



**Australian Government**

**Australian Customs and  
Border Protection Service**

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

**EXPORTED FROM**

**JAPAN, THE REPUBLIC OF KOREA, MALAYSIA AND  
TAIWAN**

**EXPORTER VISIT REPORT**

**CHINA STEEL CORPORATION**

**THIS REPORT AND THE VIEWS OR RECOMMENDATIONS CONTAINED  
THEREIN WILL BE REVIEWED BY THE CASE MANAGEMENT TEAM AND  
MAY NOT REFLECT THE FINAL POSITION OF CUSTOMS AND BORDER  
PROTECTION**

**AUGUST 2012**

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**1 CONTENTS**

2	BACKGROUND .....	4
2.1	Background to the current investigation .....	4
2.2	Purpose of meeting .....	4
3	COMPANY INFORMATION.....	7
3.1	Company background .....	7
3.2	Commercial operations .....	7
3.2.1	General .....	7
3.2.2	Production process .....	7
3.3	Accounting .....	8
4	GOODS UNDER CONSIDERATION AND LIKE GOODS.....	9
4.1	The goods .....	9
4.2	Tariff classification .....	9
4.3	Like Goods .....	9
4.3.1	General .....	9
4.3.2	Model identification .....	10
4.3.2	'Like goods' .....	11
4.3.3	Conclusion on like goods .....	11
5	EXPORT SALES.....	12
5.1	General .....	12
5.2	Export sales process .....	12
5.3	Price .....	12
5.4	Export sales terms.....	13
5.3.1	Discounts, rebates and allowances .....	13
5.5	Export sales verification .....	13
5.3.1	Completeness and relevance .....	13
5.4.1	Accuracy .....	15
5.4.4	Terminal handling charges and loading fees.....	15
5.4.5	Customs brokerage fee .....	16
5.4.6	Bank charges .....	16
5.4.7	Other [CONFIDENTIAL TEXT DELETED ] related export charges .....	16
5.6	The exporter .....	17
5.7	The importer .....	17
5.8	Arms length transactions .....	18
5.9	Export price preliminary assessment .....	18
6	DOMESTIC SALES .....	19
6.1	General .....	19
6.2	Domestic sales process .....	19
6.3	Price .....	19
6.4	Domestic sales terms .....	19
5.3.1	Discounts, rebates and allowances .....	20
6.5	Domestic Sales Verification .....	21
6.5.2	Completeness and Relevance .....	21
6.5.1	Accuracy .....	21
6.5.3	Inland freight .....	22
6.5.4	Date of sale .....	22

## Public Record Version

6.6	Arms length transactions.....	24
6.7	Ordinary course of trade .....	24
6.8	Volume and suitability of domestic sales .....	25
7	<b>COST TO MAKE &amp; SELL.....</b>	<b>26</b>
7.1	Approach to verification.....	26
7.2	Upwards verification to audited financial accounts .....	26
7.3	CSC's costing methodology .....	27
7.4	Downwards verification to source documents.....	29
7.5	Selling, general and administration expenses .....	31
7.6	Conclusion.....	31
8	<b>ADJUSTMENTS .....</b>	<b>33</b>
8.1	Inland freight.....	33
8.2	Terminal handling charges and loading fees .....	33
8.3	[CONFIDENTIAL TEXT DELETED] related expenses .....	33
8.4	CGST service fee .....	33
8.5	Bank charges .....	33
8.6	Domestic sales expense .....	34
8.7	Credit terms .....	34
8.8	Timing adjustments .....	34
8.9	Specification adjustment .....	35
8.10	Conclusion.....	36
9	<b>NORMAL VALUE.....</b>	<b>37</b>
10	<b>DUMPING MARGINS .....</b>	<b>38</b>

## Public Record Version

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

On 15 June 2012, the Australia Customs and Border Protection Service (Customs and Border Protection) initiated an investigation into the alleged dumping of hot rolled coil steel (HRC) from Japan, the Republic of Korea (Korea), Malaysia and Taiwan following an application by BlueScope Steel Limited and BlueScope Steel (AIS) Pty. Ltd (BlueScope), an Australian manufacturer of HRC.

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

Following initiation of the investigation, a search of Customs and Border Protection's import database indicated that China Steel Corporation (CSC) had exported HRC to Australia from Taiwan during the investigation period (1 April 2011 to 31 March 2012). Customs and Border Protection wrote to CSC advising the company of the initiation of the investigation, requesting co-operation with the investigation and provided the company with a copy of the exporter questionnaire to complete.

CSC completed the exporter questionnaire, providing details regarding the company, Australian customer information, exports and expenses.

**2.2 Purpose of meeting**

The purpose of the visit was to verify information submitted by CSC in its exporter questionnaire response. The exporter questionnaire response was supported by confidential appendices and attachments, including confidential spreadsheets containing sales and costs data requested in the exporter questionnaire.

A non-confidential version of the exporter questionnaire response was placed on the public record.

Customs and Border Protection will use the verified information gathered at the visit to make preliminary assessments of:

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

**2.3 Meeting and preliminary issues**

<b>COMPANY:</b>	China Steel Corporation
<b>ADDRESS:</b>	1 Chung Kang Rd Hsiao Kang Kaohsiung

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	Taiwan
<b>DATE:</b>	22, 23 and 27 August 2012
<b>ATTENDEES: China Steel Corporation</b>	
Mr Wang Ping-Xin	Administrator of Marketing Administration Department
Mr Huang Wen-Ping	Administrator of Finance Department
Mr Lin Bo-Han	Administrator of Finance Department
Ms Yang Si-Xin	Administrator of Corporate Planning Division
Ms Yang Jia-Fen	Engineer of Technical Division
Mr Su Shi-Zhe	Administrator of Accounting Department
Ms Cao Hui Rou	Administrator of Accounting Department
Mr Li Wei-Chi	Administrator of Marketing Administration Department
Mr Lin Chun-Ting	Administrator of Marketing Department
Mr Tu Wei-Kang	Assistant Manager of Marketing Department
<b>ATTENDEES: China Steel Global Trading Corporation</b>	
Ms Huang Li-Yi	Administrator of hot-rolled product division of CSGT
<b>ATTENDEES: Legal representatives</b>	
Ms Lin Lun-Fan	Lawyer, Wu & Partners Associates
Ms Ming Ting	Consultant, Wu & Partners Associates
Mr Daniel Moulis	Lawyer, Moulis Legal
Mr Charles Zhan	Lawyer, Moulis Legal
<b>ATTENDEESS: Australian Customs and Border Protection</b>	
Ms. Lydia Cooke	Manager, Operations 1
Ms. Pamela Garabed	Supervisor, Operations 1

At the outset of the meeting Customs and Border Protection provided an overview of the investigation process including the following key dates:

- The investigation period is 1 April 2011 to 31 March 2012;
- The injury analysis period is from 1 April 2008;
- the statement of essential facts (SEF) due by 3 October 2012;
- submissions in response to the SEF due by 23 October 2012; and
- Customs and Border Protection's final report to the Minister is due by 17 November 2012.

We advised CSC that we would prepare a confidential report on the visit and provide the opportunity for CSC to review the report for accuracy. Following approval of this report a non-confidential version would then be prepared for the public record.

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We also informed CSC that all information provided by CSC to Customs and Border Protection would be treated as confidential unless advised otherwise.

We explained the operation of the public file system and the opportunity for CSC and interested parties to comment on reports and submissions placed on the public record.

CSC fully cooperated during the visit and provided the team with access to all requested information.

## Public Record Version

**3 COMPANY INFORMATION****3.1 Company background**

CSC is a publicly listed, share limited company, incorporated in accordance with the Company laws of Taiwan. It was established in 1971 and commenced steel production in Kaohsiung, Taiwan in 1977. CSC's Production Division is responsible for the manufacture of all steel products, including the goods under consideration.

The company's principal shareholder is the Taiwan Ministry of Economic Affairs which owns **[CONFIDENTIAL TEXT DELETED]**% of shares.

A diagram representing the organisational structure of CSC was provided with the response to the exporter questionnaire. It is attached at **confidential attachment GEN 1**.

