PUBLIC RECORD VERSION

Australian Government
Anti-Dumping Commission

INVESTIGATION 223

ALLEGED DUMPING OF HOT ROLLED STRUCTURAL STEEL SECTIONS

EXPORTED FROM JAPAN, THE REPUBLIC OF KOREA, TAIWAN AND THAILAND

VISIT REPORT - EXPORTER

HYUNDAI STEEL COMPANY

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

March 2014

CONTENTS

ABBREVIATIONS

The Act	*Customs Act 1901*
ADN	Anti-Dumping Notice
The applicant	OneSteel Manufacturing Pty Ltd
CFR	Cost and freight
COGS	Cost of goods sold
Commission	Anti-Dumping Commission
CTM	Cost to make
CTMS	Cost to make & sell
EPR	Electronic Public Record
FOB	Free On Board
GAAP	Generally accepted accounting principles
Hyundai Steel	Hyundai Steel Company
OneSteel	OneSteel Manufacturing Pty Ltd
PAD	Preliminary Affirmative Determination
REQ	the response to the exporter questionnaire
SEF	Statement of Essential Facts
the goods	the goods the subject of the application (also referred to as the goods under consideration or GUC)
the Parliamentary Secretary	the Parliamentary Secretary to the Minister for Industry

1 BACKGROUND AND PURPOSE

1.1 Background

On 26 August 2013, OneSteel Manufacturing Pty Ltd (OneSteel) lodged an application under the *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.

1.1.1 Hyundai Steel Company

Following initiation of the investigations, a search of Customs and Border Protection's import database indicated that Hyundai Steel Company (Hyundai Steel) exported HRS from Korea to Australia in the period 1 October 2012 to 30 September 2013 (the investigation period).

The Anti-Dumping Commission (the Commission) notified Hyundai Steel Company (Hyundai Steel) of the initiation of the investigations and sought its cooperation with the investigation and provided an exporter questionnaire in respect of hot rolled plate steel for the company to complete. The company completed the exporter questionnaire, and a non-confidential version of the questionnaire response is available on the public record.

1.2 Purpose of visit

The purpose of the visit was to verify information contained in the response to the exporter questionnaire (REQ) submitted by Hyundai Steel.

Hyundai Steel's REQ included a background to its activities, exports sales data to Australia and other countries, domestic sales data, and cost to make and sell data. The

REQ was supported by confidential appendices and attachments. A non-confidential version of the response to exporter questionnaire was placed on the public record

Verified information obtained during the visit to Hyundai Steel has been used to make preliminary assessments regarding:

- like goods;
- who is the exporter and who is the importer;
- export prices;
- normal values; and
- dumping margins.

1.3 Meeting details

Prior to the meeting the Commission forwarded a detailed agenda to Hyundai Steel and advised that they would require supporting documentation for sales selected by the Commission and for other issues identified. The agenda also included key issues identified by the Commission. A copy of the visit agenda is at **Confidential Attachment GEN 1.**

Company	Hyundai Steel Company Inchon Plant 1st Songhyun Dong Dong Gu Inchon Si Head Office 231 Yangjae-Dong Seocho-Gu Seoul
Dates of visit	18-21 February 2014

The following were present at various stages of the meetings.

Hyundai Steel Company	**[CONFIDENTIAL TEXT DELETED – attendees from Hyundai Steel Company – seven names shown]**
Sojong Accounting	**[CONFIDENTIAL TEXT DELETED – attendees from Sojong Accounting – two names shown]**
Moulis Legal	Daniel Moulis – Principal Charles Zhan – Lawyer
Anti-Dumping Commission	Bill Walsh – Manager – Operational Policy Cathy Cole – Supervisor – Operations 1

1.4 Investigation process, timeframes and visit report

At the commencement of the meeting the verification team was advised it was not required to state the key dates or other important administrative issues. For the record the key dates are:

- The investigation period is 1 October 2012 to 30 September 2013.
- The injury analysis period is from 1 July 2009 for the purpose of analysing the condition of the Australian industry.
- A preliminary affirmative determination (PAD) may be made no earlier than day 60 of the investigation (23 December 2013) and provisional measures may be imposed at the time of the PAD or at any time after the PAD has been made.

  The Commission will not make a PAD until (and if) it becomes satisfied that there appears to be, or that it appears there will be, sufficient grounds for the publication of a dumping duty notice and/or a countervailing duty notice.

  This was distinguished from the 'reasonable grounds' threshold for initiation of the investigation.
- The Statement of Essential Facts (SEF) for the investigation is due to be placed on the public record by 12 May 2014, or such later date as the Parliamentary Secretary to the Minister for Industry (the Parliamentary Secretary) allows, under s.269ZHI of the *Customs Act 1901* (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.
- Following receipt and consideration of submissions made in response to the SEF, the Commission will provide its final report and recommendations to the Parliamentary Secretary.

  This final report is due no later than 26 June 2014, unless an extension to the SEF is approved by the Parliamentary Secretary.
- A visit report (this report) will be prepared and provided to the company to review its factual accuracy, and to identify the confidential parts.
- In consultation with the company, we would prepare a non-confidential version of the report, and place this on the investigation's Public Record.
- Any information provided by Hyundai Steel during the verification meetings would be treated as confidential unless we were advised otherwise.

2 COMPANY INFORMATION

2.1 General

Hyundai Steel, formerly known as INI Steel Company (INI) of Korea, is Korea's oldest steel maker and the only steel maker to run both fully integrated steel mills and mini-mill operations.

Established as '*Korea Heavy Industry Corporation'* in 1953, it was privatised in 1962, listed on the Korean Stock Exchange in 1987 and became a member of the Hyundai Group in 1978. In 2000 the company merged with Kangwon Industries and Sammi Steel Company and in 2001 joined the Hyundai Motor Group.

In 2004 Hyundai Steel acquired the assets of Hanbo Steel's Dangjin plant and in 2006 was renamed as Hyundai Steel Company.

Hyundai Steel manages three manufacturing facilities located in Dangjin, Inchon and Pohang to produce a wide variety of steel products including reinforcing bars, H-beams, structural sections, HRC products, heavy plate, stainless steel products and other steel products for heavy machinery. These products are used in the construction, automotive, shipbuilding, home appliance, engineering and machinery industries.

2.2 Corporate, organisational and ownership structure

Hyundai Steel is a member company of the Hyundai Motor Group through cross-ownership. Hyundai Motor Group is composed of **[CONFIDENTIAL TEXT DELETED – number]** listed companies and **[CONFIDENTIAL TEXT DELETED – number]** unlisted companies.

Hyundai Steel's principal shareholders are Kia Motors (**[CONFIDENTIAL TEXT DELETED – number]**%), **[CONFIDENTIAL TEXT DELETED – shareholder]** (**[CONFIDENTIAL TEXT DELETED – number]**%) and **[CONFIDENTIAL TEXT DELETED – shareholder]** (**[CONFIDENTIAL TEXT DELETED – number]**%).

The principal shareholders of Kia Motors are Hyundai Motor (**[CONFIDENTIAL TEXT DELETED – number]**%) and **[CONFIDENTIAL TEXT DELETED – shareholder]** (**[CONFIDENTIAL TEXT DELETED – number]**%) and the principal shareholders of Hyundai Motor are Hyundai Mobis (**[CONFIDENTIAL TEXT DELETED – number]**%), **[CONFIDENTIAL TEXT DELETED – shareholder]** (**[CONFIDENTIAL TEXT DELETED – number]**%) and **[CONFIDENTIAL TEXT DELETED – shareholder]** (**[CONFIDENTIAL TEXT DELETED – number]**%).

2.3 Related parties

Hyundai Steel provided a listing of related parties as part of its REQ (refer REQ confidential attachment 5). The listing provided the names of related companies that sold the GUC, supplied steel scrap, and provided freight services.

2.4 Relationship with suppliers and customers

Hyundai Steel and related suppliers and customers are member companies of the Hyundai Motors Group through cross-ownership.

The company advised that scrap metal purchased from related suppliers accounted for about **[CONFIDENTIAL TEXT DELETED – number]**% of total material costs. (Evidence to support this claim is at **confidential attachment Visit 27**). Most of these purchases are from **[CONFIDENTIAL TEXT DELETED – names of supplier]**.

Hyundai Steel has **[CONFIDENTIAL TEXT DELETED – number]** related domestic customers: **[CONFIDENTIAL TEXT DELETED – names of customers]**. The proportion of the related domestic customer's sales value over total sales value for the total of the **[CONFIDENTIAL TEXT DELETED – number]** product code groupings (**[CONFIDENTIAL TEXT DELETED – number]** customers) is **[CONFIDENTIAL TEXT DELETED – number]**%;and when the **[CONFIDENTIAL TEXT DELETED – number]** most similar product code groupings are used (**[CONFIDENTIAL TEXT DELETED – number]** customers) the proportion of total related sales value is **[CONFIDENTIAL TEXT DELETED – number]**%.

2.5 Accounting structure and details of accounting system

2.5.1 General

The corporate accounting period for Hyundai Steel is the calendar year.

Hyundai Steel maintains its books and records in Korean Won (KWN) and prepares its financial statements in KRW for local statutory purposes in accordance with Korean International Financial reporting standards (K-IFRS) that represent generally accepted accounting principles (GAAP) in Korea. Financial statements are prepared from 1 January to 31 December each year.

The accounting records accessed for the verification are held at the Seoul office.

Hyundai Steel's cost accounting system is based on an actual process cost accounting system. Costs are captured in the cost centres on an actual basis rather than being determined by way of standard or budget costs.

As part of its REQ Hyundai Steel provided:

- chart of accounts (REQ - confidential attachment 6);
- audited non-consolidated financial statement for financial years ending December 2011 and 2012 (REQ - confidential attachment 7);
- audited consolidated financial statement for financial years ending December 2011 and 2012 (REQ – confidential attachment 8) ;
- audited non-consolidated financial statements for the 9 months ending September 2012 and 2013 (REQ attachment 9).

2.5.2 Accounting system

Hyundai Steel uses **[CONFIDENTIAL TEXT DELETED – proprietary software]** for its financial and cost accounting, recording and reporting functions.

[CONFIDENTIAL TEXT DELETED – proprietary software] is the source of the original data and the basis for the reports that have been generated to provide information to the Commission for this investigation. During the verification process we sighted numerous accounting records and reports extracted from **[CONFIDENTIAL TEXT DELETED – proprietary software]**. Hyundai Steel's accounting system and methodology are also discussed in section 5 of this report.

3 THE GOODS UNDER CONSIDERATION AND LIKE GOODS

3.1 The goods

The goods the subject of the application (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).

3.1.1 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 free 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.

