram provided and determined that 'Other Costs' should have been apportioned by production volume, and not sales quantity which was originally proposed by THS. THS made the necessary adjustments to their CTMS data to reflect this change.

[redacted]

Figure 1 Cost to Make Methodology

During verification, we sought to verify each cost categories across the two stages of manufacturing downwards to source documentation and upwards to audited financial accounts to ensure that the data that THS provided in its calculations were accurate, relevant and complete.

6.2 Production Volumes

The original exporter questionnaire response provided did not include production volumes for the CTMS data. Prior to the verification visit we requested that THS include production data in their CTMS spreadsheets. This was subsequently provided by THS.

We established that the production volumes provided in the CTMS data were accurate via reference to a download from THS production system which recorded each bundle of goods produced (Confidential Attachment PROD 1). THS used a pivot table attached to this data to allow us to verify that the production data submitted in the CTMS was accurate.

We also established that the production volumes from the THS production system download reconciled with the production check spreadsheet submitted as part of the THS cost verification package, (**Confidential Attachment CTMS 1**). This was the first document generated for the purpose of linking THS standard reports to the requirements of the Commission.

We are satisfied that the production volumes in the CTMS are accurate.

6.3 Raw Materials

During THS's explanation of how the CTMS data was constructed, it explained that raw materials included scrap steel, pig iron and self-produced scrap from their steel shredder. These raw materials were converted to semi-finished products (bloom, billet and blank beam) for rolling in the second stage of manufacture. The direct labour and manufacturing overheads associated with the self-produced steel scrap and the steel making process were included with these costs in its usual accounting methodology but for the preparing the CTMS spreadsheet, it had recorded these costs separately. These expenses instead have been captured under direct labour and manufacturing overheads which will be discussed separately.

We noted that raw materials were the most significant cost element in the total cost of production, representing greater than [redacted]% of the total cost to make. We selected to verify production costs in June 2013 of model [redacted] [model number] to source documents during the visit as this represented the largest export volume.

To assist in explaining the verification process, Figure 2 outlines the overall flow between key confidential attachments that have been referenced during verification.

We requested THS to provide source documentation and calculations to verify the raw materials cost of [redacted] NTD/kg for model [redacted] [model number] was accurate in its CTMS submission. THS explained that it costed goods in five categories, according to the last digit. THS provided a number of source documents that allowed us to reconcile the CTMS data to source documentation as is explained herewith.

[redacted]

Figure 2: Overview of Raw Materials Cost Verification Process

A production check spreadsheet (Confidential Attachment CTMS 1), which as noted above linked the CTMS spreadsheet to Tung Ho's management accounts, showed that raw materials had a total cost of [redacted][6] for a production quantity of [redacted][7] of [redacted]2 variant PCNs for June 2013. As has been previously discussed, the PCN system that THS adopted allowed verification of all models ending in [redacted]2 as this was how costs were allocated. Dividing the raw materials cost by the production volume for [redacted]2 goods resulted in a raw materials input cost of [redacted][8] per kg being transferred to the raw materials row of the CTMS submission.

[6] Refer Column C for PCN [redacted]2 at Confidential Attachment CTMS 1

[7] Refer Column B for PCN [redacted]2 at Confidential Attachment CTMS 1

[8] Refer Column D for PCN [redacted]2 at Confidential Attachment CTMS 1

[redacted]

Figure 3: Extract of Confidential Attachment CTMS 1

We then sought to verify the total raw materials costs and production quantities that THS provided. The total raw material cost provided in the production check spreadsheet (Confidential Attachment CTMS 1) was traced to yield calculation spreadsheets for each of the rolling mills at Maoili and Khaosiung (**Confidential Attachment CTMS 2**). The yield calculation spreadsheet showed the input consumption value of raw materials for each rolling mill[9] and deducted the yield loss from rolling[10] which was transferred back to scrap. By deducting the yield loss value from the input consumption value the resultant actual cost of raw materials values reconciled back to Confidential Attachment CTMS 1.[11]

[redacted]

Figure 4: Extract of Confidential Attachment CTMS 2 (Maoli Mill)

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[9] Refer Column A for M and K mills at Confidential Attachment CTMS 2

[10] Refer Column B for M and K mills at Confidential Attachment CTMS 2

[11] Refer Column C for PCN [redacted]2 at Confidential Attachment CTMS 1

[redacted]

Figure 5: Extract of Confidential Attachment CTMS 3 (Kaohsiung Mill)

The total quantities of raw materials consumed in steel making or semi-finished products consumed in rolling would not reconcile to the total production quantity as yield losses occur during various stages of manufacture. THS accounted for these yield losses by subtracting the value of scrap recovered from the total raw materials consumed as quantified in Confidential Attachment CTMS 2. We sought to verify how THS had allocated yield losses across each of the model variants as actual scrap recovery quantities between models could not be recorded.

Yield losses were apportioned across each of the 5 PCN variants by allocation based on the actual amount of scrap recovered at each mill divided by the production volumes of each PCN variant at that mill as shown in **Confidential Attachment CTMS 3**. The value of the consumed and recycled scrap were calculated with reference to the closing balance of steel scrap inventory at the end of the month as shown in the Raw Material Consumption Monthly Report (**Confidential Attachment CTMS 4**) which for June 2013 was valued at [redacted] / kg.[12]

[12] Refer S1 at Confidential Attachment CTMS 4

[redacted]

Figure 6: Extract of Confidential Attachment CTMS 3 (Maoli Mill)

The value of steel scrap listed in Confidential Attachment CTMS 4 was calculated as a weighted average of domestic and imported scrap purchases, transportation and internal movement costs and transfers to other non-production uses. The calculation of this WA cost will be discussed further when scrap steel prices are verified to source documentation.

The quantity of semi-finished products consumed for each PCN variant and the actual quantity of scrap recovered were demonstrated for the Maoili mill in a further yield volume calculation spreadsheet (**Confidential Attachment CTMS 5**). The volume of scrap actually recovered for PCN variants [redacted]2[13] and the total production volumes of PCN variant [redacted]2[14] reconciled to the volumes shown in Confidential Attachment CTMS 3 and Confidential Attachment CTMS 1.

[13] Refer C6 at Confidential Attachments CTMS 5 and CTMS 1

[14] Refer C5 at Confidential Attachments CTMS 5 and CTMS 3

[redacted]

Figure 7: Extract from Confidential Attachment CTMS 5 (Maoli Mill)

The volumes of semi-finished products consumed at the Moali mill were verified from the volume yield spreadsheet[15] (Confidential Attachment CTMS 5) to the semi-finished products consumption table[16] (**Confidential Attachment CTMS 15**). This table outlined the consumption quantities of various semi-finished products to produce finished products. THS explained that it reallocated the costs for each model type, based on the heats[17] that were consumed in rolling. This allocation multiplied the unit cost of semi-finished goods[18] by the consumed quantity[19] (calculated from heat production documentation) to arrive at a total materials cost. These total materials cost then fed into the raw material consumption in the yield calculation spreadsheet[20] (Confidential Attachment CTMS 2).

[15] Refer Column A at Confidential Attachments CTMS 5

[16] Refer Column A "To Heat" at Confidential Attachment CTMS 15

[17] A "heat" refers to the batch of steel produced in one smelting process.