**3.2 Commercial operations****3.2.1 General**

CSC is the largest steel company in Taiwan and currently holds **[CONFIDENTIAL TEXT DELETED]** of the domestic market for all steel products. It has an annual production capacity of crude steel of **[CONFIDENTIAL TEXT DELETED]** metric tonnes.

As well as hot rolled products, CSC also manufactures steel plates, steel bars, wire rods, cold rolled products, coated coils, electrical steel coils and electro-galvanised coils. Its principal export destinations are China, Japan and Southeast Asia.

The goods under consideration, as discussed in further detail below at 4.3, represent approximately **[CONFIDENTIAL TEXT DELETED]**% of the total volume of steel products sold by CSC during the investigation period.

**3.2.2 Production process**

CSC operates **[CONFIDENTIAL TEXT DELETED]** furnaces for continuous steel production. During verification, CSC informed us that it is the **[CONFIDENTIAL TEXT DELETED – details of CSC's commercial operation information]**.

The hot rolled plant operates on **[CONFIDENTIAL TEXT DELETED]** lines of hot strip mills and has an annual production capacity of **[CONFIDENTIAL TEXT DELETED]** tonnes.

The company provided a detailed description of its manufacturing operations and we were able to confirm that the production process is undertaken by CSC at its Kaohsiung plant. CSC also provided us with examples of the different products available within its hot rolled product range.

CSC outlined its production process as follows:

- Iron ore, limestone and coking coal are heated in the blast furnace and oxygenated in the basic oxygen furnace to produce steel slab.
- This slab is inspected to ensure metallurgical qualities for the purpose of assuring grades.

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- The slab is then reheated and run through a hot strip mill. The coil produced during this process is known as hot rolled band.
- Hot rolled band is then passed through a temper mill and a further inspection is undertaken. The coil produced after tempering is known as hot rolled coil.
- Hot rolled coil can then be further flattened and cut to produce hot rolled plate. Hot rolled sheet is produced when the hot rolled coil is further tempered before cutting.
- Alternatively, hot rolled coil can be further processed through the pickling and oiling line, whereby the coil is passed through a pickling and rinsing tank and a temper mill to produce hot rolled pickled and oiled coil. This can also be cut into plate and sheet products.
- To produce hot rolled pickled and annealed steel and hot rolled pickled and spheroidizing-annealed steel, hot rolled pickled and oiled coil is further processed in a batch annealing furnace.

A diagram of this production process forms **confidential attachment GEN 2**.

Within the hot rolled products, CSC manufactures hot rolled bar, coil, plate and rod. The specification and application of the range of hot rolled products produced by CSC is attached at **confidential attachment GEN 3**.

Of the total volume of units of the goods sold by CSC during the investigation period approximately **[CONFIDENTIAL TEXT DELETED]**% was sold domestically, **[CONFIDENTIAL TEXT DELETED]**% was sold to Australia and **[CONFIDENTIAL TEXT DELETED]**% was sold to third country export markets.

### 3.3 Accounting

CSC maintains its accounts and produce financial statements according to the Generally Accepted Accounting Principles (GAAP) of Taiwan, using the calendar year as its financial year.

CSC advised that it operates an accounting system that was developed internally. At the visit we were provided with a demonstration of the system in operation.

Under Taiwan law, CSC is required to have its accounts audited. CSC provided an audited financial statements and a separate consolidated audit report for all related entities for the 2011 financial year. These are included as **confidential attachment GEN 4 and GEN 5**.



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## 4 GOODS UNDER CONSIDERATION AND LIKE GOODS

### 4.1 The goods

The goods the subject of the application are described as:

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

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

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

### 4.2 Tariff classification

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

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

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

### 4.3 Like Goods

#### 4.3.1 General

During the investigation period CSC categorized the products exported to Australia into four categories, noting that hot rolled plate, including hot rolled sheet with thickness of 4.75mm or over, is excluded from the investigation:

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Product	Description	Thickness	Width
Hot rolled band (HB)	Coil that is not skin-passed	[CONFIDENTIAL TEXT DELETED]	[CONFIDENTIAL TEXT DELETED]
Hot rolled coil (HC)	Band that is tempered (skin-passed)		
Hot rolled sheets (HS)	Coil that has been tempered (skin-passed) and sheared		
Hot rolled pickled and oiled coil (PO)	Coil that is pickled and oiled. This product group includes hot rolled pickled and Annealed steel (PA) and hot rolled pickled and Spheroidizing-Annealed steel (PAS).		

During the verification visit we were shown examples of HB and HC to confirm that the only difference was that coil is skin-passed. We also confirmed that exported sales to Australia [CONFIDENTIAL TEXT DELETED] products within the PO product range by undertaking a search of CSC's accounting system. This confirmation forms **confidential attachment GEN 5**.

CSC manufactured HRC to a range of international standards, including the Japanese International Standards. It provided us with a product brochure in the exporter questionnaire response which listed its grades and their technical specifications. CSC exported [CONFIDENTIAL TEXT DELETED] grades of HRC to Australia during the investigation period and sold these grades and an additional [CONFIDENTIAL TEXT DELETED] grades on the domestic market. A complete listing of CSC's grades is at **confidential attachment GEN 6**. In the exporter questionnaire response, CSC provided example mill certificates to demonstrate that the products it produced met the international standards that determine the HRC grades.

#### 4.3.2 Model identification

In labelling its models in the domestic and export sales listing, CSC allocated a model number to the goods that identified the category, grade, width and thickness category. [CONFIDENTIAL TEXT DELETED – details of commercial information]. A list of the internal product codes and their corresponding grade is at **confidential attachment GEN 7**. [CONFIDENTIAL TEXT DELETED – details of commercial information]

CSC used the following categories for thicknesses and widths:

##### Thickness

[CONFIDENTIAL TEXT DELETED]

##### Width

[CONFIDENTIAL TEXT DELETED]

To demonstrate how the models were coded, the model [CONFIDENTIAL TEXT DELETED – details of commercial information]

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A complete listing of the HRC exported to Australia is shown below.  
**[CONFIDENTIAL TEXT DELETED – details of CSC's trading information]**

Product code of each model of the goods exported to Australia	Product category	Grade	Thickness
<b>[CONFIDENTIAL TEXT DELETED]</b>			

### 4.3.2 'Like goods'

In its exporter questionnaire response, CSC claimed that there is no difference between goods sold on the domestic market and goods exported to Australia when comparing the same specific model numbers sold in both markets.

We consider that the hot rolled products sold domestically are like goods to those that are exported to Australia by CSC during the investigation period, when compared by product and specific grade. **[CONFIDENTIAL TEXT DELETED – details of trading information]**

### 4.3.3 Conclusion on like goods

We are satisfied that the HRC produced by CSC for domestic sale in Taiwan are like goods to those exported to Australia in terms of subsection 269T(1). For our assessment, we will focus on the goods that are most like to the goods exported to Australia that is HRC that is of the same type (ie, HB/PO), grade width and thickness categories, as shown above.

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**5 EXPORT SALES****5.1 General**

CSC sold to [CONFIDENTIAL TEXT DELETED – details of commercial arrangement] during the investigation period, [CONFIDENTIAL TEXT DELETED – name of customer/s]. CSC outlined that [CONFIDENTIAL TEXT DELETED – details of commercial relationship] in Australia.

CSC manages its export sales through its wholly owned subsidiary, China Steel Global Trading Corporation (CSGT). CSC explained that CSGT operates as the “export sales division” of CSC. Whilst CSGT sources customers and negotiates sales internationally, CSC maintains price and volume control of the goods available for sale, CSC is named on all sales documents and finances and receives payment for the goods.

**5.2 Export sales process**

CSC outlined that its export sales process during the investigation period was as follows:

- the CSC Foreign Marketing section determines the [CONFIDENTIAL TEXT DELETED – details of pricing policy]
- CSGT forwards the base price offers to export customers. [CONFIDENTIAL TEXT DELETED – details of commercial arrangement];
- export customers will confirm its order [CONFIDENTIAL TEXT DELETED – details of commercial arrangement];
- [CONFIDENTIAL TEXT DELETED – details of commercial arrangement];
- [CONFIDENTIAL TEXT DELETED – details of commercial arrangement];
- [CONFIDENTIAL TEXT DELETED – details of commercial arrangement]; and
- [CONFIDENTIAL TEXT DELETED – details of commercial arrangement].