The Commission notes that OneSteel considers these products to be interchangeable and the Commission will seek further clarification on this matter during the course of the investigation.

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 free.

Tariff Concession Orders 0513491 and 0513492 may apply to such goods that are classified to tariff subheading 7216.32.00 and 7228.70.00, respectively.

3.2 Product range and manufacturing facilities

3.2.1 Product range

Hyundai Steel produces various kinds of steel products. The goods under investigation are referred to as H-beam, channel and angle.

3.2.2 Manufacturing facilities

Hyundai Steel produces various kinds of steel products at it three manufacturing facilities in Dangjin, Inchon and Pohang, in Korea. H Beam and Angle are produced at the Inchon and Pohang plants. Channel is also produced at the Inchon plant.

Both plants produce every specification of the goods being examined. There are lines for large, medium, and small sections in each mill. This categorisation is based on size only not grade. The goods under consideration sold to Australia are made in the **[CONFIDENTIAL TEXT DELETED – identification of exported goods]** section. Hyundai Steel manages the production schedule for each mill based on the purchase orders.

3.2.3 Production process

See section 6.2. The grade and specification are controlled in the steel making process; and the form and dimensions are controlled in the rolling process.

3.2.4 Goods exported to Australia

Hyundai Steel exported grade 300 HRS with nominal yield strength of 300 MPa. The goods were quoted to AS/NZS 3679.1.

There was no exported grade 350 during the investigation period.

3.2.5 Like goods

Prior to the visit the Australian industry provided a briefing to the exporter visit teams. Documents relating to this briefing are on the EPR.

The Australian industry noted that there are differences between AS/NZ grade 300 and domestic grades. The Australian industry claimed that the domestic SM490 was similar to the exported grade.

Following the exporter briefing, the Australian industry provided exporter briefing notes for Hyundai Steel. These notes are also on the EPR.

In particular, OneSteel noted the following in regard to tolerances:

> Rolling of structural steel to comply with the AS/NZ 3679.1 (for export sales to Australia) involves tighter tolerances than HRS sold domestically in Korea (Korean Standard D 3502, P. 80 of Hyundai Catalogue). For example, goods that are less than 10 mm in thickness, the AS/NZ 3679.1 minimum tolerance allowed is 2.5 per cent. OneSteel understands that for domestic sales sold in accordance with the domestic Standard a 5 per cent tolerance is permitted. For product that involves a thickness of 10mm and over the AS/NZ 3679.1 tolerance is also 2.5 per cent, whereas the KS equivalent is 4 per cent.
>
> It is likely that Hyundai Steel would produce to the maximum tolerance as it is not within the company's economic interest to sell a higher weight of/channel at the same price as product "rolled light".

With regard to grades, OneSteel noted:

Hyundai sells domestically grades SS400 and SM400 which it suggested are like goods to export sales to Australia of goods to AS/NZS 3679.1. One Steel does not agree with this proposition. OneSteel is aware that the most comparable grade to meet the minimum yield tolerance for grade S/NZ 3679.1 is the JIS grade SM490.

In the event that normal values are based upon Hyundai Steel's domestic sales of ss400 and SM400, these normal values will require an upward adjustment to reflect the cost/price differential to Grade SM490 – the equivalent grade for exports to Australia to AS/NZ 3679.1

Previous reports

When preparing the visit agenda we examined previous Customs' reports on hot rolled structural steel. In 2001 the Australian Customs Service conducted an investigation into the alleged dumping of certain hot rolled structural sections exported to Australia from Korea, the Republic of South Africa (South Africa) and Thailand Report No. 55.

Measures were imposed against Korea, South Africa and Thailand. In that report Customs found that:

- sales to end-users are not comparable with sales to Australia and they were therefore not used in the normal value assessment

- sales of all models examined were included as there was no price differentiation

That is to say, in the original investigation all models were used in the normal value and no model matching occurred for normal value purposes.

Those measures were reviewed in 2004: *Review of Anti-Dumping Measures report into hot rolled structural steel sections from Korea, Trade Measures Report No 79 August 2004*. That review observed that the exports to Australia were grade RL and the domestic grades were SB and SK.

Grade	Standard	Specification	Mpa
RL	AS 3679.1		280 – 320
SB	KS D 3503	SS 400	215 - 245
HK	KS D 3515	SM 490A	285 – 325

Review report No. 79 noted:

"OneSteel claims the grade SB sold on the Korean domestic market is not comparable with the grade RL exported to Australia due to differences in specification."

"Customs found the specifications of the exported grade RL and domestic grade HK to be very similar, and considers the grade HK is the most appropriate for

> comparison with the exported grade RL. Customs calculated normal values using domestic sales of only grade HK."

Customs review report No 79 only showed yield strength for the model exported to Australia, and for that reason the review report cannot be directly or easily compared. We gave Hyundai an extract from the Review report No. 79 at the verification meeting.

Visit Agenda and Like Goods Considerations

The visit agenda had asked Hyundai Steel to prepare detailed evidence pertaining to like goods. It stated:

> "*Please prepare in advance of the meeting a detailed examination of the specification differences between the 300 grade exported to Australia and the SS400 on the one hand and the SM490 on the other supported by all relevant technical information".*

Hyundai Steel's product coding system provided to this investigation in its REQ was provided at the first day of the meeting (refer **confidential attachment Visit 2**). More detail was provided. The product codes are said to incorporate the main features which are relevant to determining the nearest grade and specification on the domestic market compared to the model exported to Australia. We examined the coding system and three main features are identified:

1. The model: identifying whether it is H or I beam; Channel; or Angle. Three codes related A, B and C. Concerning this first feature, the classification is a natural one classifying the goods into their main physical characteristics.

2. Grade code: the grade code separates goods by the tensile strength and there are 4 ranges. Grade Code A relates to goods under 400MPA; Grade Code B relates to goods greater than or equal 400MPa and less than 450 MPa; Grade Code refers to goods greater than or equal to 450 MPa and less than 500MPa; and D to goods greater than or equal to 500MPa. It should be noted that the strengths referred to are *minimum* tensile strengths.

3. Dimension: this characteristic identifies the web height and there were two such codes:' A' describes the goods with a web height less than 230; and 'B' describes a web height greater than or equal to 230.

Concerning the second model matching feature (grade) there are **[CONFIDENTIAL TEXT DELETED – number]** grades identified. We noted that the Australian Standard titled *AS/NZS 3679.1.2010* identifies the 300 Grade and requires that it have a minimum tensile strength of 440 MPa.

Under the classification system described in points 1 to 3 above, the 300 grade sold to Australia is grade code B – which covers models with an MPa greater than or equal to 400 and less than 450MPa.

The grade code C refers to goods greater than or equal to 450 MPa and less than 500MPa. This range includes the 350 grade under the AS/NZS standard – the minimum tensile strength for grade 350 is 480 MPa.

For goods on the domestic market grade code C would include the SM490 grade as shown in the Korean Standard *KS D 3515 2008* and this particular grade has a minimum tensile strength of 490MPa.

We examined the Australian and the Korean Standards as we worked through the coding system. We confirmed by reference to the standards whether Australian or Korean where the goods fell within the specified ranges.

The third feature of the coding system concerns dimension. We noted how in the pricing the price changes at the point specified.

Taking characteristic 2, the minimum tensile strength, the important range there so far as this investigation is concerned is Grade Code B which relates to goods greater than or equal 400MPa and less than 450 MPa. As noted above, this is because under the Australian Standard AS/NZS 3647 Grade 300 falls within that range – meaning that Grade 300 has as its middle code or grade code the letter B.

On the domestic market a number of grades that fall within that identifier range. We worked through the product specifications and listed against all of the matching domestic grades the grade description (the first column in the table below); and the minimum tensile strength (the second column in the table). The yield strength is shown in the third column although this is not an identifier. We identified in the Korean Standards where each of these domestically sold Grade Code B goods were listed. The table below refers. This information has been compiled from the "Products Guide Part 2' which sets out the mechanical properties of Hyundai Steel's products. It formed part of the EQR.

We also considered that the following issues are relevant when considering the nearest matching goods:

1. The Mill Certificates

While at the on-site visit we reviewed the mill certificates which we had asked for as part of the selected domestic sales document packages. We identified in this random selection of sales the sales that related to the domestic grade 400.

We compared the mill test against the AS/NZ 3679.1 Australian Standard for grade 300. The comparison was for:

- tensile strength
- yield point and
- elongation

We found that for each of these three characteristics the domestically sold 400 grade exceeded the G300 Australian Standard for every comparison that was made. What we drew from this comparison was that the 400 grade, while exceeding the Australian standard for 300, was closely matching. It also showed that the Standard's minimum requirements do not equate with the mill certificates. The 490 grade sold on the domestic market has higher ratings than the 400 grade. (For the higher cost of manufacture of the domestically sold 400 grade and the exported grade of steel an adjustment has been made - discussed later in this report under the heading merchandise difference).

2. The difference in the COM

Hyundai had provided details of the cost of manufacture and the cost to make and sell for all 16 grades sold on the Korean domestic market. We compared the COM of the model 300 sold to Australia to the COM for the 400 and the 490 grades. The COM of the 400 grade most closely approximated the COM of the 300 exported grade. Similarity in production process and production cost may be an indicator of similarity.

Conclusions

In determining the closest comparator grade the actual exported grade was compared to the SS400 standard and the SM490A standard.

We are satisfied that the actual quality (mechanical properties and chemical composition) of SS400 grade satisfied the minimum requirements of Grade 300.

The analysis demonstrated that the actual quality of the exported grade (mechanical properties and chemical composition) fails to meet the minimum requirements in the relevant areas to be sold as SM490A.

HRS sold to Australia cannot be sold to SM490A standard given that it fails substantively across the board to meet the requirements based on the sample examined.

The closest comparator grade to the grade exported to Australia is considered to be the SS400 grade and this has been used for normal value determination.

3.3 Like goods – preliminary assessment

We consider that the domestic sales of the goods falling into the four product groupings (ABA, ABB, BBA and BBB) are the nearest grade and technical specification to the 300 grade exported to Australia. We consider the like goods produced by Hyundai Steel 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 SALES TO AUSTRALIA

4.1 General

Hyundai Steel exported 300 grade goods from its Inchon and Pohang plants during the investigation period.

Shapes exported are H sections, that include universal beams also known as UB or I sections, and U sections. Hyundai Steel did not export angles to Australia. Goods exported to Australia were non-alloy and a metric unit size. As noted in the like goods section (refer 3.2.5) all of the sales to Australia are 300 grade, which means under the product coding system the middle letter is 'B'. The goods are described as having a 'cutting' finish which simply means the ends have been cut to the required length. (All domestic sales examined also had the 'cutting' finish). The product codes were input manually into the detailed sales listing.