[18] Refer "Material Consumption Cost Unit Cost" at Confidential Attachment CTMS 15

[19] Refer Column A "To Heat" at Confidential Attachment CTMS 15

[20] Refer Column A at Confidential Attachment CTMS 2

[redacted]

Figure 8: Extract of Confidential Attachment CTMS 15

The consumption quantities of the [redacted]2 variant semi-finished products were verified downwards to heat production documentation[21] (**Confidential Attachment CTMS 16**) which summed the cost of each bloom production from the electric arc furnace. We are satisfied that the consumption volumes of semi-finished product used to determine the cost to make finished products are accurate.

[redacted]

Figure 9: Extract from Confidential Attachment CTMS 16

The value of semi-finished products consumed also reconciled between the semi-finished products consumption table[22] (Confidential Attachment CTMS 15) and the yield calculation spreadsheet[23] (Confidential Attachment CTMS 2).

The unit raw material consumption costs shown in Confidential Attachment CTMS 15[24] were reconciled to the Steel Making Materials calculation sheet[25] (**Confidential**

[21] Refer to sum of A and B at Confidential Attachment CTMS 16

[22] Refer Material Consumption total Column at Confidential Attachment CTMS 15

[23] Refer Column A at Confidential Attachment CTMS 2

[24] Refer "Material Consumption Cost Total Cost" for variant [redacted]2 at Confidential Attachment CTMS 15

Attachment CTMS 17). The unit raw materials from steel making costs were calculated by deducting the yield loss from scrap at the steel making stage from the total material input cost and dividing the resultant value by the production quantity of each model.

[redacted]

Figure 10: Extract from Confidential Attachment CTMS 17

The total material cost including steel scrap purchased, self-produced steel scrap and pig iron purchases, less the direct labour and overheads that were attributed to the self-produced steel scrap reconciled between the Steel Making Materials Calculation spreadsheet (Confidential Attachment CTMS 17) and the Steel Making accounts ledger (**Confidential Attachment CTMS 8**). We were satisfied that through the steel making accounts ledger and steel making materials calculation spreadsheets we could trace raw materials upwards to the CTMS.

6.3.1 Scrap Steel Purchases

Being satisfied that the methodology for arriving at the raw materials cost input to the CTMS submission were reasonable (as shown in section 6.3 above), we then examined the various raw material input elements of scrap steel and pig iron to source documentation. To conduct this downwards verification we started at the Raw Materials Monthly Consumption report (Confidential Attachment CTMS 4) and examined the weighted average prices of scrap steel and pig iron and its connection to the Steel Making Accounts ledger (Confidential Attachment CTMS 8).

The volume and values of steel scrap consumed in steel making reconciled from the Raw Materials Monthly Consumption ledger[26] (Confidential Attachment CTMS 4) to the Steel Making Accounts ledger[27] (**Confidential Attachment CTMS 8**).

[25] Refer to Column E at Confidential Attachment CTMS 17

[26] Refer Monthly Consumption totals at Confidential Attachment CTMS 4

[27] Refer Items 1110 and 1150 values at Confidential Attachment CTMS 8

[redacted]

Figure 11: Extract from Confidential Attachment CTMS 4

We then reconciled the totals for domestic[28] and imported[29] scrap purchases and transportation charges shown in the raw material consumption monthly report to the June 2013 scrap purchases ledger[30] (**Confidential Attachment CTMS 6**) which summed purchases from each customer across the month.

[redacted]

Figure 12: Extract from Confidential Attachment CTMS 6

THS noted in its exporter questionnaire response that it purchases scrap from related parties domestically, which THS identified on the scrap purchases ledger for June during verification. We calculated that for June 2013 sales from related parties represented [redacted]% of total domestic scrap purchases.

We requested additional scrap purchases ledgers from each quarter (September, December and March) to verify that the ratio of related party purchases of scrap were consistent across the investigation period (Confidential Attachment CTMS 6). We found that there were no purchases from related parties in March or December and

[28] Refer S4 at Confidential Attachment CTMS 6

[29] Refer S5 at Confidential Attachment CTMS 6

[30] Refer S2 and S3 at Confidential Attachment CTMS 4

[redacted]% of purchases in September were related purchases. We considered the volume of related party transactions to be immaterial to the total volume of scrap purchased by THS.

We selected transactions from related and non-related parties from the raw materials purchases ledger for June 2013 to trace to source documentation. THS provided copies of the commercial invoice, delivery slip, letter of credit and bank entry showing that payment had been made for each of the selected invoices. These documents are included at **Confidential Attachment CTMS 7** and reconciled to the values shown in the raw materials purchases ledger for June 2013.

The raw material monthly consumption ledger (Confidential Attachment CTMS 4) also included adjustments to the unit prices to account for internal transportation costs within or between the mills and scrap used for non-production purposes. We noted that some movements of scrap were recorded at a cost higher than the weighted average scrap price. The value of these transactions represented approximately [redacted]% of the total scrap valuation at the end of the month. For each of these identified transactions, THS provided documentation, including ledgers, transportation records and production slips that explained the cost variations (**Confidential Attachment CTMS 18**).

We are satisfied that these adjustments to the inventory value of scrap are reasonable and necessary to ensure the weighted average scrap price that is transferred into the CTMS data includes all costs associated with the purchase, storage and transport of scrap steel.

We are satisfied that the purchase prices indicated in the scrap purchases ledger (Confidential Attachment CTMS 6) are accurate, and thus the unit values for scrap steel summed in the raw materials consumption report (Confidential CTMS 4) are accurate. As described earlier, these feed back into the CTMS data submitted by THS.

6.3.2 Pig Iron Purchases

No pig iron purchases were made in June 2013 and thus the Pig Iron unit cost was not able to be verified directly to the June 2013 Raw materials consumption monthly report (Confidential Attachment CTMS 4). To verify the valuation of Pig Iron in the June 2013 consumption report, THS provided further copies of monthly consumption reports from February which was the most recent month in which Pig Iron was purchased, to May (**Confidential Attachment CTMS 9**).

The monthly consumption report for February showed that THS imported [redacted][31] of Pig Iron with a value of [redacted].[32] THS provided a pig iron purchases ledger (**Confidential Attachment CTMS 10**) showing all purchases

[31] Refer A at Confidential Attachment CTMS 9

[32] Refer B at Confidential Attachment CTMS 9

of Pig Iron in February that when summed[33] equalled the amounts shown in the February consumption report.

We selected a transaction which represented [redacted]% of the total volume of pig iron purchases for further verification to source documents. THS provided a copy of the commercial invoice that identified that THS had imported pig iron from an unrelated supplier in [redacted] in US dollars on CFR terms (**Confidential Attachment CTMS 11**). THS provided proof of payment documentation including the letter of credit issued by the bank, proof of importation expenses being paid and inland transport costs (**Confidential Attachment CTMS 12**). These documents all reconciled to the monthly consumption report for February.

We were able to trace the unit cost through each of the additional monthly consumption reports which included variations to the unit price to account for adjustments for internal transportation charges within the mill. We were satisfied that the pig iron cost represented in the monthly consumption report for June 2013 was accurate.

6.3.3 Ferris Alloy

Ferris alloys are added to the steel making process to ensure the correct grade of steel is manufactured to meet the chemical and mechanical properties as required by the relevant standards. THS advised that it did not account for ferris alloy costs as a raw material as they were included under other manufacturing overheads.