**5.3 Price**

CSC confirmed that its Foreign Marketing Department is responsible for [CONFIDENTIAL TEXT DELETED – details of pricing policy] for export sales. During verification, Mr Li Wei-Chi of the Marketing Administrative Department confirmed that the price is set based on [CONFIDENTIAL TEXT DELETED – details of pricing policy].

CSC noted that steel prices were once stable but can now fluctuate greatly during a quarter. CSC explained that this is caused by iron ore and coking coal prices fluctuating, which results from the shift in the raw materials industry from yearly to quarterly contracts.

CSC confirmed that, [CONFIDENTIAL TEXT DELETED – details of commercial arrangement]

## Public Record Version

During verification CSC provided **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]** to Australia during the investigation period. These documents form **confidential attachment EXP 1**.

### 5.4 Export sales terms

All sales to Australia during the investigation period were on **[CONFIDENTIAL TEXT DELETED – details of shipping terms]** terms.

CSC advised that all exports sales between CSC and **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement with customer/s]**.

The payment terms offered by CSC to **[CONFIDENTIAL TEXT DELETED – details of payment terms arrangement]**.

#### 5.3.1 Discounts, rebates and allowances

CSC stated in its response to the exporter questionnaire **[CONFIDENTIAL TEXT DELETED –name of CSC's customer/s]** with discounts, rebates or allowances and that the price on the invoice is the price paid. Source documentation confirmed this during verification.

### 5.5 Export sales verification

#### 5.3.1 Completeness and relevance

To check the completeness and relevance of both export sales to Australia and domestic sales, we verified the information contained in the exporter spreadsheets upwards through management reports to CSC's audited financial statements.

CSC confirmed through its accounting system the total quantity of hot rolled products exported during the investigation period. While CSC generally defined plate products in its accounts as HS over **[CONFIDENTIAL TEXT DELETED]** thick, it differentiated the plate, as per Customs and Border Protection's description being HS with a thickness of 4.75mm or more, from the remainder of the HRC products. The proportion of plate CSC identified using this description accounted for approximately **[CONFIDENTIAL TEXT DELETED]**% of CSC's total HRC sales. This breakdown is at **confidential attachment EXP 3**.

In order to reconcile the Australian Sales spreadsheet to audited financial accounts, we did a search of CSC's accounting system for total exports to Australia of the goods under consideration during the investigation period. The search confirmed the values and volumes recorded in the Australian Sales spreadsheet and turnover spreadsheet.

In relation to the Domestic Sales spreadsheet, CSC provided its sales listing with the contract date as the date of sale, rather than invoice date. To accommodate this, the sales in quarter 1 of 2011 were also included. Further discussion of the date of sale issue is outlined below at 6.5.4.

The totals in the domestic sales spreadsheet reconciled to the turnover spreadsheet but could not immediately be reconciled to management accounts. In order to be satisfied that the Domestic Sales spreadsheet was a complete list of all domestic sales during the investigation period, we:

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- used CSC's accounting system to quantify the total value and volume of goods for the period 1 January 2011 to 30 June 2012. This forms **confidential attachment EXP 8**; and
- reconciled the totals of the quarterly price periods to the totals of the monthly breakdown of sales provided in the calculation worksheet.

We then used the totals of the monthly breakdown of sales for the investigation period to verify the sales listing upwards through management accounts to audited financial statements.

Once we had confirmed the total volumes and values for domestic sales and export sales to Australia from the respective sales listing, we were able to continue upwards verification to CSC's 2011 audited accounts by:

- for export sales to Australia, adding the volumes and values of the excluded goods, being HS with a thickness of 4.75mm or more, to the total volumes and values of the Australian Sales spreadsheet and reconciling these figures to those recorded in the management account reports for the 2011 financial year;
- for domestic sales, adding the volumes and values of the excluded goods to the total volumes and values recorded in the monthly sales report for the investigation period and reconciling these figures to those recorded in the management account reports for the 2011 financial year;
- reconciling the total sales volume and value reported in the 2011 management reports for all goods sold by CSC during the 2011 financial year to the "total goods revenue" reported in CSC's 2011 profit and loss statement;
- adding the "total revenue of the goods" to the "other sales revenue" reported in the profit and loss statement, and reconciling this total with the "operating revenues" reported in CSC's Statement of Income as available in CSC's 2011 audited financial statements.

The 2011 management report forms **confidential attachment EXP 4**. In order to distinguish between products that constitute the goods under consideration in the management reports, CSC provided a list of the management accounts. This forms **confidential attachment EXP 5**. The Profit and Loss statement forms **confidential attachment EXP 6**.

As the investigation period does not match the financial year for reporting, CSC calculated the totals for the investigation period by using the 2011 figures as its starting point and subtracting the total sales of the goods for the first quarter of 2011 and adding the total sale of the goods for the first quarter of 2012. A breakdown of these calculations for both domestic and export sales is at **confidential attachment EXP 7**.

Having regard to the above, we are satisfied that the Domestic Sales spreadsheet represents a complete listing of CSC's domestic sales of the goods under consideration during the investigation period.

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### 5.4.1 Accuracy

Prior to the visit, we selected eight invoices from the Australian Sales spreadsheet. We requested supporting commercial documents in relation to the following selected invoices:

Invoice number	Product	Invoice date
[CONFIDENTIAL TEXT DELETED]		
[CONFIDENTIAL TEXT DELETED]		
[CONFIDENTIAL TEXT DELETED]		
[CONFIDENTIAL TEXT DELETED]		
[CONFIDENTIAL TEXT DELETED]		
[CONFIDENTIAL TEXT DELETED]		
[CONFIDENTIAL TEXT DELETED]		
[CONFIDENTIAL TEXT DELETED]		

We requested the following documentation be provided for each transaction:

- purchase order;
- sales contract;
- commercial invoice;
- evidence of payment;
- inland freight invoice and evidence of payment (where applicable); and
- invoices for handling and other **[CONFIDENTIAL TEXT DELETED – shipping terms]** related charges.

These documents were provided and are at **confidential attachment EXP 2**.

We traced the invoice details to the export sales data in the Australian Sales spreadsheet and noted no discrepancies.

### 5.4.3 Inland freight

CSC advised that it utilises an unrelated logistics companies to transport the goods from its manufacturing plant to port. Invoices and proof of payment confirming this are included in the source documents for selected transactions. We are satisfied on this basis that the cost recorded in the Australian sales spreadsheet is the cost paid by CSC for inland freight.

### 5.4.4 Terminal handling charges and loading fees

During verification we noted that most shipments were made in bulk. As containers were not required for these shipments, terminal handling charges were not incurred, but loading fees were. During the investigation period there were **[CONFIDENTIAL TEXT DELETED]** shipments requiring containers. These incurred terminal handling charges but no loading fees.

The source documents for the selected transactions included invoices for terminal handling or loading fees as applicable. The loading fee invoices confirmed a charge of **[CONFIDENTIAL TEXT DELETED]** per metric tonne.

#### 5.4.5 Customs brokerage fee

A rate of **[CONFIDENTIAL TEXT DELETED]** per shipment is incurred in the form of the customs brokerage fee. This includes a combination of **[CONFIDENTIAL TEXT DELETED]** for the brokerage service charge and **[CONFIDENTIAL TEXT DELETED]** for a document processing fee. The customs brokerage fee invoices included in the source documents confirmed this rate.

#### 5.4.6 Bank charges

CSC incurred bank charges as a result of export sales. The actual charges incurred were applied and allocated to the specific export sales transaction. CSC provided a worksheet of the allocation calculations in its response to the exporter questionnaire.

During verification, CSC identified that it had incorrectly recorded the actual bank charges on some transactions. It provided its amended calculation worksheet, which forms **confidential attachment EXP 9**. We were able to verify these charges with the source documents provided for selected transactions.