In its REQ, Hyundai Steel provided an export sales spread sheet that included line-by-line information relating to:

- customer name;
- level of trade;
- model;
- grade;
- shape;
- dimension;
- product code;
- finish;
- imperial or metric;
- invoice number and date;
- date of sale;
- order number;
- shipping terms;
- payment terms;
- sales quantity (MT) actual and theoretical weight;
- net invoice value (USD and KRW);
- ocean freight;
- inland transport;
- handling;
- export credit; and
- export warehousing and transport to warehouse.

We sought to verify the export sales data contained within the export sales spreadsheet during our meetings with Hyundai Steel. Further discussion of the verification process is detailed in sections 4.1 and 4.2.

4.1.1 Sales volume and value

During the investigation period Hyundai Steel exported the goods to four Australian distributors and two Korean traders. The following table shows volumes and values to each of the customers.

Level of Trade	Customer	Actual Weight (MT)	Net invoice value (KRW)
[CONFIDENTIAL TEXT DELETED – customer names and numbers]			

Hyundai Steel stated that the selling prices to the customers were negotiated on a transaction by transaction basis in consideration of market circumstances, supply and demand conditions, etc. Hyundai Steel is not related to any of its Australian customers.

[CONFIDENTIAL TEXT DELETED – number] companies are involved in the sales to Australia and account for about **[CONFIDENTIAL TEXT DELETED – proportion]** of the total Australian sales.

4.1.2 Export sales process

Hyundai Steel explained that during the investigation period export sales of the GUC to Australia took place through two distribution channels:

Channel 1 -Hyundai Steel to [CONFIDENTIAL TEXT DELETED – type of customer]

Hyundai Steel directly contacts **[CONFIDENTIAL TEXT DELETED – type of customer]** and all of the physical movement and sales functions are performed by Hyundai Steel. During the investigation period sales through this channel were made on **[CONFIDENTIAL TEXT DELETED – trading terms]** basis.

Channel 2 Hyundai Steel to [CONFIDENTIAL TEXT DELETED – type of customer]

Some of the sales to Australia by Hyundai Steel are **[CONFIDENTIAL TEXT DELETED – type of customer]**. Hyundai Steel and **[CONFIDENTIAL TEXT DELETED – type of customer]** negotiate a price for the sale. All of the physical movement functions are performed by Hyundai Steel **[CONFIDENTIAL TEXT DELETED – commercial arrangements]** sales negotiation with the Australian customer. During the investigation period sales through this channel were **[CONFIDENTIAL TEXT DELETED – trading terms]**.

An export sales team is responsible for export sales of the goods.

The date of sale is the **[CONFIDENTIAL TEXT DELETED – commercial arrangement]**. We noted that the purchase order confirmed the sales terms to be **[CONFIDENTIAL TEXT DELETED – credit periods]**.

The export sales listing in the EQR had not identified the mill. The detailed export sales data base that we obtained as part of the completeness of sales examination had identified in column F whether the shipment was from Inchong or Pohang (refer confidential attachment Visit 41).

Hyundai Steel periodically issues a price guideline for sales of the goods to the Australian market. An example was provided. Both parties negotiate the terms such as price, volume, delivery terms, payment terms, etc. Once negotiations are completed the customer makes a purchase order and based on that Hyundai Steel begins the production planning. Upon production Hyundai Steel arranges for the transportation for the goods based on the delivery terms either to the wharf or to Australia. About the time the goods are despatched Hyundai Steel issues its invoice to the Australian customers.

In cases where the payment term of the export sales is by letter of credit, which was for the majority of export sales, Hyundai Steel collects the payment from the banks concerned. **[CONFIDENTIAL TEXT DELETED – commercial arrangements]**.

4.1.3 Currency

Hyundai Steel invoices its **[CONFIDENTIAL TEXT DELETED – currency]**. Sales to **[CONFIDENTIAL TEXT DELETED – currency]** .

4.1.4 Terms of trade

The terms for **[CONFIDENTIAL TEXT DELETED – names of customer/s]**are **[CONFIDENTIAL TEXT DELETED – trading terms]** and the terms for **[CONFIDENTIAL TEXT DELETED – names of customer/s]** are **[CONFIDENTIAL TEXT DELETED – trading terms]**.

Where the sales were on a **[CONFIDENTIAL TEXT DELETED – trading terms]** basis Hyundai Steel arranged transport and such sales accounted for about **[CONFIDENTIAL TEXT DELETED – proportion]** of the total sales to Australia.

4.1.5 Payment terms

[CONFIDENTIAL TEXT DELETED – names of customer/s] are LC at sight.

4.1.6 Discounts, rebates and allowance

[CONFIDENTIAL TEXT DELETED – commercial arrangements] export sales to Australia.

4.1.7 Date of sale

Date of sale is **[CONFIDENTIAL TEXT DELETED – commercial arrangement]**

4.2 Verification of export sales to source documents

Prior to the visit, we had requested Hyundai Steel to provide supporting documents for seven shipments to Australia that we had selected.

The seven invoices selected were:

Customer	Invoice Number
[CONFIDENTIAL TEXT DELETED – names of customer/s and numbers]	

Hyundai Steel provided source document bundles for each of these shipments during the verification, containing the:

- purchase order;
- commercial invoice;
- packing list;
- mill test certificate;
- shipping order/instructions;
- bill of lading;
- ocean freight tax invoice; and
- bank statement showing proof of payment.

We traced the information from the source documents and matched it to the data contained in the detailed sales spread sheet. These document bundles form **confidential attachment Visit 7.**

4.2.1 Ocean freight

We checked the freight calculations and for selected shipments found them to be accurate. We asked for the worksheet which had been used to calculate ocean freight. The vessel name, bill of lading date, Australian order number, and order number were identified. We checked parts of this worksheet to the ledger which had shown ocean freight, and we are satisfied that the calculations of ocean freight for shipments to Australia are correct.

4.2.2 Exchange Rate

The exchange rate is the rate applying on the date of sale as taken from the accounting ledger. We noted that the exchange rate is the base rate published by the Seoul foreign currency exchange. We checked the rate on selected invoices to the rate published by Seoul Money Brokerage, and obtained copies of the relevant pages.

4.2.3 Inland freight

Hyundai Steel provided details of its inland transportation calculation in the REQ (refer confidential attachment 24). At the visit we checked calculations on a sample basis and found them to be correct.

4.2.4 Warehousing and transportation to warehouse

The company included details of its methodology for calculating warehousing and transportation to warehouse expenses in the REQ (refer REQ confidential attachment 23). At the visit we checked the calculations on a sample basis and found them to be correct.

4.2.5 Handling and Other Expenses

At the visit we checked port charges and other expenses against the documentation.

4.2.6 Bank charges

At the visit we checked bank charges against the documentation.

4.2.7 Forward orders

In its REQ Hyundai Steel stated that **[CONFIDENTIAL TEXT DELETED – information about forward orders]**. The verification team sought clarification and was advised that **[CONFIDENTIAL TEXT DELETED – commercial arrangements]**.

As part of the plant visit we toured the finished inventory storage area for domestic and exported HRS and **[CONFIDENTIAL TEXT DELETED – information about forward orders]** goods destined for Australia.

4.3 Export sales verification – completeness of sales

We examined export sales listings to see if the EQR had presented a complete record of the sales. The verification process has been described in detail in section 5. We are satisfied that the sales listed in the Australian sales spreadsheet is a complete record of sales of the goods under investigation.

4.4 The exporter

The *Customs Act 1901* (Customs Act) does not define the “exporter”, however the Commission looks to the circumstances surrounding the exportation of the goods.

4.4.1 Direct exports: Channel 1.

For all direct export sales during the period of investigation we consider Hyundai Steel to be the exporter of GUC because Hyundai Steel:

- is the manufacturer of the goods;
- owned the goods at the time prior to export;
- is listed as the supplier on the bill of lading;

- directly invoices Australian customers for the goods;
- arranges and pays inland transport costs from the place of manufacture and packaging to port of export;
- arranges and pays for other associated freight and insurance costs depending on the specific sales terms;
- 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 purchaser of the goods; and
- received payment for the goods from the importer.

4.4.2 Indirect exports: Channel 2

We also consider Hyundai Steel to be the exporter for all indirect export sales to Australia because Hyundai Steel:

- is the manufacturer of the goods; and
- sells the goods to the intermediary with actual knowledge that the goods are destined for export to Australia.

We are satisfied that whilst Hyundai Steel remits all responsibility to the intermediaries for all administration of the export of the goods to Australia after the FOB point, the verification team considers;

[CONFIDENTIAL TEXT DELETED – names of customer/s and commercial arrangements].

4.5 The importer

4.5.1 Direct exports

We noted that Hyundai Steel's Australian customers:

- negotiate directly with Hyundai Steel for the purchase of goods;
- are named as the consignee on the bill of lading;
- arrange customs clearance, quarantine, logistics, and, depending on the terms of sale as negotiated, overseas freight and storage of the goods after they have been delivered to the Australian port; and
- take control of the goods on arrival and become the beneficial owner of the goods.

We consider that Hyundai Steel invoiced the Australian customers that are the beneficial owners of the goods at the time of importation and are therefore the importer of the GUC exported by Hyundai Steel during the POI.

4.5.2 Indirect exports

With respect to indirect exports made via **[CONFIDENTIAL TEXT DELETED – names of customer/s]**;

- These intermediaries retain beneficial ownership of the goods once the goods have passed the FOB point in Korea; and
- These intermediaries are thereafter responsible for the exportation of the goods to Australia **[CONFIDENTIAL TEXT DELETED – trading terms]**, and pursuant to independent sales negotiations **[CONFIDENTIAL TEXT DELETED – commercial arrangement]**.

As such, we consider Australian customers invoiced by these intermediaries to be the importer of these indirect exports made via the intermediary trading companies during the investigation period.

4.6 Arms length

In determining export prices and normal values, the legislation requires that the relevant sales are arms length transactions. Section 269TAA of the Customs Act outlines the circumstances in which the price paid or payable shall not be treated as arms length where:

- there is any consideration payable for in respect of the goods other than price;
- the price is influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- in the opinion of the Minister, the buyer, or an associate of the buyer, will, directly or indirectly, be reimbursed, be compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.

In respect of exports sales to Australia during the investigation period, 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, or an associate of the buyer, will directly or indirectly, be reimbursed, compensated or otherwise receive a benefit for, or in respect of, whole or any part of the price.

We therefore consider that all export sales to Australia during the investigation period were arms length transactions.

4.7 Export price – preliminary assessment

We consider that:

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

In relation to exports by Hyundai Steel to Australian customers, we recommend that the export price be determined under subsection 269TAB(1)(a), the price paid by the importer less transport and other costs arising after exportation.FOB export price calculations are at **confidential appendix 1**.