Although we consider ferris alloy to be a raw material input, the materiality of the cost was deemed insignificant (less than [redacted]% of the steel making cost) to warrant reallocation from manufacturing overheads to raw materials during verification. We were satisfied that the cost of ferris alloy used in the manufacture of steel was included in the total cost to make under manufacturing overheads.

We verified the accuracy of cost elements for ferris alloy listed on the steel making accounts ledger[34] (Confidential Attachment 8) to the ferris alloy purchase ledger (**Confidential Attachment CTMS 13**). THS provided material consumption tables, invoice ledgers, invoices and proof of payment documentation (**Confidential Attachment CTMS 14**) that reconciled to the amounts shown in the Ferris Alloy Purchases ledger.

6.3.4 Raw Materials Conclusion

We are satisfied that the costs represented in Confidential Appendix CTMS 1 for raw materials includes all relevant raw materials costs (with the exception of ferris alloys which have been allocated to other manufacturing overheads) and that these costs are accurate.

[33] Refer to A and B at Confidential Attachment CTMS 10

[34] Refer to item 3130 at Confidential Attachment CTMS 8

6.4 Direct Labour and Manufacturing Overheads Methodology

6.4.1 Reconciliation Process

As outlined in Figure 1 above, THS calculated the direct labour and manufacturing overheads cost elements included in Confidential Appendix CTMS 1 by adding the direct labour and manufacturing overheads costs from the two stages of manufacture (Steel Making and Rolling). In addition to the direct labour and manufacturing overheads from these stages, the labour and overheads for the steel scrap shredding, which were previously deducted from the raw materials costs, were reallocated to direct labour and manufacturing overheads.

[redacted]

Figure 13: Extract of Confidential Attachment CTMS 1

We traced the unit costs for direct labour by adding the unit direct labour costs for Scrap Shredder,[35] Steel Making[36] and Rolling[37] from the production check spreadsheet (Confidential Attachment CTMS 1) which reconciled to the CTMS data submitted. The unit prices on this spreadsheet were calculated by dividing the total cost by the relevant production volumes.[38]

Similarly, we traced the unit costs for manufacturing overheads by adding the unit manufacturing overhead costs for Scrap Shredder[39], Steel Making[40] and Rolling[41] from the production check spreadsheet (Confidential Attachment CTMS 1) which

[35] Refer Column E for PCN [redacted]2 at Confidential Attachment CTMS 1

[36] Refer Column G for PCN [redacted]2 at Confidential Attachment CTMS 1

[37] Refer Column I for PCN [redacted]2 at Confidential Attachment CTMS 1

[38] Note Production Volumes were verified as accurate at section 6.26.2.

[39] Refer Column L for PCN [redacted]2 at Confidential Attachment CTMS 1

[40] Refer Column N for PCN [redacted]2 at Confidential Attachment CTMS 1

[41] Refer Column P for PCN [redacted]2 at Confidential Attachment CTMS 1

reconciled to the CTMS data submitted. The unit prices on this spreadsheet were calculated by dividing the total cost by the relevant production volumes.[42]

[redacted]

Figure 14: Extract from Confidential Attachment CTMS 15

The methodology for verifying the total costs in the production check spreadsheet (Confidential Attachment CTMS 1) was similar to the process undertaken for raw materials discussed in section 6.3 above. We first traced the totals for Shredder Scrap and Steel making to the semi-finished products production table (Confidential Attachment CTMS 15). The total cost for each element in this table was calculated based on the heats used for the production of the semi-finished goods by multiplying the heat quantity by the actual unit costs which were traced downwards to the labour and manufacturing overheads allocation table (**Confidential Attachment CTMS 19**).

[redacted]

Figure 15: Extract from Confidential Attachment CTMS 19

The total Manufacturing overheads cost listed in the manufacturing overheads allocation table for Steel Making and Shredder processing were reconciled upwards to the accounts ledgers for Steel Making (Confidential Attachment CTMS 8) and Shredder processing (**Confidential attachment CTMS 20**) respectively.

[42] Note Production Volumes were verified as accurate at section 6.26.2.

To verify the total labour and manufacturing costs related to rolling from the Production Check spreadsheet[43] (Confidential Attachment CTMS 1), THS provided a rolling cost allocation table for direct labour and manufacturing overheads (**Confidential Attachment CTMS 21**). From this table we were able to directly reconcile the direct labour and manufacturing overheads costs.

The methodology for reconciling direct labour and manufacturing overhead costs for rolling were slightly different to that of steel making and shredder operations. During its preparation of the exporter THS removed packaging costs from their CTMS data as it considered that such costs would be accounted for as an adjustment to the normal value. We requested that packaging costs be included in the CTMS to ensure the data included the fully absorbed cost to make and sell the goods. To aide in the timely provision of this revision, THS added a separate row to their CTMS data to include packaging costs.

Thus, packaging costs were excluded from the rolling manufacturing costs section however were included in the total CTMS. We consider that in this instance, the location of this cost has no effect on the final CTMS outcome. The effect on verification was that THS produced two sets of reconciliations for direct labour for rolling and manufacturing overheads. The first set (Confidential Attachment CTMS 21) excluded packaging costs and thus was untraceable directly to the rolling accounts ledger (**Confidential Attachment CTMS 22**) while the second included packaging costs (**Confidential Attachment CTMS 23**) which reconciled directly to the rolling accounts ledger.

6.4.2 Direct Labour and Manufacturing Overheads Reconciliation Conclusion

We are satisfied that THS correctly recorded all direct labour and manufacturing overheads cost elements included on the ledgers for Steel Making, Rolling and Shredder Operations upwards into their CTMS submission. We selected the following key cost elements within these ledgers for downwards verification to source documentation:

- Packaging
- Labour Allocation
- Electricity
- Heavy Oil
- Depreciation

[43] Refer Columns I and O totals at Confidential Attachment CTMS 1

6.4.3 Packaging

We requested that THS provide documentation to support the packing values that were provided in Confidential Appendix CTMS 1, and excluded from the manufacturing overheads CMTS data. THS provided packaging ledgers (**Confidential Attachment CTMS 24**) that reconciled with the totals in the rolling mills ledgers provided. We noted that packaging represented less than [redacted]% of the total cost to make and sell and were satisfied that the packaging data provided was sufficient to consider that the CTMS data was accurate.

6.4.4 Direct Labour Verification

We requested that THS provide documentation to support the direct labour values recorded in the ledgers for Steel Making and Rolling to source documentation, which represented approximately [redacted]% of the total cost to make and sell. THS provided operating labour calculation tables that allocated labour for the steel making and rolling processes (**Confidential Attachment CTMS 25**). Each table separated the labour costs by department code and by whether the workers were domestic or foreign workers. We noted that the Direct Labour cost included the following:

- Base Salary
- Bonus
- Allowances
- Leave Bonus
- Overnight Allowances
- Other Salary

We verified that the total direct labour costs shown in the allocation tables for steel making and rolling reconciled upwards to the respective ledgers[44].THS provided domestic and foreign labour allocation records for June (**Confidential Attachment CTMS 26**) which reconciled to the allocation tables.

For the rolling plant, labour costs were calculated by reference to the hours spent on machine for the production of plate or sections which were verified to the rolling hour’s ledger (**Confidential Attachment CTMS 27**). We verified that only hours spent on rolling sections were included in the total rolling direct labour cost.