#### 5.4.7 Other **[CONFIDENTIAL TEXT DELETED]** related export charges

CSC also incurred a number of further **[CONFIDENTIAL TEXT DELETED]** related export charges in relation to the export of goods to Australia:

- *harbour service fee*: is a standard fee applied by the Kaohsiung Harbour Bureau. **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]**. A copy of the schedule of fees forms **confidential attachment EXP 10**. Invoices and proof of payment related to the harbour service fee are attached with the source documents for selected transactions; and
- *trade promotion fee*: a quarterly fee imposed by the Taiwanese government. The invoices and proof of payment related to this fee are included with the source documents for selected transactions. In its response to the exporter questionnaire, CSC included a worksheet outlining its methodology for allocation of the trade promotion fee to each Australian export transaction. The invoices provided with the source documents confirm the amounts in this spreadsheet.; and
- *survey fee*: a charge related to export sales paid by CSC to have the goods on board checked against the bill of lading and photographed. The survey fee is calculated by the adding the standard fee associated to the weight of the goods and a standard fee per photo. CSC provided a schedule of these fees during verification which now forms **confidential attachment EXP 11**. In its response to the exporter questionnaire, CSC included a worksheet for allocation of this fee to specific transactions. The source documents provided with the selected export transactions confirm this allocation; and



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- *CSGT service fee*: a fee that CSGT charges in relation to management of export sales. During verification, CSC provided CSGT's total service fee charge to CSC. This forms **confidential attachment EXP 12**. From this we were able to verify that the CSGT service fee represents **[CONFIDENTIAL TEXT DELETED]**% of revenue.

On the basis of the above, we are satisfied that the costs recorded in the Australian Sales spreadsheet accurately reflect the cost incurred by CSC in relation to inland freight, terminal handling, loading, customs brokerage and other **[CONFIDENTIAL TEXT DELETED]** related expenses.

### 5.6 The exporter

On the basis of the above, for all export sales during the investigation period, we consider CSC to be the exporter of the goods because CSC:

- is the manufacturer of the goods;
- sets the base price for the sale of the goods;
- owns the goods at the time prior to export;
- is listed as the supplier on the bill of lading;
- invoices Australian customers for the goods directly;
- arranges and pays inland transport costs from the place of manufacture and packaging to port of export;
- 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.

### 5.7 The importer

We noted that **[CONFIDENTIAL TEXT DELETED – CSC's customer/s]**:

- negotiate directly with CSC for the purchase of goods;
- are named as the consignee on the bill of lading;
- arrange customs clearance, quarantine, logistics, overseas freight and storage of the goods after they have been delivered to the Australian port; and
- take control of the goods at **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]** and become the beneficial owner of the goods.

We consider that **[CONFIDENTIAL TEXT DELETED – CSC's customer/s]** the beneficial owners of the goods at the time of importation and are therefore the importer/s of the goods exported by CSC during the POI.

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### 5.8 Arms length transactions

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

Section 269TAA outlines the circumstances in which the price paid or payable shall not be treated as arms length. These are where:

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

We found no evidence to suggest that the prices negotiated between CSC and **[CONFIDENTIAL TEXT DELETED – detail of customer/s]** were influenced by any relationship or arrangement, commercial or otherwise during the POI. We also did not find any evidence to indicate that any consideration, compensation or other benefit passes between CSC and **[CONFIDENTIAL TEXT DELETED – detail of customer/s]** in relation to the goods other than the price negotiated, reflected in executed sales agreements and listed for payment in commercial invoices.

### 5.9 Export price preliminary assessment

We consider for export sales to Australia by CSC:

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

Therefore, we consider that export price for direct export sales from CSC can be established under section 269TAB(1)(a) using the invoiced price **[CONFIDENTIAL TEXT DELETED – CSC's customer/s]**.

Export price calculations are included at **confidential appendix 1**.

## Public Record Version

**6 DOMESTIC SALES****6.1 General**

In the domestic market CSC sold to approximately **[CONFIDENTIAL TEXT DELETED]** customers. These customers are categorized as either traders or end users. CSC manages all domestic sales directly.

At commencement of the verification visit, CSC provided an amended Domestic Sales spreadsheet that identified affiliated customers and included a further adjustment to the normal value. This amended Domestic Sales spreadsheet forms **confidential attachment DOM 1**.

**[CONFIDENTIAL TEXT DELETED – details of affiliated company]** were identified in the amended Domestic Sales spreadsheet as affiliated with CSC.

**6.2 Domestic sales process**

CSC outlined that it has a **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]**:

- **[CONFIDENTIAL TEXT DELETED – details of sale process]**;
  - **[CONFIDENTIAL TEXT DELETED – details of sale process]**;
  - **[CONFIDENTIAL TEXT DELETED – details of sale process]**;
  - **[CONFIDENTIAL TEXT DELETED – details of sale process]**;
  - **[CONFIDENTIAL TEXT DELETED – details of sale process]**;
  - **[CONFIDENTIAL TEXT DELETED – details of sale process]**;
  - **[CONFIDENTIAL TEXT DELETED – details of sale process]**; and
  - **[CONFIDENTIAL TEXT DELETED – details of sale process]**.
- [CONFIDENTIAL TEXT DELETED – details of sale process]**.

**6.3 Price**

CSC outlined that, **[CONFIDENTIAL TEXT DELETED – pricing policy]**.

CSC confirmed that the level of trade **[CONFIDENTIAL TEXT DELETED – details of pricing policy]**. During the investigation period **[CONFIDENTIAL TEXT DELETED]**% of the goods under consideration were sold to end users, whilst the remaining **[CONFIDENTIAL TEXT DELETED]**% was sold to traders. Based on the information provided in the Domestic Sales spreadsheet, when sales were analysed on a product basis we **[CONFIDENTIAL TEXT DELETED – details of pricing policy]** in price.

CSC provided a list of the specification price differences for the investigation period. This forms **confidential attachment DOM 2**.

**6.4 Domestic sales terms**

Sales to domestic customers during the investigation period were on **[CONFIDENTIAL TEXT DELETED – details of sales terms]** terms and paid in NTD.

## Public Record Version

CSC offered a range of payment terms to customers, including **[CONFIDENTIAL TEXT DELETED – details of credit term policy]**. Domestic customers operating on accounts receivable had between **[CONFIDENTIAL TEXT DELETED]** days to pay. CSC's accounting system was able to confirm the actual date of payment for each sales transaction of accounts receivable customers during the investigation period, so that this range was **[CONFIDENTIAL TEXT DELETED]** days.

### 5.3.1 Discounts, rebates and allowances

CSC stated in its response to the exporter questionnaire that it provides a number of discounts and rebates to its domestic customers.

CSC confirmed that customers are made aware of the availability of standard quantity and deliver discounts at the **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]** stage. These discounts are then applied directly to the invoice, dependent on the actual quantity purchased and the timeframe in which the goods are delivered. For the delivery discount, CSC offers **[CONFIDENTIAL TEXT DELETED]** for delivery/pick up within **[CONFIDENTIAL TEXT DELETED]** days and **[CONFIDENTIAL TEXT DELETED]** discount for delivery/pick up within **[CONFIDENTIAL TEXT DELETED]** days. These discounts were applied on an actual basis to each domestic sales transaction in the Domestic Sales spreadsheet. We were able to verify the accuracy of this discount with the source documents provided for selected transactions.

CSC then also provides a number of rebates to customers that are paid in the form of a rebate notice. A full list of these rebates forms **confidential attachment DOM 3**. It includes **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement with customer/s]**.

CSC also offered **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]** rebate, which is applied where **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]**.

CSC outlined that **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]**. CSC also confirmed that the **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]** rebate is offered to all customers uniformly.

CSC also offers a **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]** rebate, **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]**. CSC outlined the process for determining the rebate as:

- **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]**;
- **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]** and
- **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]**.

In the Domestic Sales spreadsheet, CSC has included an allocation of the total **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]**

## Public Record Version

**arrangement]** rebate to each customer, where applicable. During verification, CSC provided us with a full list of the **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]** rebates paid to each customer, broken down by product type. This forms **confidential attachment DOM 4**. CSC then allocated the portion of the **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]** rebate applicable to each sales transaction, by determining it as a percentage of total sales of the goods to each customer during the 2011 financial year. CSC's worksheet of this allocation forms **confidential attachment DOM 5**.