5 Verification of export sales and domestic sales to audited financial statements

5.1 This verification step included the domestic sales as well as the export sales.

In the REQ Hyundai Steel provided a sales income statement (refer REQ confidential attachment 10) and a turnover statement (refer REQ confidential attachment 11)

At the visit Hyundai Steel provided us with a detailed sales reconciliation information as we had covered in the visit agenda (refer **confidential attachment Visit 6**).

The reconciliation process is explained step by step below. It refers to the Australian sales database (**confidential attachment Visit 40**) and the domestic sales database (**confidential attachment Visit 41).**

Step 1: Breakdown of the total sales by product

Hyundai Steel presented a table 1 titled '*Breakdown of total sales by product'.*

Total company wide sales are 'broken down' by product types:

- H beam;
- Sections; and
- Other products (such as plate, hot rolled coil, and other coil)

The purpose of this step was to obtain the total sales of H beam and Sections as the goods being examined fall within that larger data set.

We checked that the company wide amounts matched to the audited financial statements. The total sales value for the IP was **[CONFIDENTIAL TEXT DELETED – number]** won. Hyundai Steel is a publicly listed company and submits quarterly financial reports. Each quarterly report is audited and must be submitted within 30 days of the end of each quarter.

Looking at the relevant profit and loss statements we confirmed the total company wide turnover for the IP. The P&L's related to the following periods:

1. 9 months ended September 2012;
2. 2012; and
3. 9 months ended September 2013

The subtraction of 1 from 2, and addition of 3 results in data pertaining to the IP.

H Beam: For H beam we examined the Sales Ledger and confirmed the total sales volumes and values for the 3 periods identified above, resulting in H Beam sales for the IP. The same check was undertaken for the Sections where amounts were checked to the sales report for the relevant period.

Data at this level was reported in the EQR as the sales for the 'sector'

Step 2: H Beam sales broken to exclude checked H Beam

Hyundai Steel presented a table 1-1 titled '*Breakdown of H Beam sales'.*

The total sales of H beam calculated in step 1 had included in it the sales of checked H Beam. Checked H Beam is identified at page 198 of the specifications.

We confirmed this classification by examining data for the quarter ended March 2013 where copies were taken from the sales report for that quarter. The code **[CONFIDENTIAL TEXT DELETED – account code]** identified sales of H Beam and code **[CONFIDENTIAL TEXT DELETED – account code]** identified sales of Checked H Beam.

We also checked data by asking Hyundai Steel to undertake a live search and to then display the results. We observed the data input request into the sales reporting system.

Step 3: Breakdown of total sales of sections into the component product codes.

Hyundai Steel presented a table 1-2 titled '*Breakdown of Sections sales'.*

Total sales of 'Sections' that had been reported in Step 1 consist of a wide range of products. In all there are **[CONFIDENTIAL TEXT DELETED – number]** product codes falling within that category. They are **[CONFIDENTIAL TEXT DELETED – product types and codes]**.

(Thus there are **[CONFIDENTIAL TEXT DELETED – number]** product codes in total – **[CONFIDENTIAL TEXT DELETED – number]** for Sections and **[CONFIDENTIAL TEXT DELETED – number]** for H Beam).

We checked data for the quarter ended March 2013 for each of these product codes recorded in the sales system and the calculations were correct.

We inquired about the particular product codes which include the goods being investigated. They are:

[CONFIDENTIAL TEXT DELETED – product types]. The remainder being **[CONFIDENTIAL TEXT DELETED – product types]** refer to other goods that are not being investigated.

<u>Step 4 Breakdown of total sales by market</u>

Hyundai Steel presented a table 2 titled '*Breakdown of total sales by channel'.*

The total sales of H Beams and Sections which had been shown in step1 are broken down between export sales and domestic sales. To clarify, these are sales of all goods within which would lie the goods the subject of the application.

For the IP the total sales volume was split into **[CONFIDENTIAL TEXT DELETED – number]**% domestic sales (**[CONFIDENTIAL TEXT DELETED – number]** MT) and **[CONFIDENTIAL TEXT DELETED – number]**% export sales (**[CONFIDENTIAL TEXT DELETED – number]** MT).

The split between markets used the normal sales reporting codes which are:

- **[CONFIDENTIAL TEXT DELETED – customer types and codes]**

5.1.1 Export Sales (by sales channel and by product type)

Hyundai Steel presented a table 2-1 titled '*Breakdown of export sales by sales type'.*

Total export sales of H Beams and Sections are **[CONFIDENTIAL TEXT DELETED – number]**MT with a value of **[CONFIDENTIAL TEXT DELETED – number]**KRW.

The export sales were broken down by **[CONFIDENTIAL TEXT DELETED – customer types]**. In addition the H Beam and Sections were broken down by product code. For export sales the product codes were **[CONFIDENTIAL TEXT DELETED – product codes]**.

To check these allocations we examined data within the quarter ended March 2013. We checked from the sales system for each product code the sales under Sales Code **[CONFIDENTIAL TEXT DELETED – account code]** for **[CONFIDENTIAL TEXT DELETED – customer type/s]** sales and under Code for **[CONFIDENTIAL TEXT DELETED – customer types]** sales under Sales Code **[CONFIDENTIAL TEXT DELETED – account code]**. Copies were provided of al sales reports.

5.1.2 Domestic Sales (by sales channel and by product type)

Hyundai Steel presented a table 2-2 titled '*Breakdown of Domestic Sales (Reporting Purpose) By Sales Type*'.

As in the case of export sales the domestic sales are broken down by product type. For domestic sales the product codes are **[CONFIDENTIAL TEXT DELETED – product codes]**.

To check these allocations we examined the quarter ended March 2013. We checked from the sales system for Sales Codes **[CONFIDENTIAL TEXT DELETED – product code]**. We observed this on line where if the country code KR is entered it produces the total domestic sales which, as noted, is the sum of sales codes **[CONFIDENTIAL TEXT DELETED – product codes]**. The sales volumes and sales amounts for the selected month in the quarter matched to the sales reports. Copies were provided of all sales reports.

For **[CONFIDENTIAL TEXT DELETED – account code]** we examined on line the sales for another quarter. We selected the quarter ended September 2013 and extracted for codes **[CONFIDENTIAL TEXT DELETED – product codes]** the domestic sales for each month of that quarter. When summing we checked that this equalled the data shown for that quarter in the summary table 2-2 *Breakdown of Domestic Sales (Reporting Purpose) By Sales Type*'.

5.1.3 Domestic Sales – excluding non examined product *descriptions*

Hyundai Steel presented a table titled 9 '*Breakdown of Domestic Sales (Reporting Purposes) by product type in product model'.* It will be recalled that table 2-2 titled

'*Breakdown of Domestic Sales (Reporting Purpose) By Sales Type*' showed all domestic sales (**[CONFIDENTIAL TEXT DELETED – number]**MT and a value of **[CONFIDENTIAL TEXT DELETED – number] KRW**).

The excluded sales were product codes **[CONFIDENTIAL TEXT DELETED – product codes and types]**. (Total **[CONFIDENTIAL TEXT DELETED – number]**MT)

The product codes which include the goods being examined are;

[CONFIDENTIAL TEXT DELETED – product codes and types]

At this stage the total sales of the products being examined were **[CONFIDENTIAL TEXT DELETED – number]** MT. This includes product which is not the size covered by the investigation.

5.1.4 Domestic Sales – excluding non examined product *sizes*

Hyundai Steel presented a table titled 10 *'Description of GUC (Reporting Purpose) by Size".*

That table had identified 'non GUC' domestic sales – the non GUC sales were **[CONFIDENTIAL TEXT DELETED – number]** MT. For the 'GUC; sales the total was **[CONFIDENTIAL TEXT DELETED – number]**MT which together make up the **[CONFIDENTIAL TEXT DELETED – number]**MT above.

The total value of sales of the 'non GUC' and the 'GUC' was **[CONFIDENTIAL TEXT DELETED – number]KRW**. This is the same sales amount as noted above in discussing Table 9. It is an amount which *includes the billing adjustments*.

The next step in the verification was to examine the quantification of the billing adjustments.

Hyundai Steel presented a table 10.1 "*Breakdown of Non GUC (Reporting Purpose) by Size During 2013Q*". This listed all Non GUC sales for the quarter, In identifying all non GUC sales the GUC sales had to be separated out (but this was not all GUC sales). For the non GUC sales we checked how the normal sales added to the billing adjustment (a negative figure) gave the amount shown in Table 10 for Non GUC. We noted how on a selected invoice the billing adjustment had been shown in the last line of the sales invoice and that the tax invoice showed the same total quantity and value.

5.1.5 Domestic Sales – excluding non examined product *size*s – showing how the total sales value is comprised of normal transactions and billing adjustments

Table 10 *'Description of GUC (Reporting Purpose) by Size"* showed for "GUC" the volume and value of sales for the IP.

As in the case of the non GUC sales the value *included* the billing adjustment. As part of confirming this Hyundai Steel presented a table 11 *'Breakdown of Domestic Sales (Reporting Purpose) by Sales Type".* The sales volume was the **[CONFIDENTIAL TEXT DELETED – number]**MT as noted above. The matching sales value was **[CONFIDENTIAL TEXT DELETED – number]**KRW. This table merely confirmed that the

normal transactions sales value when added to the billing adjustment resulted in the actual sales value amount of **[CONFIDENTIAL TEXT DELETED – number]**KRW

We asked Hyundai Steel to explain in more detail the billing adjustments and they presented in the course of the verification a document titled: '*Explanation of invoicing and billing adjustments for HRS".*

Hyundai Steel explained that billing adjustments are a normal feature of the steel industry in Korea.

We had noted that when examining the earlier investigation report No. 55 (referred to in section 3.2.5) that billing adjustments were accounted for in the normal value calculations at that time.

[CONFIDENTIAL TEXT DELETED – commercial arrangements] Hyundai Steel put considerable effort into identifying every billing adjustment so that the correct price of HRS could be established, separately from non-subject goods. Billing adjustments are identified in the sales reporting system where a value amount is recorded but there is no matching volume. The volume was shown as a **[CONFIDENTIAL TEXT DELETED – account details]**. More information on the verification of this billing adjustment follows.

[CONFIDENTIAL TEXT DELETED – commercial arrangements]

As part of examining the billing adjustments made to the 'GUC' sales, Hyundai Steel presented a table 11.1: *'Breakdown of Billing Adjustments Made during the 1st Quarter 2013'.*

We noted that the detailed listing of billing adjustment for the sampled quarter summed to **[CONFIDENTIAL TEXT DELETED – number]**KRW which was the same as the amount recorded in the Table 11 referred to above. Sample invoices again confirmed how the amounts were reflected.