We are satisfied that the direct labour costs included in the steel making and rolling ledgers are complete and accurate.

[44] Refer to Confidential Attachment CTMS 8 for Steel Making and Confidential Attachment CTMS 22 for Rolling

6.4.5 Electricity

We calculated that electricity costs represented a significant proportion of the steel making and rolling costs and thus requested THS provided source documentation to demonstrate that the electricity amounts shown in the steel making and rolling ledgers were correct. THS provided the monthly electricity allocation chart (**Confidential Attachment CTMS 28**) which consolidated each meter reading across the various stages of manufacture. We were able to trace the electricity costs for the steel making plant[45], rolling plants[46] and shredder operations[47] from the respective ledgers to the monthly allocation chart (Confidential Attachment CTMS 28).

We requested copies of the electricity bill, provided by Taipower to confirm that the electricity allocation chart was correct. THS advised that as the allocation chart was recorded each calendar month, whereas the billing period for Taipower did not coincide with the calendar month. THS provided a reconciliation table (**Confidential Attachment CTMS 29**) that reconciled the difference in billing days between the Taipower bill cycle and the THS meter reading cycle. We calculated that over an 8 month period the difference between the Taipower bill cycle and internal meter reading and cost allocation cycle resulted in a 1.4% variance. We are satisfied however that the electricity costs presented in the general ledger are reasonable.

We requested and THS provided a copy of a recent electricity bill which we reconciled to the electricity reconciliation table. Despite the slight timing differences, the unit price was consistent. Proof of payment of that bill in the form of bank statement was also provided which reconciled to the tax inclusive amount on the invoice (**Confidential Attachment CTMS 30**).

6.4.6 Heavy Oil

Heavy oil is used to generate heat for the rolling process and was responsible for approximately [redacted][48] of the manufacturing overheads at the Maoili Mill. As a significant cost input we requested source documentation to substantiate the cost in the rolling mill ledger (Confidential Attachment CTMS 22). THS provided a copy of the purchases ledger for heavy oil and gas (**Confidential Attachment CTMS 31**) which outlined purchases and consumption of these items. We selected a transaction for further verification which showed several purchases of heavy oil, the value of which was recorded into the purchases ledger.

Heavy oil is used in both rolling of sections and plate, and THS explained that it allocated the heavy oil cost to sections or plate ledgers based on the production

[45] Refer A on Confidential Attachment CTMS 28

[46] Refer B on Confidential Attachment CTMS 28

[47] Refer C on Confidential Attachment CTMS 28

[48] Calculated by dividing Item 2310 by the total manufacturing overheads costs on Confidential Attachment CTMS 22

ratio[49] between the two. We were able to follow this allocation and reconcile the purchases to the rolling ledger. Additionally, THS provided a copy of the plate rolling ledger (**Confidential Attachment CTMS 32**) which reconciled the remaining portion to plate costs.

6.4.7 Depreciation

It is a legislative requirement that depreciation be considered when assessing the cost to make and sell data. We requested THS provide documentation to support the depreciation allocations to the rolling and steel making ledgers which have previously been reconciled to the CTMS. THS provided the fixed asset depreciation schedule which allocates depreciation costs across the production of rod bar, plate, shredder operations and rolling operations (**Confidential Attachment CTMS 33**).

The schedule grouped assets by department code and THS highlighted which department codes were directly related to the manufacture of steel products, and which were administrative in nature (to be included in the SG&A expense). We reconciled the total depreciation amount[50] attributed to rolling to the sections rolling ledgers[51] and the plate ledger[52] which was allocated according to production volumes as previously verified. The same methodology was applied to reconcile the shredder depreciation costs which reconciled without error.

We then reconciled the total depreciation amount allocated for steelmaking[53] to the steel making ledger.[54] We identified a 0.25% variance between the depreciation table and the steel making ledger which THS advised was due to a missed depreciation charge for a storage yard associated with semi-finished products (**Confidential Attachment CTMS 34**). Due to the low materiality of this variance, and that it was already included in the ledger and thus the CTMS, we consider that the steelmaking depreciation charges were reasonable.

We requested copies of the asset register (**Confidential Attachment CTMS 35**) for the furnace department (department H710) which reconciled[55] to the total for that department shown on the depreciation schedule[56]. The register listed all assets within the department, the purchase date, purchase price, June depreciation amount,

[49] Production ratio was calculated by comparing the production quantities (in kg) of each type of goods.

[50] Refer A on Confidential Attachment CTMS 33

[51] Refer Item 8810 on Confidential Attachment CTMS 22

[52] Refer Item 8810 on Confidential Attachment CTMS 32

[53] Refer B on Confidential Attachment CTMS 32

[54] Refer Item 8810 on Confidential Attachment CTMS 8

[55] Refer to total on Confidential Attachment CTMS 35

[56] Refer to H710 total for Steel Making on Confidential Attachment CTMS 33

accrued depreciation and residual value. We identified both the ladle and EAF furnaces on this register and were satisfied that the depreciation amounts shown were in accordance with accounting standards and that these were reconciled upwards to the CTMS data.

6.5 Other Costs

In its exporter questionnaire response THS submitted that other costs should be allocated directly to the cost of manufacture and were such included in the cost to make data provided in Confidential Appendix 1. THS categorised these other costs as follows:

- Net of Unrealised and Realised Intra Company Profits.
- Unallocated Fixed Overheads
- Inventory Valuation
- Oxidised Iron Sold
- Other

During verification we assessed the merits of each cost to determine if it related to the cost of manufacture of the goods, or if it should be allocated to Selling, General and Administration (SG&A) costs. THS provided an ‘other’ costs calculation spreadsheet (**Confidential Attachment CTMS 36**) which added the total costs of the above categories to arrive at a unit ‘other costs’ which was verified back to the CTM data submitted.

6.5.1 Net of Unrealised and Realised Intra Company Profits.

THS explained that the FIS accounting Standard[57] used by THS requires the company to only include in its financial statements profits and losses that result from unrelated parties. THS accounting firm, KPMG, provided a copy of the section of the relevant standard (**Confidential Attachment CTMS 37**) which stated:

> *“Profits and Losses resulting from ‘upstream’ and ‘downstream’ transactions between and investor (including its consolidated subsidiaries) and an associate are recognised in the investor’s financial statements only to the extent of unrelated investors’ interests in the associate. ‘Upstream’ transactions are, for example, sales of assets from an associate to the investor. <u>‘Downstream’ transactions are, for example, sales of assets from the investor to an associate. The investor’s share in the associate’s profits and losses resulting from these transactions is eliminated</u>.[58]” (Emphasis Added by KPMG)*

[57] IAS 28 Investments in Associates (IAS 28 – 2011)

[58] Confidential Attachment CTMS 37 IAS 28 Investments in Associates (IAS 28 – 2011) paragraph 22

The explanation provided by KPMG on behalf of THS was that the net balance of profits / losses should be added to the costs for the purposes of this investigation as any profits or losses experienced would generally be reflected in the overall company profit. THS argued that by not including this profit, the true cost to the company would not be accurately reflected in the CTM data.

We were provided with a verification pack (**Confidential Attachment CTMS 38**) which reconciled the Net of Unrealised and Realised Intra Company Profits to the Other Costs spreadsheet. The materiality of this cost element represented approximately [redacted]% of the 'other costs' category, which in turn represented less and [redacted]% of the total cost to make and sell.