We were able to link the total rebates paid to a particular customer to the allocated **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]** rebate figure applied to each transaction in the Domestic Sales spreadsheet. We confirmed for selected transactions that the year-end rebate allocation calculations were correct. We are therefore satisfied that the **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]** rebate allocations in the Domestic Sales spreadsheet accurately reflect the rebate attributed to the goods during the investigation period.

During verification, we flagged three transactions and sought clarification as to the rebates paid in each. The first two transactions, invoice numbers **[CONFIDENTIAL TEXT DELETED]**, indicated that rebates of **[CONFIDENTIAL TEXT DELETED]**% were applied. CSC was able to confirm that this rebate related to a warranty, and provided warranty notices for each invoice. The third transaction, invoice number **[CONFIDENTIAL TEXT DELETED]**, showed a negative rebate amount. CSC confirmed that in some circumstances customers do not pick up the required quantity to be eligible for the quantity discount which has been applied to the invoice. CSC then seeks to recover the quantity discount applied in these circumstances. CSC provided the rebate notice in relation to this transaction confirming this. The source documents in relation to these three transactions form **confidential attachment DOM 6**.

### 6.5 Domestic Sales Verification

#### 6.5.2 Completeness and Relevance

The verification of the domestic sales spreadsheet upwards to audited accounts is outlined above at section 5.4.2.

#### 6.5.1 Accuracy

Prior to the visit, we selected fourteen invoices from the Domestic Sales spreadsheet. We requested supporting commercial documents in relation to the following selected invoices:

Invoice number	Product	Invoice date
<b>[CONFIDENTIAL TEXT DELETED]</b>		
<b>[CONFIDENTIAL TEXT DELETED]</b>		
<b>[CONFIDENTIAL TEXT DELETED]</b>		

## Public Record Version

[CONFIDENTIAL TEXT DELETED]
[CONFIDENTIAL TEXT DELETED]
[CONFIDENTIAL TEXT DELETED]
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[CONFIDENTIAL TEXT DELETED]
[CONFIDENTIAL TEXT DELETED]
[CONFIDENTIAL TEXT DELETED]

These documents were provided and are at **confidential attachment DOM 7**.

We requested the following documentation be provided for each transaction:

- purchase order;
- sales contract;
- commercial invoice;
- evidence of payment;
- inland freight invoice and evidence of payment (where applicable); and
- discount and rebate source documents (where applicable).

We traced the invoice details to the domestic sales data in the Domestic Sales spreadsheet and noted no discrepancies.

#### 6.5.3 *Inland freight*

CSC advised that it utilises an unrelated logistics companies to transport the goods from its manufacturing plant to domestic customers in relation to **[CONFIDENTIAL TEXT DELETED – details of sales terms]** transactions. Invoices and proof of payment confirming this are included in the source documents for selected transactions. We are satisfied on this basis that the cost recorded in the Domestic Sales spreadsheet is the cost paid by CSC for inland freight.

#### 6.5.4 *Date of sale*

During verification, CSC raised and provided a submission in relation to which date out of the contract date, order date or invoice date, best represents the date of sale. CSC noted that price in relation to export sales was set quarterly.

## Public Record Version

At the beginning of a new price period, CSC entered into a sales contract with **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]**. CSC submitted that **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]**. The HRC was then invoiced at delivery. CSC noted that goods may be delivered and invoiced outside of the price quarter as a result of production or delivery delays.

For domestic sales, CSC noted that a similar process was followed. **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]**. Goods were then delivered and invoiced.

CSC submitted that the date of sale must correctly compare domestic sales in the same period as export sales. Given that the invoice date represents delivery date rather than price period, CSC submitted that it is inappropriate for Customs and Border Protection to use the invoice date as the date of sale. It was further identified that at the contract date, **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]**.

CSC submitted that the most appropriate date of comparison for domestic and export sales is the order date, **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]**.

CSC noted that **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]** rebates and **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]** rebates were sometimes applied to domestic sales, however, it did not consider that this altered the order date as the date of sale as rebates are not subject to negotiation. Furthermore, just as CSC did not consider the **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]** rebate changed the date of the sale to which it related, CSC did not consider the **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]** rebate to do so either.

From the revised domestic sales spreadsheet provided by CSC, which included the order date, we found the following correlation between price quarter (when the contract was made), the order date (when the quantities and specification were set) and the invoice date (when the goods were delivered):

Order Date	Price Quarter	Invoice Date
<b>[CONFIDENTIAL TEXT DELETED]</b>		

As seen in this table, we found that in some instances order were placed prior to the price quarter which applied to them. Furthermore, some sales were not delivered until **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]** after the order was placed.

We note that the **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]** rebate is applied according to when sales were, or are to be, shipped, rather than when they were ordered. Therefore, we consider the invoice date, which best reflects the date of delivery, to be the date most applicable in determining the price of the goods. Therefore, we consider the invoice date to be the date of sale.

## Public Record Version

CSC's submission in relation to this issue forms **confidential attachment DOM 8**.

### 6.6 Arms length transactions

In respect of CSC's domestic sales of the goods under consideration, we found no evidence that:

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

CSC identified **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]** affiliated customers in its amended Domestic Sales spreadsheet. During verification, CSC explained the process of setting prices did not differentiate between affiliated and unaffiliated customers, as **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]**.

In order to ensure that rebates did not impact the price to affiliated customers, we analysed the domestic sales listing on the basis of the net invoice value. There were no significant differences between the net invoice price to affiliated and unaffiliated customers.

We are therefore satisfied that the domestic sales of the goods by CSC were arm's length transactions.

### 6.7 Ordinary course of trade

We compared the net selling value (the net invoice value minus the subsequent rebates) for each domestic sale to the CTMS for that particular model for the corresponding quarter.

For those individual sales found to be unprofitable, we then compared the net selling prices with the weighted average CTMS for the investigation period to determine whether the sales were recoverable within a reasonable period of time.

For **[CONFIDENTIAL TEXT DELETED]** exported to Australia, there were no sales of goods on the domestic market during the investigation period that were of the same thickness category, although there were sales of the same grade, type and width.

Of the remaining models, **[CONFIDENTIAL TEXT DELETED]** had more than 80% of their sales as recoverable and therefore for these models, all sales were used.

For **[CONFIDENTIAL TEXT DELETED]**, less than 80% of sales were recoverable, and therefore unrecoverable sales were excluded from our calculations.

The ordinary course of trade calculations are at **confidential appendix 2**.



**Public Record Version****6.8 Volume and suitability of domestic sales**

Section 269TAC(2) of the Act provides that certain domestic sales made by unsuitable for use in determining normal value because of factors in the market. One such factor is where there is an absence, or low volume, of sales of like goods in the domestic market.

Low volume is defined in s. 269TAC(14) of the Act as less than 5% of the total volume of the goods under consideration that are exported to Australia.

We found that the volume of domestic sales made in the ordinary course of trade for the models that were exported to Australia was over 100% of the volume of exports to Australia.

We then identified the following models were exported to Australia and conducted the test individually for each model. The following table lists the results of this assessment.

Type	Grade	Thickness	Sales used	Sufficient domestic sales
[CONFIDENTIAL TEXT DELETED]				

## Public Record Version

**7 COST TO MAKE & SELL****7.1 Approach to verification**

In its submission, CSC provided total and unit cost calculations for HRC sold domestically and exported to Australia in a cost to make and sell (CTMS) spreadsheet (**confidential appendix 3**). The data was presented separately for each model code of HRC, and was broken into:

- materials costs;
- direct labour costs;
- manufacturing overheads; and
- selling, general and administration expenses.

At the outset we emphasised our requirement to reconcile the data to audited financial statements and management reports, and also down to source documents.