We observed a sample set of invoices and noted that on the invoice there was a line identifying customer and a **[CONFIDENTIAL TEXT DELETED – account details]** quantity and the amount of the billing adjustment.

Data Base

In allocating the billing adjustments Hyundai Steel had gone to a considerable effort to allocate the adjustment to the same product code, for the same customer, and for the same month. The total billing adjustment to be allocated over the IP for the subject goods was **[CONFIDENTIAL TEXT DELETED – number]**KRW.

The data base is included within the visit folder titled '*Visit 38_20140221 Billing ADJ WS.xlsx*.

We worked through the calculations in the data base. Hyundai Steel provided at our request a written explanation for the record ('Billing Adjustment WS Method).

We observed that some billing adjustments were positive and some were negative.

The process of matching the billing adjustment to the same product code, customer, and month (for which a 'key' had been used in the data base combing these features) had the consequence that there was a remainder of **[CONFIDENTIAL TEXT DELETED – number]**KRW which could not be allocated - this was not allocated into the domestic sales spread sheet. The invoices for this unallocated amount were identified.

Attachments: Explanation of invoicing and billing adjustment for HRS (refer confidential attachment Visit 11)

Billing adjustment package (refer **confidential attachment Visit 10**)

Explanation of the method for allocating the billing adjustment to the goods under investigation (refer **confidential attachment Visit 12**)

Step 5 Breakdown of total sales by market

The commentary above had noted how at Step 4 under the heading 'Export Sales (by sales channel and by product type)' Hyundai Steel had presented a table 2-1 titled '*Breakdown of export sales by sales type'.* We had checked those details as noted.

This export sales data pertains to sales to all countries. Hyundai Steel presented a table 3 titled '*Breakdown of Export Sales (Reporting Purpose) By Countries*'.

It listed sales volume and value by country for each quarter of the IP and a total is shown for the IP. The total for all countries equalled the volume and value amounts that had been reported in step 4.

Sales to Australia for the IP had a volume of **[CONFIDENTIAL TEXT DELETED – number]**MT and a value of **[CONFIDENTIAL TEXT DELETED – number]**KRW.

5.1.6 Australian sales by product type

Hyundai Steel presented a table 4 titled '*Breakdown of Export Sales to Australia (Reporting Purpose) By Sales Type*'.

This table listed the sales by quarter for **[CONFIDENTIAL TEXT DELETED – account code]** (Channel) and **[CONFIDENTIAL TEXT DELETED – account code]** (H Beam). The export sales were broken between **[CONFIDENTIAL TEXT DELETED – customer types]**.

We examined sales to Australia for the quarter ended March 2013. From the sales reporting system entering the country code AU brings up sales to Australia. When entering the sales code **[CONFIDENTIAL TEXT DELETED – sales code]** for **[CONFIDENTIAL TEXT DELETED – customer types]** and product code CN and HB respectively data was checked for March. Likewise when entering code **[CONFIDENTIAL TEXT DELETED – sales code]** for **[CONFIDENTIAL TEXT DELETED – customer types]** and the product code **[CONFIDENTIAL TEXT DELETED – product code]** and **[CONFIDENTIAL TEXT DELETED – product code]** respectively data was checked to the sales reports.

We asked Hyundai Steel to enter on line the country code AU and for **[CONFIDENTIAL TEXT DELETED – account code]** and **[CONFIDENTIAL TEXT DELETED – account code]**. The sales volumes and values were written down for each month of the IP. We checked that the total Australian sales volume and value matched that date that had been tendered in the table 4 '*Breakdown of Export Sales to Australia (Reporting Purpose) By Sales Type*'.

The Australian sales listing must account for all shipments within the IP. Hyundai Steel explained that there had been sales accounted for within the IP which had been shipped outside the end of the IP. These sales had to be subtracted. The volume involved was **[CONFIDENTIAL TEXT DELETED – number]**MT.

At the start of the IP Hyundai Steel explained that some sales had not been accounted for in the sales ledger but the shipment date had been within the IP. These sales had to be added. The volume involved was **[CONFIDENTIAL TEXT DELETED – number]**MT.

Hyundai Steel presented a table 5 and 6 '*Breakdown of Shipment made during non POI but accounting made during POI ,*" providing this information. Supporting tax invoices were provided for a sample of these transactions.

5.1.7 Australian sales to account for goods that were not within the product scope

Hyundai Steel presented a table 7 titled '*Non GUC product with Size (mm)'*. Some invoiced sales to Australia within the IP included goods not covered by the investigation as well as GUC sales. Hyundai Steel had gone through all of these invoices and identified the non GUC goods. We checked the data therein on a sample basis. Non GUC sales totalled **[CONFIDENTIAL TEXT DELETED – number]**MT in the IP.

Outcome

When the Australian sales volumes and values as counted at step 5 (the volume of **[CONFIDENTIAL TEXT DELETED – number]**MT and value of **[CONFIDENTIAL TEXT DELETED – number]** KRW) is adjusted for the additions and subtractions identified above to get all shipments correctly recorded within the IP; and to account for non GUC goods, the Australian sales are **[CONFIDENTIAL TEXT DELETED – number]**MT with a sales value of **[CONFIDENTIAL TEXT DELETED – number]**KRW. We confirmed that this was the volume and amount presented in the Australian sales spread sheet in the EQR.

Data Base

We asked Hyundai Steel to provide the sales data base which lists all sales to Australia. It included details such as shipping date, invoice date, product name and product size description.

The data base is included within the visit folder and is titled '*Visit 40 Australian Sales from Sales database of Hyundai Steel System updated.xlsx.'*

We noted how Hyundai Steel had inserted columns identifying if sales had been within the POI and also had line by line examined whether the product size was within the GUC

range or not. This classification task had taken one person about **[CONFIDENTIAL TEXT DELETED –number]** weeks.

5.2 Conclusion on domestic and Australian sales reported in the questionnaire response

We are satisfied that the sales have been reconciled to the audited financial statements.

We are also satisfied that the domestic and export sales provided in the exporters sales spread sheets are a complete records of the sales of the goods under investigation. The billing adjustments are part of the normal sales process in Korea and these adjustments which are reported on the sales invoices have been correctly quantified and allocated.

6 COST TO MAKE & SELL

6.1 Background

Hyundai Steel produces the goods in its Inchon and Pohang plants. Each plant has **[CONFIDENTIAL TEXT DELETED – number]** mills with **[CONFIDENTIAL TEXT DELETED – number]** of the Inchon mills and **[CONFIDENTIAL TEXT DELETED – number]** of the Pohang mills producing the subject goods.

The Inchon plant has the following mills:

- **[CONFIDENTIAL TEXT DELETED – factory details]**

The Pohang plant has the following:

- **[CONFIDENTIAL TEXT DELETED – factory details]**

During the investigation period the company produced **[CONFIDENTIAL TEXT DELETED – number]**MT of the subject goods.

We sought an overall understanding of the production and cost accounting system before we got involved with the detailed verification.

- The production system generates monthly reports which are integral to the cost accounting system;
- The cost accounting system prepares the COM statement listing materials, labour and overheads;
- The cost allocation ledger prepares the COM by product types;
- The product COM's are an input into the Inventory Costing system – providing a record of the inventory cost;
- From that the COS (cost of sales) Statement is prepared; and
- The COS allows preparation of the Income Statement which is audited

The Income Statement, the COM statement, and the COS statement, are prepared monthly and annually. There is a quarterly audit and an annual audit.

As in the case of the sales. Hyundai had undertaken a significant amount of work to divide the total production into subject and non- subject goods.

6.2 Production process

Hyundai Steel advised that the production process in its Inchon and Pohang plants is similar.

As discussed in section 3.2.3 as part of the verification visit we visited the Inchon plant. The tour commenced at the scrap receiving yard, continued through the production plant and finished in the inventory yard.

Hyundai Steel explained its production process as follows:

1) Steel making process

The primary raw materials used for manufacturing the goods are purchased steel scrap and alloying elements such as manganese, nickel, chromium and vanadium. The steel scrap is sourced from manufacturing processes, old home appliances and buildings. At this stage the steel scrap is melted by electric arc heat furnace to remove impurities such as sulphur, phosphorus and excess carbon. After continuous casting, semi-products such as “blooms” and “beam-blanks” are produced.

2) Rolling process

The blooms/beam-blanks are transferred to the rolling process to adjust the shape, thickness and web/flange/size to satisfy the requirements of the model ordered by the customer.

Hyundai Steel advised that there is no by-product produced in these processes. Most of the steel scrap that results from producing the goods is reintroduced to the steel making process. Very few portions of steel scrap were sold to customers.

6.2.1 Cost accounting system

Hyundai Steel explained that its cost accounting system is based on an actual process cost accounting system. Costs are captured in the cost centres on an actual rather than a standard cost basis. At attachment 29 to the REQ is a diagram of the cost account system.

Hyundai Steel maintains specific item codes in order to calculate the cost of manufacture for the specific products. The item code includes the grades, web size group and thickness group information.

The costing system has direct cost centres for the manufacturing process and indirect cost centres for the supporting process. Hyundai Steel calculates all of the direct costs and indirect costs, allocated from indirect cost centres, to the manufactured product (including semi-product) on a monthly basis including amortised and depreciated costs. Hyundai Steel uses these costs for its cost of manufacturing (COM) statement.

Finished goods are transferred to the finished goods inventory movement ledger and these costs flow into the cost of sales (COS) statement. The COS is reported in the income statement.

6.3 Cost to make and sell

In its exporter questionnaire response Hyundai Steel provided cost to make and sell data for domestic sales (refer REQ confidential attachment 30) and export sales (REQ attachment 33) that included:

- product code (ABA, ABB, etc.);
- material costs;
- direct labour;
- manufacturing overheads;
- other costs;
- total cost to make;
- selling costs;

- administration costs;
- financial costs;
- delivery expenses;
- other costs;
- total cost to make and sell;
- production quantity; and
- unit cost to make and sell

6.4 Production volume

In the REQ Hyundai Steel provided a summary of production volumes for 2011, 2012 and the investigation period (refer REQ confidential attachment 28).

The company also provided in the REQ production volumes by model by quarter in the domestic CTMS spreadsheet (REQ confidential attachment 30) and the Australian CTMS spreadsheet (REQ confidential attachment 32).

Theoretical and actual weight

Hyundai Steel explained that all costing and pricing of Hyundai Steel is undertaken on theoretical weight basis and provided us with a copy of the theoretical weight calculation method as per the Korean standard, KS D 3502:2007 (refer **confidential attachment visit 16**).