We considered THS and KPMG's view, and concluded that any profit or losses that result from sales to related parties would be captured in the total company profit and should not therefore be allocated directly to the cost of production. THS agreed to reallocate this cost element to the SG&A costs accordingly.

6.5.2 Unallocated Fixed Overheads

THS explained that each year it allocated the expected fixed overheads for the year with reference to an expected production volume. As the expected production may vary from the actual production a surplus or deficit for fixed overheads expenses arises. THS explained that it considered that this variance should be included in the cost to make as it represented a cost associated with the production of the goods. We agreed with THS's submission and verified that the unallocated fixed overheads were accurate with reference to the unallocated fixed overheads ledger (**Confidential Attachment CTMS 39**).

6.5.3 Inventory Valuation

THS added an inventory valuation expense to account for variances in inventory values for the goods under consideration. The materiality of the expense was minimal, representing approximately [redacted]% of 'other costs', which in turn represented less than [redacted]% of the total cost to make and sell. There were no inventory valuation costs in the month selected for verification and, due to the overall materiality we accepted this cost element without further evaluation.

6.5.4 Oxidised Iron Sold

THS sold oxidised iron that was collected as scrap from the steel making process and as this profit was used to offset the raw materials costs, it was added to the other costs to ensure the cost to make included the total costs incurred. A copy of the iron oxide sales ledger and a selected invoice was provided (**Confidential Attachment CTMS 40**) which reconciled to the other costs calculation spreadsheet. The materiality of the expense was minimal, representing an offset of approximately [redacted]% of 'other costs', which in turn represented less than [redacted]% of the total cost to make and sell. We considered this cost reasonable.

6.5.5 Other

The materiality of the other expense was minimal, representing less than [redacted]% of the other costs category, which in turn represented less than [redacted]% of the total cost to make and sell. We did not consider it necessary to validate this cost element.

6.6 Accuracy Verification Conclusion

After reviewing the methodology of calculations and accuracy of the raw materials, direct labour, manufacturing overheads and other costs submitted as part of the exporter questionnaire response, we are satisfied that the cost to make is reasonable.

6.7 Verification of Selling, General and Administrative (SG&A) Costs

Selling, General and Administrative (SG&A) costs were incurred by THS in relating to the selling of the goods, and other products manufactured by THS that were not subject to investigation (such as plate and rebar). THS provided the following diagram (**Figure 16** below) that outlined what costs it had allocated to each category of SG&A expense, and the allocation methodology for each cost item.

[redacted]

Figure 16: Selling, General and Administrative Costs Methodology

6.7.1 Allocation Methodology

THS allocate their selling, general and administrative cost across four operating and three service divisions. To direct these costs to the sale of the goods, THS firstly reallocated the SG&A expenses from the services divisions to each of the four operating divisions based on the overall sales quantities of each division in the SG&A allocation sheet (**Confidential Attachment SG&A 1**).[59]

[59] Refer to Comment on Confidential Attachment SG&A 1

[redacted]

Figure 17: Allocation of SG&A Expenses to Cost Centres

Once allocated to the production divisions the SG&A expenses were reallocated between two cost centres, Rebar and Others (Including Sections and Plates) based on sales volumes. This was only applicable for goods produced at the Kaohsiung production division, which was the only mill to produce both rebar and sections/plate. THS provided a ledger outlining all Selling and Administrative expenses incurred at the Kaohsiung works (**Confidential Attachment SG&A 2**), which reconciled[60] to the totals shown in the SG&A allocation spreadsheet.

Once all SG&A expenses were allocated to the operating divisions and for Kaohsiung, between sections/plates and rebar, THS allocated the SG&A expenses for sections and plates by sales quantity of sections and plate in the total cost to sell worksheet (**Confidential Attachment SG&A 3**). We reconciled the total inputs into this calculation spreadsheet back to Confidential Attachments SG&A 1 and 2, and to the Cost to Make and Sell data submitted.[61]

We reconciled the totals from the calculation spreadsheet to the income statement (**Confidential Attachment SG&A 4**) and we are satisfied that the allocation methodology was reasonable and ensured all relevant SG&A expenses relating to the selling of sections has been captured appropriately.

6.7.2 Verification of SG&A Expenses

Satisfied that the SG&A expenses were allocated correctly and included all relevant costs we assessed the composition of SG&A expenses and selected significant cost elements for further downwards verification.

We identified that transport costs represented approximately [redacted]% of the sales costs for Kaohsiung mill and requested THS provide documentation to support their allocation of this expense. THS provided a summary of transportation costs for the

[60] Refer F & G on Confidential Attachment SG&A 2

[61] Refer to Confidential Appendix CTMS 1

mill (**Confidential Attachment SG&A 5**), which reconciled to the total shown in Confidential Attachment SG&A 2.

The next largest selling expense was 'export expenses' which represented approximately [redacted]% of the selling costs at Kaohsiung. THS provided a ledger outlining all export expenses for each consignment (**Confidential Attachment SG&A 6**) shipped which reconciled to the totals shown in Confidential Attachment SG&A 2.

As sales quantities were used to allocate SG&A expenses, we verified the sales quantities shown in Confidential Attachment SG&A 3, to a ledger which summarised all sales across the company (**Confidential Attachment SG&A 7**).

6.7.3 Financial / Other SG&A Expenses

THS requested during verification that some financial / other expenses that were not related to the sale or manufacture of the goods should be excluded from the cost to make and sell data. These included net dividend income received on share ownership and the net share of profit/losses of equity received from joint ventures.

We assessed these adjustments and considered that they were reasonable, as the costs were associated with other activities that did not relate to the sale or manufacture of the goods under investigation.

6.7.4 SG&A Conclusion

We are satisfied that the SG&A costs provided are complete, accurate and suitable for use in ordinary course of trade analysis.

6.8 Verification of production costs to Audited Statements (Completeness and Relevance)

We were satisfied that the data presented in the CTMS spreadsheet was accurate having verified raw materials, manufacturing overheads, direct labour, other costs and SG&A expenses items to source documents as explained in sections 6.6 and 6.7 above. We then sought to verify that the production costs were complete and included all relevant data by verifying from the various ledgers to the income statement and then to audited consolidated statements.

6.8.1 Upwards Reconciliation

We were unable to reconcile the sum of each of the production ledgers (which were traced to source documents and the CTMS spreadsheets) directly to the audited accounts as this would result in the raw materials being double counted throughout the production process and not reflect the true total cost of manufacture.

THS were also unable to provide a report that crossed the calendar year due to system limitations and changes in their reporting system. Thus to consolidate the total cost of goods sold from the production ledgers, THS provided packages of monthly ledgers for each mill and production stage (**Confidential Attachments 45 – 55**) which were consolidated in the ledger consolidation table (**Confidential**

Attachment CTMS 41) to provide a summary of the total cost of goods sold over the investigation period from the ledgers.

The totals for the investigation period from the ledger consolidation table were traced to cost of goods sold calculation spreadsheets for semi-finished products, deformed bar and sections and plate (**Confidential Attachment CTMS 42**). These spreadsheets adjusted the value of the cost of goods sold to account for transportation costs between the mills, scrap down of stock and internal use to arrive at a final cost of goods sold for each of the product types. The outcome of this exercise was summarised in the cost of goods sold summary (**Confidential Attachment CTMS 43**) which reconciled the totals to audited financial statements for 2012 and the period Jan – Sep 2013 (**Confidential Attachment CTMS 44**).