**7.2 Upwards verification to audited financial accounts**

We sought to reconcile the production costs in the CTMS spreadsheet to the audited financial statements to ensure the completeness of the information provided. We noted that in the 2011 calendar year (costs for each quarter of 2011 and quarter (Q) 1 of 2012 were provided) the total manufacturing cost for each product group was:

Product Group	Cost (NTD)
HB	<b>[CONFIDENTIAL TEXT DELETED]</b>
HC	
HS	
PO	
Total	

CSC then provided with a cost of production report which listed the production costs for all goods for 2011. We were able to reconcile the production totals from the CTMS spreadsheet to the production costs listed for these product groups in the production report. For PO we had to add the cost for pickled and oiled, and pickled and oiled subcontracting, as listed in the production report to reconcile the total from the CTMS spreadsheet. Similarly, for HB, we had to add the hot rolled band and recoiled (or tempered) band costs in the production report to reconcile the production report to the CTMS spreadsheet. The total cost of production across all products for 2011 was shown to be **[CONFIDENTIAL TEXT DELETED]**.

CSC then showed us a ledger for the calendar year 2011 which showed the total production costs for the company (**[CONFIDENTIAL TEXT DELETED]**), the beginning and ending inventory and work-in-progress goods and the subsequent cost of goods sold for the year (**[CONFIDENTIAL TEXT DELETED]**). We could then reconcile the cost of goods sold in this statement

## Public Record Version

to the operating costs listed in the audited financial statements. In the Chinese version of the audited financial statements the **[CONFIDENTIAL TEXT DELETED – details of accounting information]** was recorded along with 'other' costs, relating to **[CONFIDENTIAL TEXT DELETED – details of accounting information]**. In the English version of the audited financial statements these two costs were combined for a total of **[CONFIDENTIAL TEXT DELETED – details of accounting information]**. We noted that the independent auditors of the financial statements, Deloitte & Touche stated:

*'In our opinion, the financial statements...present fairly, in all material respects, the financial position of the Corporation as of December 31, 2011 and 2010, and the results of its operations for the year then ended...'*

CSC then repeated this exercise for the first quarter of 2011 and 2012 so we could confirm that the costs were accurately recorded across the entire investigation period. CSC noted that the quarterly financial statements, to which we reconciled the costs, were reviewed but not audited. We were therefore satisfied that the CTMS spreadsheet provided was complete.

The documents relating to the verification of costs to audited financial statements are at **confidential attachment CTMS1**.

### 7.3 CSC's costing methodology

CSC explained that the information from the cost to make and sell spreadsheet was extracted from its costing system. CSC provided us with the below chart to demonstrate how its costing system worked. Each key part of the production process, such as the blending plant, sinter plant, blast furnace etc was referred to as an 'allocation'. Each allocation would have several direct and indirect cost centres attributing actual costs to it. Costs are tracked and cumulated from one allocation to the next. When the output of one allocation, such as slab from the slab plant, is introduced as the input of another allocation, such as the hot strip mill, the input cost is the average production cost of the upstream product. In determining the average cost, CSC maintains an inventory ledger for each product group, which includes the beginning and ending inventory value, and accordingly the unit value of the product consumed each month.

### **[CONFIDENTIAL CHART DELETED]**

To demonstrate how the cost accounting system worked, CSC provided us with copies of several of the allocations required for the production of HB for December 2011. This showed the movement of raw materials costs (discussed further below) from the inventory, to the blending plant, sinter plant, blast furnace, basic oxygen furnace, slab plant to the hot strip mill cost centre. CSC demonstrated how the cost from each production process was carried over as an input into the next production process.

CSC showed how these costs subsequently reconciled to the production of HB in the hot strip mill for December 2011. CSC then provided us with the hot strip mill cost reports for each month of 2011 and the entire year. The monthly totals reconciled to the yearly total. CSC explained that this was the cost

## Public Record Version

centre for [CONFIDENTIAL TEXT DELETED – details of cost accounting information].

CSC explained that the recorded costs included both band that was sold directly and band which was further processed, into products such as hot rolled coil, pickled and oiled coil etc. The total recorded production volume of hot rolled band in December 2011 for the first hot rolled band cost category was [CONFIDENTIAL TEXT DELETED] and of this amount [CONFIDENTIAL TEXT DELETED] was for internal production while [CONFIDENTIAL TEXT DELETED] was for external sales. The CTMS spreadsheet only contained costs and production volumes for goods produced for [CONFIDENTIAL TEXT DELETED]. It should be noted that all product would eventually become an external sale and therefore the CTMS spreadsheet captured all costs. The value for external sales for HB reconciled with the value listed in the cost of production report (referred to in the upwards sales reconciliation) and the total of this cost plus the cost for [CONFIDENTIAL TEXT DELETED] in the income statement – [CONFIDENTIAL TEXT DELETED] - reconciled with the total band cost in the CTMS spreadsheet for 2011 - [CONFIDENTIAL TEXT DELETED]. The documents provided which show the movement of costs through the production centres is at **confidential attachment CTMS2**.

To perform another check of the connection between the cost system and the CTMS spreadsheet, we asked the company to show us the total costs for a particular model ([CONFIDENTIAL TEXT DELETED]) from the system (**confidential attachment CTMS3**). While the total production volume listed in the system was higher than the production volume listed in the CTMS spreadsheet – due to some of the product being used for internal use – the unit product cost was the same ([CONFIDENTIAL TEXT DELETED]) in both the cost report and the CTMS spreadsheet. We were therefore satisfied that the CTMS spreadsheet reflected the costs in CSC's costing system.

CSC explained all the costs recorded at a production stage would be allocated to the products produced by that production process. For example, the costs of the hot strip mill would be entirely allocated to the production of HB. However, costs were not evenly allocated across all products. CSC explained that its engineering department would estimate the operating hours required to product each type of HRC. In doing so, they took into account things such as quantity produced, width, thickness, yield and quality. They subsequently calculated a ratio to allocated costs by model. CSC provided us with a printout of its system in which showed examples of the operating hours applied (**confidential attachment CTMS4**).

We noted that in the CTMS spreadsheet prices were [CONFIDENTIAL TEXT DELETED] – details of costing information) but there were some instances of unusually high or low unit prices. CSC explained that [CONFIDENTIAL TEXT DELETED – details of costing methodology]. A working table was provided (**confidential attachment CTMS 5**) demonstrating the calculation for three high priced models. For example, [CONFIDENTIAL TEXT DELETED] had a unit manufacturing cost of [CONFIDENTIAL TEXT DELETED], however, prior to the [CONFIDENTIAL TEXT DELETED – details of costing information], the unit cost was [CONFIDENTIAL TEXT DELETED].

## Public Record Version

CSC explained that for two models (neither of which were exported to Australia) for which there were unusually **[CONFIDENTIAL TEXT DELETED]** prices, this was HRC produced from **[CONFIDENTIAL TEXT DELETED – details of commercial arrangement]**.

CSC provided a spreadsheet which provided further details of how these costs had been allocated (**confidential attachment CTMS5**). We were therefore satisfied that costs had been reasonably allocated across models.

CSC explained that the material costs listed in the CTMS spreadsheet was **[CONFIDENTIAL TEXT DELETED – details of costing information]**.

### 7.4 Downwards verification to source documents

#### 7.4.1 Production volumes

CSC explained that production volumes were automatically captured and recorded by its system on the basis of actual weight. It explained that each production centre recorded the volume of product produced. CSC extracted production reports from its system which showed production volumes for external sales for 2011 Q4 and we could reconcile this to the CTMS spreadsheet. CSC also extracted a production report for HB for December 2011 which included production for internal use and external sale which we could reconcile to the production cost report for HB. The production reports are at **confidential attachment CTMS6**.

We noted that in some instances, **[CONFIDENTIAL TEXT DELETED – details of costing information]** was listed in the CTMS spreadsheet. CSC explained that **[CONFIDENTIAL TEXT DELETED – details of costing information]**. We asked how the **[CONFIDENTIAL TEXT DELETED – details of costing information]** was accounted for and CSC explained that **[CONFIDENTIAL TEXT DELETED – details of costing information]**. We examined **[CONFIDENTIAL TEXT DELETED – details of costing information]** from the production cost reports and found the offset to be very small, we therefore did not investigate this further.