The company noted that the REQ spreadsheets issued by the Commission had columns for both theoretical weight and actual weight, but because Hyundai Steel does not record actual weight that column was populated with the theoretical weight information (refer **confidential attachment visit 36**).

Hyundai Steel reiterated that it uses only theoretical weight for both production and sales purposes. No actual weight – in its true meaning, being the actual weight of the product – is measured for goods produced and sold by Hyundai Steel in either the domestic or Australian market.

Hyundai Steel further explained that it produces to meet the standard and does not try to meet the applicant's so-called "rolled light" standard. Because of that, the "theoretical weight" as already used by Hyundai Steel in its production and sales of the goods is the accurate, and the only, statistic available.

At the plant visit we spoke with the supervisor in Hyundai Steel's rolling control room about the tolerance differences between the Australian standard and the Korean standards. The factory technician in charge explained that regardless of standards, the factory aims to achieve the standard and thereby comply with the customer's order. We observed the production computer system showing "pluses" and "minuses" from the mean in each pass. We later asked for a report from that system of the number of 'passes' in the rolling mill for the good sold to Australia and the domestically sold equivalents. Hyundai Steel provided a copy of that report from the control section of the mill. We observed that the 'Pass Schedule' report showed the same number of passes i.e. the same rolling times between production for domestic use and production for export to Australia.

We also observed the rolling of the goods, the loading of the goods into the stock yard and the loading of goods from the stock yard onto the transport trucks and at no stage did we observe a weighing of the goods. We are satisfied that it is the commercial practice of Hyundai Steel to cost and sell the subject goods on the basis of the theoretical weight.

6.4.1 Completeness and relevance

The company provided us with a production volumes from the production system (refer **confidential attachment Visit 18**) that included:

- quarterly production quantities by plant and by product (POI);
- samples of monthly production by plant and by product for Pohang plant 2012 Q4 and Inchon plant 2013 Q3 (as per selections made by the Commission prior to the visit);
- complete set of screen shots from the production system showing plant, month, product code and quantity total as well as line by line , item code, size, grade and quantity; and
- printouts of production database spreadsheet for the Pohang plant 2012 Q4 and Inchon plant 2013 Q3.

Hyundai Steel explained that the production database spreadsheet was compiled by the company for the purposes of this investigation. The company explained the columns that were exported directly from the production system and the columns that were added by the company to filter good types and sizes that are the subject of the investigation.

The company also walked us through the “live” production system. We undertook a live search of the production system and were able to match the results from a search query with the screen shot included in the production volumes provided.

The methodology as explained by the company for determining the subject goods was undertaken on a line by line basis by filtering item codes on the basis of product name and product size. We reviewed the production database spreadsheet and traced the link to the production volumes reported in REQ. We are satisfied that the reported figures are complete and relevant.

6.4.2 Verification of volumes

Hyundai Steel provided us with a finished goods inventory movement ledger for cost reconciliation during 2012 package (refer **confidential attachment Visit 19**) that included:

- summary of production quantities and cost of manufacture (COM) amounts for each plant by factory, by product and by subject and non-subject goods for the calendar year 2012 and the 9 months ending September 2012; and
- screen shots from the finished goods inventory ledger to support figures in the summary;

and a finished goods inventory movement ledger for cost reconciliation for the 9 months ending September 2013 (**confidential attachment Visit 20**) that included:

- summary of production quantities and cost of manufacture (COM) amounts for each plant by factory, by product and by subject and non-subject goods for the 9 months ending September 2013; and
- screen shots from the finished goods inventory ledger to support figures in the summary.

At the visit the company provided English translations of the field labels in the goods inventory ledger screen shots. We examined the data provided and were able to trace the figures displayed in the inventory ledger screen shots to the production quantities summary data.

We have reviewed the data provided and are satisfied that we can match production volume for investigation period in production volumes in the REQ spreadsheet (REQ confidential attachment 28) to total production volume for subject goods as per the inventory movement ledger and the production database (refer **confidential attachment Visit 44**).

6.5 Manufacturing costs

6.5.1 Completeness and relevance

The company provided us with a completeness and relevance by cost reconciliation package (refer **confidential attachment Visit 17**) that included:

- worksheets reconciling the cost of manufacturing (COM) to the cost of sales (COS) in the audited Income statement for 2012;
- COM by plant and product for 2012;
- COM worksheets by plant and subject product for the calendar year 2012, 9 months ending September 2012 and 9 months ending 2013;
- worksheets reconciling COM by plant and product for the subject goods for the POI;
- CTM worksheet for domestic and export sales to Australia for the POI;
- audited non-consolidated income statement 2012 (Korean version and published English translation);
- COS statement 2012 (we noted that the COM statements for each plant itemised material (**[CONFIDENTIAL TEXT DELETED – number]** categories), labour (**[CONFIDENTIAL TEXT DELETED – number]** categories) and overhead costs (**[CONFIDENTIAL TEXT DELETED – number]** categories));
- screen shot of trial balance for material, labour and overhead for 2012;
- COM Statements for the Inchon and Pohang plants for the 9 months ending September 2012 and 2013;
- summary of finished goods movement inventory for the POI supported by screen shots of the Finished goods Inventory movement ledger for Inchon and Pohang for sample month (June 2013);
- summary production volumes and COM amount for goods from the Inchon and Pohang Plant for the POI that are not the subject goods; and
- worksheet showing CTM and production quantity for the POI of third country sales.

The company explained its methodology for calculating the cost of manufacturing the subject goods for the POI with reference to the completeness and relevance package. We were able to follow the links of the income and cost of sales figures in the audited income statement through to the COS and COM statements and to CTM total in the domestic sales production and Australian sales production spreadsheets.

We are satisfied that the company has not included costs from the Inchon and Pohang plants that relate to non-subject goods.

6.5.2 Verification of costs to source documents

Prior the visit the Commission requested that the company provide supporting evidence for the CTMS calculations for product code ABB, 2012Q4, Pohang Plant and product code ACB, 2013 Q3.

At the visit the company provided us with the following CTMS calculation packages:

- product code 2012Q4_ABB, Pohang Plant (refer **confidential attachment Visit 25**); and
- product code 2013 Q3_ACB, Inchon Plant (refer **confidential attachment Visit 26**).

Each package included:

- costing sheet for the product code for the period by plant, by item code, production quantity and manufacturing cost;
- worksheets showing calculation of cost factor, manufacturing cost calculation and unit CTMS calculation;
- extracts from the production database for sample item codes supported by screen shots from the production system, the finished goods inventory movement ledger, WIP movement ledger, WIP Cost calculation ledger, semi product movement inventory ledger, and semi-product cost calculation ledger.

The company explained to us that the quarterly CTM figures for each product code in the domestic and Australia CTMS spreadsheets were calculated based on the quarterly production quantities and manufacturing cost from the production system whereby material, labour and overhead costs were apportioned based on the ratios for these items in the cost of manufacturing statement (refer confidential attachment Visit 17) and the general selling and administration costs were based on the ratios in the audited income statement for 2012. Further discussion on the SGA calculation is at section 6.6.

Product code ABB, 2012Q4, Pohang Plant

The company provided us with a cost calculations package for item code **[CONFIDENTIAL TEXT DELETED – product code]** (grade **[CONFIDENTIAL TEXT DELETED – production arrangement]**) and **[CONFIDENTIAL TEXT DELETED – product code]** (**[CONFIDENTIAL TEXT DELETED – production arrangement]**), refer **confidential attachment Visit 25.**

Product code ACB, 2013 Q3, Inchon Plant

The company also provided us with a cost calculations package for item **[CONFIDENTIAL TEXT DELETED – product code]** (grade **[CONFIDENTIAL TEXT DELETED – production arrangement]**), refer **confidential attachment Visit 26).**

For each package the company explained its cost calculation methodology. Commencing with the finished goods inventory (step 1) we traced quantity and amount to the WIP inventory (step 2), cost calculation WIP (step 3), semi product inventory (step 4) and through to the cost calculation steel making (step 5).

Yield losses

We noted that the WIP inventory movement ledger (step 2) reported the yield loss from the rolling mill and that the semi product movement inventory ledger (step 4) reported the yield losses from the steel making process.

Below is a summary of the yield losses for the three items being traced.

Item Code	Grade	Steel making yield loss	Rolling mill yield loss
[CONFIDENTIAL TEXT DELETED – product codes and numbers]			

Hyundai Steel advised that the yield loss situation **[CONFIDENTIAL TEXT DELETED – production details]** We are satisfied that yield losses are accounted for in their costing system and that the losses are reasonably calculated.

Steel scrap

Steel scrap is the largest material cost for the production of HRS.

Prior to the HRS exporter visits, exporter teams met with the Australian industry. A record of this meeting is on the EPR, refer document number 25. The Australian industry raised the issue that scrap is a significant cost for Asian HRS producers and requested that the Commission test the price for scrap sourced from related parties. Following the meeting the Australian industry submitted a briefing in relation to Hyundai Steel, refer Commission electronic public record (EPR) document number 30.

At the visit the company provided us with a material cost for steel scrap package (refer **confidential attachment Visit 28**) included:

- worksheet showing material costs by classification and month (Inchon plant for the 9 months ending September 2013 and Pohang plant for the 3 months ending December 2012);
- worksheet listing cost centre steel scrap input details by imported or domestic (201307 for Inchon plant and 201210 for Pohang);
- scrap inventory movement ledger for sample month (July 2013 for Inchon and October 2012 for Pohang);

- purchased imported scrap details report showing vessel name, country, grade, quantity and amount for sample month (July 2013 for Inchon and October 2012 for Pohang);
- scrap input details ledger for sample month (July 2013 for Inchon and October 2012 for Pohang); and
- commercial documents and payment details.

The company explained how the amounts from the COM Statement could be linked to the inventory movement ledger and the amounts and quantities in the ledger could be traced to the commercial invoices.

As requested prior to the visit the company provided us with a listing of scrap purchases from related companies for the POI (refer **confidential attachment Visit 27**). The company explained that it calculated a rate of **[CONFIDENTIAL TEXT DELETED – number]**% from related suppliers by dividing related company purchases over total material costs as per the COM Statement and. We have recalculated the figure

During the meeting the company provided us with sample invoices and corresponding payments for purchases from **[CONFIDENTIAL TEXT DELETED – names of suppliers]**. We were able to match the invoice and payment figures to the extract from the purchasing database.

Hyundai steel provided us with a monthly summary of scrap purchases for the Inchon and Pohang plants during the investigation period. The summary showed quantity, price and unit value for imported and domestic scrap (refer **confidential attachment Visit 34)**. The scrap price is on a CFR basis (i.e. material cost and ocean freight) together with total additional inbound costs of L/C open charge, customs clearance cost, unloading cost, port usage charge, and in-house costs, including in-house transport.