We are satisfied that the total costs shown in the production ledgers (that were traced downwards to source documents and to the CTMS spreadsheet) contain all costs, and represent the total cost of goods sold.

7 DOMESTIC SALES

The *Domestic sales* listing (see Section 4.1.2) forms **Confidential Attachment DOM 1**.

7.1 Domestic sales volume

As discussed in Section 2.2.2, THS sold a total of [redacted] kg of HRS on the domestic Taiwanese market during the investigation period.

Of these sales [redacted] kg (or [redacted]%) of sales were to related parties.

7.2 Domestic sales process

THS explained that the sales process of HRS for its domestic customers is the same as that described for export sales at Section 5.3 (noting that THS does not need to take into account shipping schedules for domestic sales).

7.3 Domestic pricing

7.3.1 Price setting

THS explained that its domestic price-setting is a complex process, and involves considerations of the direction and likely changes in the domestic market.

THS explained that its unrelated customers have established, through negotiation over time, their 'best' price for HRS (or the difference in price between themselves and other domestic customers). This price then fluctuates based on movements in the domestic steel market.

THS determines movements in the domestic steel market by reference to the order it is receiving, and trends in demand on its products.

7.3.2 Discounts and rebates

THS operates a complex system of discounts and rebates on its domestic market. These consist of:

- on-invoice discounts (applied at the time of invoicing and visible on the invoice);
- off-invoice discounts (applied after invoicing, usually around 1 month after invoicing);
- four different rebate types (applied after invoicing, at various times of the year – some being annual rebates and some being monthly or more regular rebates).

In its response to the exporter questionnaire, THS provided an explanation of each type of rebate and discount, outlining the general quantum of each rebate (discounts vary depending on market fluctuations and customer needs) and eligibility for each.

THS explained that its related customers and one other customer (the only producer sold to during the investigation period, see Section 7.5) do not receive any of the discounts or rebates, while all other customers receive discounts and rebates, with some customers being eligible for all four rebate types, and others receiving three rebates.

In its Domestic sales listing, THS quantified the NTD/kg amount of each discount and rebate line-by-line. This data reflected THS' above description of the eligibility of discounts and rebates by each customer.

7.4 Related/unrelated party transactions – differences in practice

THS advised that there are some key practical differences between its domestic related and unrelated sales. These are as follows.

- Related party sales are extended 60 or 90 days credit, while unrelated parties receive no credit terms (see below).

- For unrelated parties, THS will make price offers on a bi-monthly basis, for the placement of immediate orders and delivery from the factory within a 'short' timeframe (30-60 days from order).

- Conversely, for related parties, which buy HRS for longer-term project-based work (fabrication), THS offers one fixed price for the duration of the related party's projects, which can be between 30 – 210 days in validity (or longer).

  THS explained that it bears significant risk for these sales, as prices may fluctuate significantly in this period, and any difference is not recovered from the related party.

- Related parties do not receive any rebates or discounts, while unrelated parties routinely receive on and off-invoice discounts and rebates (see below for further discussion).

- The price offered to related parties at the offer stage will generally be lower than those to unrelated parties, but the final price may end up being higher due to the absence of rebates and discounts.

- THS explained that, at the time of invoicing, it is not certain of the final price to its unrelated customers due to its complex discount and rebate structure.

- Unrelated parties sign and are subject to distributorship agreements, reviewed on an annual basis, that include conditions as to order volume targets, among other constraints. Related customers are not subject to these distributor agreements.

We have undertaken analysis of related vs. unrelated party sales prices both at the gross (pre-discount and rebate) and net levels, by product code. This forms **Confidential Attachment DOM 2**.

This demonstrates:

- at times during the investigation period, THS' sales to its related parties at the gross level were at a lower unit price, while in other instances, gross prices to related parties where higher than to unrelated ones; and

- at the net level, sales to unrelated parties are generally below those to related parties.

However, it is noted that there are some difficulties in performing this analysis, as the data provided only includes invoice date and not contract or price offer date. As discussed above, THS has explained that sales to related parties are made at a price that is honoured for extended periods, so the invoiced amount can be set several months earlier, while sales to unrelated parties are not subject to this treatment and the offered amount is set much closer to invoice time.

In addition, THS has raised that level of trade is a consideration in comparability of sales. It is noted that unrelated customers are a different level of trade to related parties. See below for further discussion.

7.5 Level of trade

In its response to the exporter questionnaire, THS identified that its domestic customers were at the following levels of trade:

- distributor;
- wholesaler/retailer;
- end user (the two related customers); or
- producer of HRS (one unrelated customer, which THS supplied HRS to during the investigation period due to 'emergency' requirements by that producer).

THS submitted that it considers that its domestic distributor-level customers to be the same level of trade as its sole Australian customer (Sanwa), and that, to achieve a 'like to like' comparison, it is more reasonable to use domestic distributor level of trade sales in determining normal value for goods exported to Australia. This would exclude the company's domestic sales to wholesaler/retailer customers, the one domestic producer, and the two (related) end users.

In making this submission, THS highlighted that, in setting prices to its unrelated domestic customers, it generally does not differentiate pricing at the gross pricing level, though its discount and rebate structure differs between the levels of trade, which would reasonably result in differences at the net level.

We have conducted analysis of THS' domestic sales data to test the reasonableness of this claim. In doing so, we have compared net and gross unit sales prices to the different levels of trade by model, customer, and month, and examined the rebate structure of each level of trade.

This analysis found as follows:

- at the gross level, there does not appear to be any discernable pattern to suggest that there is a significant price difference between distributors and wholesalers/retailers, while gross unit prices to end users and the one producer appear to be consistently higher than to the other levels of trade;
- there are significant differences in the number and type of rebates offered to THS' customers based on their level of trade (specifically, distributors access additional rebates not available to other levels of trade, the producer and end users receive no discounts or rebates, and wholesalers/retailers receive discounts as well as two out of a possible four rebates);
- THS' customers at the distributor level of trade usually receive a lower net price by model compared to THS' other levels of trade (which appears to be a function of the rebate applied to these sales), excluding producers, which show no discernable pattern (at times being higher than other levels of trade and at other times lower); and
- net prices to the two end users (both related to THS) were generally higher than to THS' sales to unrelated entities at other levels of trade.

In relation to the sales to the related end users, we note that, as there are no sales to any unrelated end users, it is not clear whether the observed net price differences to other levels of trade are due to level of trade considerations or due to the relationship between the parties and the nature of those sales (long-term offers and delivery). In any case, we consider that sales between THS and its related parties[62] should not be used for the purposes of determining normal value for arm's length reasons, and have excluded them from our normal value analysis (see Section 7.9.2 for further discussion).

In relation to the remaining levels of trade, we consider that there is evidence to support the conclusion that these levels of trade attract differing discounts and rebates (and hence have a different pricing structure). This different pricing structure results in consistent and distinct net pricing differences between distributors and wholesalers/end users, though no discernable pattern can be seen for the sole domestic producer (noting that sales to the producer represent only a small proportion of domestic sales volume and were undertaken irregularly).