#### 7.4.2 Raw material costs – iron

CSC explained that it used **[CONFIDENTIAL TEXT DELETED]** iron ores, **[CONFIDENTIAL TEXT DELETED]**. CSC provided us with the December 2011 purchase report and inventory report for **[CONFIDENTIAL TEXT DELETED]**. In this month there was one shipment of **[CONFIDENTIAL TEXT DELETED]**. CSC provided us with the invoice for this shipment of iron ore as well as proof of payment, which we could reconcile to the purchase report. We could then trace this amount to the inventory and see the volume and value of **[CONFIDENTIAL TEXT DELETED]** entering and leaving the inventory in December 2011. We were subsequently able to trace these costs through the blending, sinter plant, blast furnace, basic oxygen furnace and slab production processes to hot rolled band production. As noted in **section 10.6**, we were able to reconcile the hot rolled band cost centre to the CTMS spreadsheet.

We asked for evidence of another shipment of iron ore, so CSC provided us with the purchase listing report and associated invoice and proof of payment for November 2011. All purchases of iron ore were from unrelated parties. The documents relating to iron ore costs are at **confidential attachment CTMS7**.

## Public Record Version

We were therefore satisfied that the iron ore costs were accurate.

### 7.4.3 Raw material costs - coal

We then sought to verify the coal costs. CSC provided us with:

- the coal purchase record ledger for November 2011;
- the coal inventory records for November and December 2011;
- the coke oven cost report and the blast furnace cost report.

We could trace the coal purchases, shown in the coal purchase ledger to the coal inventory for November 2011 (note: the November 2011 inventory was used as opposed to December 2011 because purchases were made from a related party in this month, and none were made in December 2011). The ending inventory for November 2011 reconciled to the December 2011 beginning inventory. We could then trace the consumption of coal in December 2011 through the coal cost centre to the blast furnace cost centre. As explained above, we were able to reconcile the blast furnace cost centre through to the HB production and the CTMS spreadsheet.

CSC also provided us with the raw materials purchase ledger for December 2011 and an invoice and proof of payment from this month, which we could reconcile to the report. The documents relating to coal costs are at **confidential attachment CTMS8**.

CSC purchases coal from one related party, **[CONFIDENTIAL TEXT DELETED]**. The invoice for the coal purchase in November 2011 was from this supplier. In the exporter questionnaire response CSC provided a summary of its coal purchases by supplier over the investigation period, to which we could reconcile the coal invoices from both suppliers. We found that the price of CSC's purchases from **[CONFIDENTIAL TEXT DELETED]** were consistent with the price of coal from other suppliers. CSC's purchases of coal from **[CONFIDENTIAL TEXT DELETED]** accounted for approximately **[CONFIDENTIAL TEXT DELETED]**% of its total coal purchases over the investigation period by both volume and value.

### 7.4.4 Electricity

We also sought to verify the electricity costs. CSC advised that it operated its own power plant onsite that provided it with electricity. CSC further explained that unit electricity costs were determined based on the total cost of the electricity plant for the month divided by the total output of the plant.

To demonstrate the power costs, CSC provided us with the cost report for the power plant for December 2011. It then provided a report which demonstrated how the costs were allocated to selling, general and administrative costs and production costs and identified the electricity costs applicable to the hot rolled band cost centres.

To demonstrate how the costs were allocated to HB production, CSC also provided a report which showed electricity usage across the factory, by block location and then finally by the cost centres applicable to HB production. While electricity costs were initially allocated at a standard unit cost, these reports showed how the variance was then allocated to reflect the actual costs

## Public Record Version

of the electricity. We could reconcile these volumes and values to the electricity allocation report.

We were then able to trace electricity usage for HB production to the ledger for utilities usage for the hot strip mill and then to the total production costs for the hot strip mill. As noted above, we were able to reconcile the hot strip mill production costs to the CTMS spreadsheet.

The documents for electricity reconciliation are at **confidential attachment CTMS9**.

### 7.4.5 Depreciation

We then asked CSC to demonstrate how depreciation costs were allocated. CSC explained that depreciation costs were included in the overhead costs. In the **[CONFIDENTIAL TEXT DELETED]** cost centre, CSC identified the overhead item in the cost centre report. For December 2011, the total overheads were **[CONFIDENTIAL TEXT DELETED]**. CSC provided us with a report from its system for the total depreciation costs for the hot strip mill (**[CONFIDENTIAL TEXT DELETED]**) for the month with a total of **[CONFIDENTIAL TEXT DELETED]**. It then provided us with a depreciation report for the plant which listed monthly depreciation rates for buildings, machinery and miscellaneous items. We could reconcile the depreciation amounts for the **[CONFIDENTIAL TEXT DELETED]** cost centre within **[CONFIDENTIAL TEXT DELETED]** to the total of **[CONFIDENTIAL TEXT DELETED]**.

The documents relating to depreciation are at **confidential attachment CTMS10**.

## 7.5 Selling, general and administration expenses

Selling, general and administration (SG&A) costs, as shown in the audited financial report, were allocated to the HRC product group on the basis of revenue, with the exception of direct selling expenses which were allocated on the basis of actual costs incurred.

Unit selling, general and administration (SG&A) expenses were then calculated by apportioning each of the total SG&A expenses across total cost of goods sold. CSC used this to calculate SG&A as a percentage of costs. This percentage was applied to the manufacturing costs in the CTMS spreadsheet to calculate the selling expenses for each model.

The SG&A expenses included direct and indirect selling costs, administrative and general costs, R&D costs, training costs and financial costs.

Documents supporting the calculation of SG&A expenses form **confidential attachment CTMS 2**.

## 7.6 Conclusion

We were able to reconcile all relevant data provided to audited accounts and source documents. In doing so, we formed the view that the cost constructions contained in CSC's submission were an appropriate basis for the actual costs incurred in manufacturing the goods.

In summary, sufficient information was obtained and verified to determine:

## Public Record Version

- a constructed normal value under section 269TAC(2)(c) of the Act for the investigation period; .and
- the cost of goods to assess ordinary course of trade under section 269TAAD of the Act.

The cost to make and sell spreadsheets form confidential appendix 3.



## Public Record Version

### 8 ADJUSTMENTS

We discussed with CSC a number of items that may require consideration in order to ensure the normal value is properly comparable to the export price.

#### 8.1 Inland freight

In order to adjust domestic selling prices to reflect a FOB price to be compared with export sales, we have deducted actual inland freight expenses incurred on each domestic transaction. We have then made an upward adjustment for inland freight expenses incurred in transporting goods to the port of export using the actual inland freight cost for each export sale over the investigation.

#### 8.2 Terminal handling charges and loading fees

As outlined at above at section 5.4.3, CSC incurs expenses on exports related to terminal handling charges and loading fees. To ensure proper comparison with the export sales, we consider that an upward adjustment to domestic sales is warranted for these expenses. We made an adjustment using the actual terminal handling charges and loading fees for each export transaction.

#### 8.3 [CONFIDENTIAL TEXT DELETED] related expenses

As outlined above at section 5.4.3 – 5.4.6, CSC incurred a number of [CONFIDENTIAL TEXT DELETED] related expenses:

- Customs brokerage fee;
- Harbour service fee;
- Trade promotion fee; and
- Survey fee.

We verified the accuracy of these fees in the Australian Sales spreadsheet with the source documents provided for selected transactions. We are satisfied that the above fees were incurred in relation to export sales and warrant an upward adjustment to domestic sales. We made an adjustment using the actual fees for each export transaction.

#### 8.4 CGST service fee

As outlined at 5.4.6 above, CSC incurred a fee for services by CGST in relation to export sales to Australia. We verified this to represent [CONFIDENTIAL TEXT DELETED]% of revenue. We consider that this warrants an upward adjustment to the domestic sales price and have applied it by multiplying the normal value by the CSGT service fee rate.

#### 8.5 Bank charges

As outlined at 5.4.7 above, CSC incurred bank charges for export sales. The actual costs were applied and allocated to each individual transaction. We have made an upward adjustment to domestic sales using the actual bank charges for each export sale incurred over the investigation period.