Following our meeting with the company we requested and were provided with additional invoices (4 invoices for imported scrap for Inchon and for Pohang and 2 invoices for domestic scrap for Inchon and for Pohang) for the purpose of increasing our sample selection (refer **confidential attachment Visit 42**).

Ferro alloy

Ferro alloys are added to steel during the manufacturing process to achieve particular qualities such as tensile and yield strength. The company provided us with a material cost for ferro alloy package (refer **confidential attachment Visit 29**) that included:

- worksheet showing material costs by classification (Inchon plant for the 9 months ending September 2013 and Pohang plant for the 3 months ending December 2012);
- worksheet showing ferro alloy costs by month during the POI;
- ferro alloy cost inventory movement summary (POI);
- purchase details by supplier by month (POI);
- ferro alloy inventory movement ledger for sample month (July 2013 for Inchon and October 2012 for Pohang);
- Si-Mn cost centre report for sample month (201307 for Inchon and 201210 for Pohang); and
- sample tax and sales invoices.

The company explained the documents provided and we were able to trace ferro alloy quantities and amounts from the COM through the inventory movement ledger, cost centre reports and down to commercial invoices.

Labour cost

Hyundai Steel provided us a labour cost package (refer **confidential attachment Visit 30)** that includes:

- worksheet showing wages by month (Inchon plant for the 9 months ending September 2013 and Pohang plant for the 3 months ending December 2012);
- worksheet showing cost centre wage costs for sample month (A201307 for Inchon plant and A201210 for Pohang);
- worksheet showing total labour cost for large section rolling cost centre (**[CONFIDENTIAL TEXT DELETED – cost account code]** for Inchon and **[CONFIDENTIAL TEXT DELETED – cost account code]** and **[CONFIDENTIAL TEXT DELETED – cost account code]** for Pohang);
- sample labour voucher details; and
- transaction slips showing monthly and hourly wages for selected sample.

The company explained the documents provided and we were able to trace the wage figure in the plant COM Statement to the wages worksheet, labour vouchers and transaction slips.

Electricity

Electricity is the largest overhead cost. We were provided with an electricity cost package (refer **confidential attachment Visit 31**) that includes:

- worksheet showing monthly electricity costs (Inchon plant for the 9 months ending September 2013 and Pohang plant for the 3 months ending December 2012);
- worksheet showing cost centre electricity costs for sample month (A201307 for Inchon plant and A201210 for Pohang);
- electricity cost my mill sheet (**[CONFIDENTIAL TEXT DELETED – cost account code]** for Inchon and **[CONFIDENTIAL TEXT DELETED – cost account code]** and **[CONFIDENTIAL TEXT DELETED – cost account code]** for Pohang);
- sample general transaction slip showing payment;
- sample **[CONFIDENTIAL TEXT DELETED – names of suppliers]** invoices; and
- income vouchers showing peak time demand adjustment drawback.

Hyundai explained the documents provided and we were able to trace electricity costs from the COM Statements (refer confidential attachment Visit 17) down to the sample electricity invoices and payments. We were also able to follow the treatment of drawback adjustments.

Depreciation cost

Depreciation is **[CONFIDENTIAL TEXT DELETED – proportion]** overhead cost. Hyundai Steel provided us with a depreciation cost package (refer **confidential attachment Visit 32**) that included:

- worksheet showing monthly depreciation for tangible assets (Inchon plant for the 9 months ending September 2013 and Pohang plant for the 3 months ending December 2012);
- worksheet showing cost centre depreciation costs for sample month (A201307 for Inchon plant and A201210 for Pohang);
- worksheet showing Machinery depreciation costs by cost centre (**[CONFIDENTIAL TEXT DELETED – cost account code]** for Inchon and **[CONFIDENTIAL TEXT DELETED – cost account code]** for Pohang);
- depreciation voucher details for sample month; and
- depreciation ledger details for sample.

The company explained the depreciation items and we were able to trace depreciation costs from the COM Statements (refer confidential attachment Visit 17) to the depreciation ledger.

6.6 Selling, general and administration (SG&A) expenses

As part of its exporter questionnaire response Hyundai Steel provided an SGA cost calculation worksheet (refer REQ confidential attachment 32).

6.6.1 Completeness and relevance

At the visit Hyundai Steel provided us with an administration, selling, general and finance expense package (refer **confidential attachment Visit 24**). The package included:

- copy of the SGA calculation worksheet as provided in REQ (refer REQ confidential attachment 32);
- extracts from the audited non-consolidated Income statement for 2012 plus notes relating to selling and administrative expenses, gains and losses on financial assets and other gains and losses expenses. Full documents were provided in the REQ (refer REQ confidential attachment 7); and
- a translated copy of audited financial statements for the 9 months ending September 2012 and 2013. The Korean and English translation versions were provided in REQ (refer REQ confidential attachment 9).

At the visit Hyundai Steel explained how they calculated a SG&A expenses for the period of the investigation by subtracting expenses for the 9 months ending September 2012 (audited) from the figures for the 12 months ending December 2012 (audited) and adding expenses for the 9 months ending September 2012 (audited).

For each expense the company noted (line by line) those that related to the sale of HRS and if so whether they related to the domestic and/or export sales of HRS. The company explained that it excluded expenses that were not related to the sale of HRS, such as losses on the disposal of investment property.

Hyundai Steel explained that each of the expenses was allocated on the basis of the sales amount.

We have reviewed the SG&A worksheet for the period of investigation and are satisfied that it matches the audited income statements provided as part of the REQ.

We are satisfied that the expenses that have been excluded from the calculation are not related to the sale of HRS and that the separate calculations for domestic SG&A expenses and export SG&A expenses are reasonable.

6.6.2 Verification to source documents

We were able to trace the expense amounts in the 2012 for selling and administrative expenses, gain (loss) on financial assets and liabilities and other gains and losses to Notes 28, 29 and 30 respectively of the audited non-consolidated statements for the year ending 31 December 2012.

6.7 Costs to make and sell - conclusion

We consider that Hyundai Steel's costs to make and sell data is a reasonably complete, relevant and accurate reflection of their actual costs to make and sell HRS during the investigation period.

We consider cost to make and sell information was verified to allow the determination of a constructed normal value under section 269TAC(2)(c) of the Act and to assess ordinary course of trade under section 269TAAD of the Act.

7 DOMESTIC SALES

7.1 General

A domestic sales team manages the sales of the goods on the domestic market. The domestic market has two selling channels to make domestic market sales.

Channel 1

In the REQ, Hyundai Steel stated that sales via channel 1 are predominately to **[CONFIDENTIAL TEXT DELETED – type of customer]**. In this case the goods were then **[CONFIDENTIAL TEXT DELETED – type of customers]**.

Channel 2

For channel 2 sales, Hyundai Steel stated that sales **[CONFIDENTIAL TEXT DELETED – type of customers]**

7.2 Domestic sales verification

7.2.1 Domestic sales listing

In its REQ, Hyundai Steel provided a two domestic sales listing that included line-by-line information relating to:

- customer;
- Related;
- level of trade;
- model;
- grade;
- shape;
- dimension;
- alloy;
- product code
- finish;
- imperial or metric;
- invoice number, date of invoice and date of sale;
- delivery and payment terms;
- actual weight;
- gross and net invoice values
- billing adjustment; and
- various domestic charges and costs.

The first sales listing was for the four product groupings, **[CONFIDENTIAL TEXT DELETED – product codes]**, and listed line-by-line data relating to **[CONFIDENTIAL TEXT DELETED – number]** transactions with a volume of **[CONFIDENTIAL TEXT DELETED – number]** MT comprising **[CONFIDENTIAL TEXT DELETED – number]** grades of subject goods.

The second sales listing was for **[CONFIDENTIAL TEXT DELETED – number]** product groupings (**[CONFIDENTIAL TEXT DELETED – product codes]**) and listed line-by-line data relating to **[CONFIDENTIAL TEXT DELETED – number]** transactions with a volume of **[CONFIDENTIAL TEXT DELETED – number]**MT and comprising **[CONFIDENTIAL TEXT DELETED – number]** grades of goods.

Section 3 earlier in this report provided an explanation of these different product groupings. The product codes were input manually into the detailed sales listing.

In its REQ Hyundai Steel stated that the selling prices to the customers were negotiated on a transaction by transaction basis in consideration of market circumstances, competiveness with domestically produced and imported goods, demand-supply conditions, volume, customer relationships and other factors.

The REQ also noted that prices **[CONFIDENTIAL TEXT DELETED – levels of sales]**.

Prior to the visit the verification team analysed the monthly weighted average selling prices (of product groupings **[CONFIDENTIAL TEXT DELETED – product codes]**) to each customer and noted that during the investigation period selling prices to **[CONFIDENTIAL TEXT DELETED – types of customers and price relativities]**.

At the visit the company provided us with its own analysis of price comparisons between related party transactions (refer **Confidential Attachment Visit 33**).

7.3 Verification of sales to source documents

7.3.1 Sampled invoices

Prior to the visit, we requested that Hyundai Steel provide supporting documents relating to nine domestic sales of the GUC to its customers in Korea.

The nine invoices selected were as follows:

Customer	Invoice Number

[CONFIDENTIAL TEXT DELETED – names of customer/s and numbers]

Source documents showing (where appropriate):

- Purchase order;
- Order confirmation;
- Commercial invoice;
- Mill test certificate;
- Evidence of payment;
- Inland freight invoice and evidence of payment; and
- Discount and rebate source documents (where applicable)

7.3.2 Domestic sales verification – reconciliation to source documents

Prior to the visit, we requested that Hyundai Steel provide supporting documents for nine sales to domestic customers selected by Customs and Border Protection.

Hyundai Steel provided source document bundles for each of these shipments during the verification, containing the:

- Purchase order information captured in the sales information system;
- Sales information captured in the sales information system;
- Mill test certificate;
- Sales invoice;
- Tax invoice;
- Payment details captured in the accounts information system; and
- bank statement showing proof of payment

We were then able to match the sales information in the source documents to the data contained in the detailed sales spreadsheet. These document bundles form **confidential attachment Visit 46**).

7.3.3 Domestic sales verification – completeness of sales

We examined domestic sales listings to see if the EQR had presented a complete record of the sales. This process has been examined in detail in section 5. We are satisfied that the sales listed in the domestic sales spreadsheet is a complete record of the sales of the goods under investigation

7.3.4 Accuracy of sales – conclusion

As explained in section 5 we note that the billing adjustments are part of the normal sales process in Korea and these adjustments which are reported on the sales invoices have been correctly quantified and allocated. We are satisfied that the domestic sales listing is complete and accurate.