As noted above, export sales are at the 'distributor' level of trade, and, in light of the above analysis showing differences in pricing structure across levels of trade, we consider it most reasonable to calculate normal values based on domestic sales only at this comparable level of trade, eliminating sales to wholesalers/end users and the one domestic producer.

[62] Domestic sales to related parties represented [redacted]% of all domestic sales

Our level of trade analysis forms **Confidential Attachment DOM 3**.

7.6 Delivery and payment terms

THS' domestic sales were either made at delivered, or ex-factory (ex-works of EXW) terms.

As discussed above, as with export sales, THS' domestic sales payment terms for unrelated parties are letter of credit at sight of documents (no credit terms). However, for domestic related party sales, THS extends either 60 or 90 days credit for all sales.

7.7 Verification of sales to audited financial statements

As discussed in Section 5.7 above, we were able to reconcile THS' *Domestic sales* spreadsheet upwards to THS' audited financial accounts.

We are therefore satisfied that the *Domestic sales* spreadsheet is complete and contains only relevant sales.

7.8 Verification of domestic sales to source documents

THS provided source documents for two self-selected domestic sales in its response to the exporter questionnaire.

In addition, prior to the visit, we selected 12 domestic HRS sales from the detailed *Domestic sales* spreadsheet, and requested that THS provide source documents in relation to each invoice.

THS prepared and presented comprehensive source documents packages for each of these 12 sales. These packages included:

- commercial invoice;
- accounts receivable ledger;
- internal accounts receivable payment voucher;
- bank slips;
- letter of credit;
- sales contract;
- internal order approval form;
- off-invoice discount and rebate advices, as well as internal rebate and discount calculations;
- various prof of payment for off-invoice discount and rebates (including bank slips and cheques;

- evidence of inland transportation costs;
- evidence of actual weight.

These documents form **Confidential Attachment DOM 5**.

7.8.1 Invoice and sales contract details

As with Australian sales, we were able to match the sales information in the source documents to the data contained in the detailed *Domestic sales* spreadsheet for all invoices, including sales volumes and values. This included invoice theoretical weight, gross and net (after on-invoice discount) value, invoice date and number, goods characteristics (dimensions, grade, shape and product code), customer details, contract number, and delivery and payment terms.

We observed that the provided letter of credit reconciled to the applicable sales contract, and the evidence of payment demonstrated that THS received the full invoiced amount.

7.8.2 PCN and 'digit six'

As with Australian sales data, we checked the accuracy of THS' reported PCN and are satisfied that the PCNs recorded in the Australian sales listing accurately reflect the PCN categories established by THS.

We also sought to verify the accuracy of THS' 'digit six', and confirmed the accuracy of these categorisations with reference to the dimensions of the product (verified to invoice and contract details) and are satisfied that THS has accurately identified each category.

7.8.3 Actual weight

In the same manner as Australian sales, THS provided its internal weighbridge records for each selected invoice and demonstrated the accuracy of the actual weights recorded in the export sales listing.

7.8.4 Inland transportation

As with Australian sales, THS supplied internal records of its actual freight costs per selected invoice, which we were able to verify precisely to the Australian sales listing.

We observed that only sales that were delivered (not sold at EXW level) had inland transport amounts attributed to them in the *Domestic sales* listing.

7.8.5 Packaging

As outlined in Section 5.8.7 above, THS advised that packaging for domestic sales consists of steel wire and labels.

THS provided line-by-line figures in its *Domestic sales* listing, identifying the cost of this domestic packaging.

This was verified with THS (see Section 5.8.7).

7.8.6 Off-invoice discounts and rebates

We were able to verify the line-by-line off-invoice discounts and rebates recorded in THS' *Domestic sales* listing to the provided internal rebate and discount calculations sheets and corresponding customer advices of rebate and discount amounts.

We observed that the provided proof of payment for these off-invoice discounts and rebates exactly reconciled to these advices, and are satisfied that the reported rebates and discounts were those actually received by THS' customers in relation to each invoice.

7.8.7 Marketing fees

In its *Domestic sales* listing, THS provided line-by-line values for the costs of 'marketing fees' attributable to THS' domestic sales to <u>unrelated</u> customers only.

THS explained that these charges represent the cost of travel for its domestic unrelated customers, that it annually brings to Taipei for sales-related meetings. THS explained that the cost of this is considered when determining what domestic prices it will set to its domestic unrelated customers.

To verify these figures, THS provided a marketing costs calculation package, which included receipts and invoices for travel for this purpose during the investigation period, and demonstrated how this was attributed to THS' unrelated domestic customers based on all products sales volume. We considered this a reasonable method of attributing marketing fee costs to the products they relate to.

The marketing calculation package forms **Confidential Attachment DOM 6**.

7.9 Arm's length

7.9.1 Unrelated party sales

In respect of THS' domestic sales of HRS to <u>unrelated</u> customers, we 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.

We therefore consider THS' domestic sales to <u>unrelated</u> customers are arm's length transactions.

7.9.2 Related party sales

In respect of THS' domestic sales of HRS to related customers, we found evidence that there is consideration payable for or in respect of the goods other than their price, or that the price is effected by the relationship between the parties, namely by:

- more generous credit terms than unrelated customers; and
- THS honouring the offered sales price for the duration of the related party's contracts (while unrelated customers are only offered a certain price for the set month period, and then a revised price offer is made).

Further, we note that THS submitted that the sales price to related parties is influenced the relationship between the two parties, being set at the invoiced level at a price that is generally lower than that offered to unrelated parties. Although our analysis does not conclusively confirm this (see Section 7.4), we note the difficulties in assessing this with our available data. In any case, we note occurrences where this is shown to be the case.

In light of the above, we consider THS' domestic sales to related customers are not arm's length transactions. For this reason, we consider that these sales to related parties are not suitable for use in determining normal values under s.269TAC(1) of the Act.

It is noted that these related-party sales only represent a small portion of domestic sales volume in any case ([redacted]%).

7.10 Ordinary course of trade, and suitability of sales

We sought to identify which domestic sales of like goods were made in the ordinary course of trade (OCOT) for possible use in normal values under s.269TAC(1) of the Act.

As discussed in section 7.9.2 above, we considered that sales to related customers were not arms lengths transactions and thus these sales were excluded from the OCOT analysis. In addition, as discussed in Section 7.5, we consider that it is most reasonable to determine normal values using only distributor-level sales, and hence have excluded sales to wholesalers/retailers and producers from our analysis as well.

In order to test the profitability of THS' domestic sales, we compared the unit (per kg) net sale price of each individual domestic sale the goods by 5 digit PCN with the corresponding monthly average unit CTMS for each PCN. As there was no cost difference between the 5 and 6 digit PCN we were satisfied that profitability could be calculated by reference to the 5 digit PCN.

For those transactions calculated as being sold at a loss, we tested whether the sales were recoverable, by comparing the unit net sales price with the investigation period weighted average unit CTMS for each PCN.

For each six digit PCN model, non-recoverable sales were less than 20% of the volume and thus all sales of those models were considered as being made in OCOT and were used in calculating normal values for those models.

We found that there were domestic sales of all models that were identical to exports for all of the models exported. We calculated whether the domestic sales volume of each model that was sold domestically in sales that were in OCOT were more than 5% of the export volume. This was the case for all of those models.

Our profitability, OCOT and sufficiency of sales assessments are at **Confidential Appendix 3.**

8 THIRD COUNTRY SALES

In its exporter questionnaire response, THS provided a summary its export sales to third countries.