## Public Record Version

### 8.6 Domestic sales expense

CSC sought a downward adjustment to domestic sales for domestic selling expenses incurred in relation to domestic sales given the upward adjustment to domestic sales as a result of the CSGT service fee. This represents expenses incurred by the Marketing Department responsible for domestic sales. CSC provided a list of the Marketing Department cost centre breakdown, totalling **[CONFIDENTIAL TEXT DELETED]** for 2011. This was reconciled upwards with the total for selling expenses provided in the 2011 management reports and audited financial statement. We were able to verify that this expense represents **[CONFIDENTIAL TEXT DELETED]** % of sales revenue. We were satisfied that this downward adjustment is warranted and we have applied it by multiplying the invoice price for each domestic transaction to the domestic sales expense rate of **[CONFIDENTIAL TEXT DELETED]** %.

The documents provided in calculation of the domestic sales expense form **confidential attachment ADJ 1**.

### 8.7 Credit terms

Domestic payment terms varied between customers and we have made a downward adjustment for domestic cost of credit.

In its questionnaire response, CSC provided a list of the monthly short term borrowing rate for the investigation period. We have applied the average of these monthly rates when making the downward adjustment to domestic sales based on the actual credit terms to that customer.

CSC did not offer credit terms to its Australian customer. Thus an upward adjustment for credit does not apply.

### 8.8 Timing adjustments

We identified that for some models, there were sufficient sales made in the ordinary course of trade in the domestic market to determine normal value but these sales did not occur in the same quarter as export sales. We therefore applied a timing adjustment to the quarters in which domestic sales occurred to determine the normal value for the remaining quarters. The timing adjustment was calculated by applying the difference in cost between quarters to the selling price. This adjustment was applied to one or more quarters for **[CONFIDENTIAL TEXT DELETED]**.

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**8.9 Specification adjustment**

For some models, there were no, or insufficient, sales on the domestic market in the ordinary course of trade. For these models, a specification adjustment was made to the selling price of another model to determine the normal value, accounting for the specification differences between models.

To carry out the specification adjustment, we determined what the specification prices differences were on the domestic market, using a pricing sheet supplied by CSC. To adjust for differences regarding different thickness, we identified a similar model of the same type (ie, HB, PO, HS or HC) and applied a difference reflective of the different thicknesses.

To adjust for differences of grade, we identified a base grade ([CONFIDENTIAL TEXT DELETED – details of trading information]) and added the price extra of the specific grade.

A summary of the specification adjustments are shown below:

Normal Value Determined for:	[CONFIDENTIAL TEXT DELETED]
Using domestic sales of:	
Change Made:	
Normal Value Determined for:	[CONFIDENTIAL TEXT DELETED]
Using domestic sales of:	
Change Made:	
Normal Value Determined for:	[CONFIDENTIAL TEXT DELETED]
Using domestic sales of:	
Change Made:	
Normal Value Determined for:	[CONFIDENTIAL TEXT DELETED]
Using domestic sales of:	
Change Made:	
Normal Value Determined for:	[CONFIDENTIAL TEXT DELETED]
Using domestic sales of:	
Change Made:	

## Public Record Version

Normal Value Determined for:	[CONFIDENTIAL TEXT DELETED]
Using domestic sales of:	
Change Made:	
Normal Value Determined for:	[CONFIDENTIAL TEXT DELETED]
Using domestic sales of:	
Change Made:	

## 8.10 Conclusion

We consider the following adjustment to constructed selling prices, in accordance with s. 269TAC(8) of the Act, is necessary to ensure a fair comparison with the export price of the goods:

Adjustment	Add to, or deduct from, domestic selling prices
Domestic inland freight expenses	deduct
Domestic cost of credit	deduct
Domestic sales expense	deduct
Export inland freight expenses	add
Export terminal handling and loading fees	add
[CONFIDENTIAL TEXT DELETED – sales terms] related expenses	add
Export CGST service fee	add
Export bank charges	Add
Timing adjustment	Adjust as required
Specification adjustment	Adjust as required

## Public Record Version

**9 NORMAL VALUE**

The relevant sales of HRC by CSC in the domestic market were found to be in transactions that were arms length, and at prices that were in the ordinary course of trade. The price paid for the goods in those domestic sales was established satisfactorily.

Based on the information provided by CSC, and the verification processes conducted on site, we are satisfied that prices paid in respect of those domestic sales of HRC are suitable for assessing normal value under s. 269TAC(1). We consider those domestic selling prices require adjustment in terms of s. 269TAC(8), to ensure fair comparison to the export prices, for the following:

- Inland freight;
- Credit terms;
- Domestic sales expense;
- Terminal handling charges and loading fees;
- **[CONFIDENTIAL TEXT DELETED – sales terms]** related expenses;
- CSGT service fee;
- Bank charges;
- Timing adjustment; and
- Specification adjustment.

Normal value calculations are at **confidential appendix 4**.

Should there be a need to consider an alternative to establishing normal values under s. 269TAC(1) we consider the cost to make and sell data, and the profit determined in a comparison of costs to prices, are suitable for constructing normal values under s. 269TAC(2)(c) of the Act.

## Public Record Version

**10 DUMPING MARGINS**

Dumping has been assessed by comparing the weighted average of export prices to a corresponding weighted average of normal values for the investigation period. The dumping margin for the investigation period is **3.49%**.

The dumping margins are shown at **confidential appendix 5**.

**11 LIST OF APPENDICES AND ATTACHMENTS**

Confidential appendix 1	Export price and dumping margin calculations
Confidential appendix 2	Domestic sales and ordinary course of trade and normal value calculations
Confidential appendix 3	CTMS worksheet
Confidential attachment GEN 1	CSC organisational structure
Confidential attachment GEN 2	Diagram of production process
Confidential attachment GEN 3	CSC product list
Confidential attachment GEN 4	CSC audited financial statement
Confidential attachment GEN 5	CSC consolidated audited financial report
Confidential attachment GEN 6	Confirmation of <b>[CONFIDENTIAL TEXT DELETED – details of product]</b> sales to Australia
Confidential attachment EXP 1	Quarterly base offers and specification price list for Australian sales
Confidential attachment EXP 2	Export sales source documents
Confidential attachment EXP 3	Confirmation of plate product sales to Australia
Confidential attachment EXP 4	Management reports
Confidential attachment EXP 5	List of management accounts
Confidential attachment EXP 6	Profit and loss statement
Confidential attachment EXP 7	Calculations of volume and value of sales for investigation period
Confidential attachment EXP 8	Sales volumes and values for 1 January 2011 to 30 June 2012
Confidential attachment EXP 9	Amended bank charges calculation worksheet
Confidential attachment EXP 10	Schedule of harbour service fees
Confidential attachment EXP 11	Schedule of survey fees
Confidential attachment EXP 12	CSGT service fee calculation
Confidential attachment DOM 1	Amended Domestic Sales spreadsheet
Confidential attachment DOM 2	<b>[CONFIDENTIAL TEXT DELETED]</b> list for domestic sales
Confidential attachment DOM 3	List of available rebates
Confidential attachment DOM 4	<b>[CONFIDENTIAL TEXT DELETED]</b> rebate list by customer
Confidential attachment DOM 5	Worksheet of allocation of <b>[CONFIDENTIAL TEXT DELETED]</b> rebates
Confidential attachment DOM 6	Rebate notices for selected transactions
Confidential attachment DOM 7	Domestic sales source documents
Confidential attachment DOM 8	CSC submission on date of sale
Confidential attachment CTMS 1	Reconciliation to audited financial statements
Confidential attachment CTMS 2	Production process costs
Confidential attachment CTMS 3	Costs for model <b>[CONFIDENTIAL TEXT DELETED]</b>
Confidential attachment CTMS 4	Allocation of operating hours to individual models

**Public Record Version**

Confidential attachment CTMS 5	High and low cost models
Confidential attachment CTMS 6	Production reports
Confidential attachment CTMS 7	Documents relating to iron ore costs
Confidential attachment CTMS 8	Documents relating to coal costs
Confidential attachment CTMS 9	Documents relating to electricity costs
Confidential attachment CTMS 10	Documents relating to depreciation
Confidential attachment CTMS 11	SG&A calculations
Confidential attachment ADJ1	Domestic selling expense calculations