7.4 Arms length

In respect of domestic sales during the investigation period, 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, or an associate of the buyer, will directly or indirectly, be reimbursed, compensated or otherwise receive a benefit for, or in respect of, whole or any part of the price.

We therefore consider that all export sales to Australia during the investigation period were arms length transactions

7.5 Volume of sales and ordinary course of trade

As part of applying the OCOT test the question arose whether to apply it to the selected distributor trade level, or across all domestic sales.

Table 1 below shows that part of the OCOT test which examined the proportion of unprofitable sales. It relates to all domestic sales **[CONFIDENTIAL TEXT DELETED – sales levels]**.

[CONFIDENTIAL TEXT DELETED – information about profitability of sales]

TABLE 1: Results of profitability test – All sales

[CONFIDENTIAL TEXT DELETED – information about profitability of sales]

Table 2: OCOT sales – Sufficiency test

[CONFIDENTIAL TEXT DELETED – information about profitability of sales]

Tables 3 and 4 repeat the tests **[CONFIDENTIAL TEXT DELETED – sales levels]**.

As noted we consider that the tests are to be applied to both trade levels. So, had the percentage of unprofitable sales been **[CONFIDENTIAL TEXT DELETED – number]** % and not **[CONFIDENTIAL TEXT DELETED – number]** % as above then all sales of that model would have been used, as is the case for the other models.

Table 3: Results of profitability test – [CONFIDENTIAL TEXT DELETED – sales level]

[CONFIDENTIAL TEXT DELETED – information about profitability of sales]

Table 4: OCOT sales – the Sufficiency test – [CONFIDENTIAL TEXT DELETED – level of sales]

[CONFIDENTIAL TEXT DELETED – information about profitability of sales]

Of the **[CONFIDENTIAL TEXT DELETED – number]** chosen most comparable models the percentage **[CONFIDENTIAL TEXT DELETED – information about profitability of sales]**

This means in accordance with the Commission's procedures **[CONFIDENTIAL TEXT DELETED – information about profitability of sales]**.

8 THIRD COUNTRY SALES

In its REQ, Hyundai Steel provided a summary of its sales of HRS to third countries (refer REQ confidential attachment 26).

As we considered that we were in possession of enough verified information from the REQ and the verification visit to calculate normal values for HRS using domestic sales or a construction method, we did not undertake verification of third country sales data.

We did not discuss Hyundai Steel's third country sales during the visit.

9 ADJUSTMENTS

To ensure proper comparison of normal values with export prices we considered the adjustments discussed in this section of the report.

9.1 Level of trade

The domestic sales listing showed sales to **[CONFIDENTIAL TEXT DELETED – level of sales]**. We examined the prices for the same models between the **[CONFIDENTIAL TEXT DELETED – number]** trade levels for each month of the IP. We noted that there was a difference in prices between the **[CONFIDENTIAL TEXT DELETED – number]** trade levels. Also, the price list showed how pricing was negotiated on a different basis between the **[CONFIDENTIAL TEXT DELETED – number]** trade levels.

Therefore, we concluded that it is appropriate to determine normal values from the sales **[CONFIDENTIAL TEXT DELETED – level of sales]**, not the entire population of domestic sales.

9.2 Positive adjustments

Merchandise Difference

This report has identified the goods that are considered to be the most comparable goods to the grade/model 300 that has been exported to Australia by Hyundai Steel.

There is a small difference quantified in the cost of production between the selected grades and the 300 exported grade. The difference has been quantified to be **[CONFIDENTIAL TEXT DELETED – number]** won /MT. This cost difference has, as required in the dumping manual, been adjusted by applying the gross margin to that cost difference in working out what may be the estimated price effect of that cost difference, The margin we have added is **[CONFIDENTIAL TEXT DELETED – number]**% taken from domestic sales of the like goods (not all sales of all goods from the income statement). This makes the adjustment **[CONFIDENTIAL TEXT DELETED – number]** won/MT.

Export Inland freight and loading and unloading charges

Inland freight from factory to port is part of the loading and unloading expenses. We verified these expenses as part of examining export sales. We examined the tax and sales invoices relating to loading and unloading; the detailed schedule relating to loading and unloading charges that was generated by **[CONFIDENTIAL TEXT DELETED – name of supplier]** the transport operator; the contract between Hyundai Steel and **[CONFIDENTIAL TEXT DELETED – name of supplier]** which identified the unit loading and unloading expenses; and the bank statement.

Export credit expense

All of Hyundai Steel's domestic sales of the goods were made on payment terms of **[CONFIDENTIAL TEXT DELETED – commercial arrangements]**.

As noted earlier in the report Australian sales of the goods were made **[CONFIDENTIAL TEXT DELETED – commercial arrangements]** terms. The credit terms varied for **[CONFIDENTIAL TEXT DELETED – commercial arrangements]** sales but typically were about **[CONFIDENTIAL TEXT DELETED – commercial arrangements]** days. Hyundai Steel reported the actual credit expenses and the calculation method was verified to the bank letter of credit. Bank charges were also included. The credit expenses were worked out as a unit expenses based on the quantity of sales of each invoice.

There are no adjustments required for warranty and advertising expenses on export sales.

No adjustment was made for any additional cost that may be associated with roll changes for export. There is no evidence it is material or affected price. It would be part of the COP of the exported goods and we have made an upward adjustment for the whole of the COP difference between the exported goods and the domestically sold goods used for normal value (see above).

9.3 Negative adjustments

Domestic Inland freight

Each mill keeps an inland freight report for each shipment, identifying customer, shipped quantity, shipment date, and the total inland fright expenses. We verified the calculation method and the calculation of the unit inland freight expense for domestic sales.

Domestic credit expenses

Domestic sales are made using **[CONFIDENTIAL TEXT DELETED – commercial arrangements]**. Hyundai Steel can **[CONFIDENTIAL TEXT DELETED – commercial arrangements]**. A tax invoice is issued at the end of each month covering all of the shipments to the customer for that month. **[CONFIDENTIAL TEXT DELETED – commercial arrangements]** The average shipments days was calculated to be average credit period. All of Hyundai Steel's domestic sales of the goods were made on payment terms of **[CONFIDENTIAL TEXT DELETED – commercial arrangements]** days, and the credit expenses were worked out using Hyundai's short term borrowing rate and the **[CONFIDENTIAL TEXT DELETED – number]** days payment terms based on the contract. We checked the calculations.

Domestic warehouse and transport to warehouse expenses

About **[CONFIDENTIAL TEXT DELETED – number]**% of domestic sales are made via a warehouse where they incur a warehouse storage expenses and a transport expense to the warehouse. The shipment reports identified the 'Yard Code' which meant all sales via a warehouse could be identified.

Hyundai provided a schedule of all of the warehouse and transport expenses for the investigation period, for sales from the two plants separately. We checked the total warehousing amounts and the total transport to warehouse amounts for selected months in the period, and the calculation of the unit expenses per MT from those amounts and were satisfied about their accuracy.

Domestic advertising expenses

In verifying the selling, general and administrative expenses it was observed that advertising expenses were incurred in respect of domestic sales.

We quantified the advertising expenses to be **[CONFIDENTIAL TEXT DELETED – number]**% of the sales value. We included a downward adjustment to normal value for the domestic advertising expenses.

10 NORMAL VALUE

10.1 Normal value assessments

As discussed in the domestic sales section of this report, Hyundai Steel sold HRS grades on the domestic market that were the most comparable to the models exported to Australia. **[CONFIDENTIAL TEXT DELETED – information about profitability of sales]**. For all models there was a sufficient volume of sales for normal values.

We used the domestic selling prices of the most comparable models as the basis of normal value in terms of section 269TAC(1) of the Act.

In terms of s. 269TAC(8) of the Act we consider that the adjustments are required for inland freight, credit expenses, and warehousing and storage. Concerning trade level we recommend that the distributor sales be used.

Normal value calculations based on domestic sales are at **confidential appendix 1**.

11 DUMPING MARGIN

We compared the weighted average of export prices over the whole of the investigation period with the weighted average of corresponding normal values over the whole of that period and found that the goods exported to Australia were dumped at a margin of 2.53%.

The dumping margin calculations are at **confidential appendix 2.**

12 APPENDICES AND ATTACHMENTS

Appendices	
Confidential Appendix 1	Domestic sales, level, and ordinary course of trade calculations
Confidential Appendix 2	Export sales and dumping margin calculations

Report Attachments

Document	Type	Visit No
Production Process	HC	Visit 1
Like Goods	HC	Visit 2
Ownership	HC	Visit 3
Related parties	HC	Visit 4
Accounting structure	HC	Visit 5
Sales reconciliation	HC	Visit 6
Export sales documents	HC	Visit 7
Price List	HC	Visit 8
T/T payment evidence	HC	Visit 9
Billing adjustment	HC	Visit 10
Explanation of invoicing and billing adjustment (Moulis)	HC/E	Visit 11
Billing adjustment WS method	HC	Visit 12
Tolerance & weights (Moulis)	HC/E	Visit 13
Rolling	HC	Visit 14
S/T interest rate	HC	Visit 15
Theoretical weight calculation	HC	Visit 16
Completeness & relevance by cost reconciliation	HC	Visit 17
Production volumes	HC	Visit 18
FG inventory movement - 2012	HC	Visit 19

FG - inventory movement - Jan to Sept 2013 (2012)	HC	Visit 20
Domestic sales for NV purposes (Moulis)	HC/E	Visit 21
Merchandise difference	HC	Visit 22
Steel plate extract from catalogue	HC	Visit 23
Administrative, selling, general & finance expense	HC	Visit 24
Sample CTMS - 2012Q4 ABB - Pohang plant	HC	Visit 25
Sample CTMS - 2013 Q3 ACB - Inchon plant	HC	Visit 26
Scrap purchases from related parties	HC	Visit 27
Material cost for steel scrap	HC	Visit 28
Material cost for ferro alloy	HC	Visit 29
Labour cost	HC	Visit 30
Electricity	HC	Visit 31
Depreciation	HC	Visit 32
Domestic related party transactions (Moulis)	HC/E	Visit 33
Summary scrap steel invoices	HC	Visit 34
Product ID sticker for HRS export	E	Visit 35
Ocean freight and wharfage - export	E	Visit 36
Warehousing and transport to warehouse - export	E	Visit 37
Billing adjustment worksheet	E	Visit 38
Cost to make and sell worksheet	E	Visit 39
Australian sales for sales database of Hyundai system_updated	E	Visit 40
Domestic sales for sales database of Hyundai system_updated	E	Visit 41
Scrap invoices	E	Visit 42
Tolerance differences	E	Visit 43
Reconciliation of production volumes	E	Visit 44
Yearend adjustment explanation	E	Visit 45
Domestic sales documents	HC	Visit 46