Noting the likely approach to determining normal values (s.269TAC(1) domestic sales in the ordinary course of trade) we considered it unlikely that third country sales would be used in determining normal values for THS' exports of HRS.

As a result, we did not undertake detailed verification of the third country data.

9 NORMAL VALUE

9.1 Domestic sales

As discussed in Section 7.10 above, we found sufficient volumes of domestic sales of the goods by THS that were arms' length transactions and at prices that were in OCOT for an exact model match for the following export models:

- 31b12A
- 31b12D
- 31b32B
- 32b12A
- 32b12B
- 32b12C
- 32b32C
- 32b32D
- 34b12B
- 34b12C
- 34b12D
- 36b12D
- 55152E
- 55252E
- 55252F
- 55252G

For the export models which we found that there were no domestic sales during the required quarter, we used a reasonably similar product code/thickness combination and made reasonable adjustments to the normal values for physical differences (based on the domestic price extras sheet – **Confidential Attachment DOM 4**). The model used was of the same 5 digit PCN, and the next closest sixth digit PCN.

10 ADJUSTMENTS

To ensure that the normal value was comparable to the Australian export price, the following adjustments were made:

10.1 Domestic and export packaging expenses

As discussed in Section 5.8.7, THS was able to calculate packaging costs for both domestic and Australian-exported HRS. These figures have been verified with THS.

A positive adjustment to the normal value has been performed of the quarterly weighted average amount of packaging for Australian exports, and the opposite negative adjustment to normal value has been performed of the domestic packaging amount.

10.2 Domestic and export inland freight

We consider that a downwards adjustment for domestic inland freight is necessary for sales sold domestically on a delivered basis, to arrive at EXW normal values (which are then converted to FAS normal values – see below).

We have performed this adjustment of the verified amounts reported in the *Domestic sales* spreadsheet, where applicable, which we have verified (see Section 7.8.4). No downwards adjustment for inland freight has been undertaken for domestic EXW sales.

To arrive at FAS normal values for comparison with export prices (which are at FAS level), we have conducted an upwards adjustment to normal value of the quarterly weighted average amount of export inland transport, as reported in the *Australian sales* listing and verified with THS (see Section 5.8.4).

10.3 Domestic 'marketing' charges

As discussed and verified in Section 7.8.7, THS incurred marketing fees in relation to its domestic sales for annual travel to Taipei for its domestic unrelated customers. This does not apply to related customers, though these sales have not been included in normal value in any case.

We consider a downwards adjustment to normal value is warranted for these expenses, and the verified amount within the *Domestic sales* listing has been deducted from normal value calculations.

10.4 Export handling charges

As discussed in Section 5.8.6, THS incurred various export-related handling charges, which were quantified in its *Australian sales* listing and have been verified with THS.

We consider an upwards adjustment to normal value is warranted to account for these export charges, to arrive at FAS normal values. The quarterly weighted average amount of these charges has been added to normal value calculations as a result.

10.5 Export bank fees and letter of credit charges

As discussed in Section 5.8.5, THS incurred bank fees and letter of credit charges associated with its Australian export sales, which were quantified in its *Australian sales* listing and have been verified with THS.

We consider an upwards adjustment to normal value is warranted to account for these fees and charges, to arrive at FAS normal values. The quarterly weighted average amount of these charges has been added to normal value calculations as a result.

We queried with THS whether there were corresponding charges for its domestic sales, which were also subject to letters of credit. THS explained that these were born by the purchaser on the domestic market, and demonstrated this by reference to several letters of credit within our selected domestic sales documents, which stated that charges were to be paid by the purchaser. We therefore consider no corresponding downwards adjustment to normal value is warranted.

10.6 Physical differences

As discussed in Section 9.1 above some export models did not have any domestic sales during particular months. For these models in these months, we substituted each model with another from the same 5 digit PCN, and instead used the next closest sixth digit PCN for which there were sufficient sales in the OCOT. We then used the domestic price extras sheet to calculate the difference between the two models.

10.7 Other matters considered

10.7.1 Credit terms

As both domestic and export sales are made with zero credit terms (letter of credit at sight of documents), we consider that no adjustment is warranted to normal value for credit terms (noting that domestic sales to related parties do attract credit terms, but these have been excluded from normal value calculations due to arm’s length issues – see Section 7.9.2).

10.7.2 Theoretical vs. actual weight (tolerances)

As discussed in Section 4.4, we do not consider that, for the purposes of calculating dumping, it is necessary to take into account differences between the theoretical weight invoiced by THS, and the actual weight of goods sold, noting that THS does not take significant advantage of tolerances present in the standards it manufactures HRS to.

10.7.3 'Rolled in' brand identifier

As discussed in Section 3.4.3, we are satisfied that the 'rolled in' brand identifier for THS is the same for domestic and export markets, and no adjustment is therefore necessary for any such physical difference.

In any case, we consider any such difference would be immaterial to the calculated dumping margin, and the effect of this difference on prices between markets would also require consideration.

10.7.4 Warehousing

Prior to the visit, OneSteel submitted that the visit team should be aware of potential differences in warehousing costs between export and domestic sales in considering dumping by THS.

During the factory tour, we determined that THS' sales of domestic HRS can be shipped on a part-order basis when ready, as opposed to export sales that need to accumulate a shipment amount prior to despatch.

We queried with THS whether this impacts the pricing between Australian and domestic sales. THS advised that this was not the case.

During the verification and our analysis of export and domestic pricing, we did not find any evidence that this impacts the price difference between these two markets (especially noting that considerations in setting Australian prices, as discussed in Section 5.2.1, and the fact that no pricing 'extra' for additional warehousing was identified) and therefore do not consider an adjustment for this to be warranted.

10.8 Adjustments – Conclusion

We are satisfied that there is sufficient and reliable information to justify the following adjustments, in accordance with s. 269TAC(8) of the Act, and we consider these adjustments are necessary to ensure a fair comparison of normal values and export prices:

Domestic packaging	**Deduct** the actual cost of domestic packaging.
Export packaging	**Add** the quarterly weighted average export packaging cost.
Domestic inland freight	**Deduct** the actual cost of inland freight where applicable (to arrive at an EXW price).
Export inland freight	**Add** the quarterly weighted average export inland freight cost (to arrive at an FAS price).

Domestic marketing charges	**Deduct** the actual cost of domestic marketing charges.
Export handling charges	**Add** the quarterly weighted average cost of export handling charges
Export bank fees and letter of credit charges	**Add** the actual weighted average quarterly cost of export bank fees and letter of credit charges.
Physical differences	Add or Deduct the price differences between the various extra's (A-D) as required.

11 DUMPING MARGIN – PRELIMINARY ASSESSMENT

We compared the weighted average of export prices (at FAS terms) over the whole of the investigation period with the quarterly weighted average of corresponding normal values (also at FAS) over the whole of that period, in accordance with s. 269TACB(2)(a) of the Act.

In some cases, THS did not make domestic sales of the requisite model in the quarter in which export sales were made. In these cases we performed a physical adjustment based on the difference between the relevant extras between the relevant models in the same quarter.

The weighted average product dumping margin for the goods exported to Australia by THS is **2.20**%.

Details of the dumping margin calculations are at **Confidential Appendix 5**.

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