



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

**INVESTIGATION INTO THE ALLEGED DUMPING OF
ZINC COATED (GALVANISED) STEEL**

EXPORTED FROM

**THE PEOPLE'S REPUBLIC OF CHINA,
THE REPUBLIC OF KOREA AND TAIWAN**

EXPORTER VISIT REPORT

CHUNG HUNG 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**

December 2012

1	CONTENTS
----------	-----------------

1	<i>CONTENTS</i>	2
2	<i>BACKGROUND</i>	4
2.1	Background to the current investigation.....	4
2.2	Purpose of visit.....	4
2.3	Meeting dates and attendees.....	5
2.4	Preliminary issues	5
3	<i>COMPANY INFORMATION</i>	7
3.1	Company information	7
3.2	Related parties	8
3.3	Accounting.....	8
3.4	Production facilities and process	11
3.5	Production capacity	12
3.6	On-site verification	12
4	<i>GOODS UNDER CONSIDERATION AND LIKE GOODS</i>	14
4.1	The goods the subject of the application	14
4.2	Like goods	16
5	<i>SALES TO AUSTRALIA</i>	19
5.1	Export sales process.....	19
5.2	Export sales - reconciliation to financial statements	20
5.3	Export sales – verification to source documents.....	20
5.4	The exporter.....	22
5.5	The importer.....	22
5.6	Arm’s length	23
5.7	Export price – preliminary assessment.....	23
6	<i>RECONCILIATION OF SALES TO FINANCIAL STATEMENTS</i>	25
7	<i>COST TO MAKE & SELL</i>	27
7.1	Introduction.....	27
7.2	Cost to make and sell.....	28
7.3	Selling, general, administration and other expenses	32
7.4	Cost to make and sell – summary Chung Hung Steel	32
7.5	Conclusion CTMS Chung Hung Steel.....	33
8	<i>DOMESTIC SALES</i>	34
8.2	Domestic sales process	35
8.3	Domestic sales - reconciliation to financial statements	36
8.4	Domestic sales – verification to source documents.....	36
8.5	Arm’s length transactions.....	36
8.6	Ordinary course of trade	36
8.7	Volume and suitability of sales.....	37
8.8	Sales by other sellers.....	37
8.9	Domestic sales – summary	37
9	<i>THIRD COUNTRY SALES</i>	38
9.1	Introduction.....	38
9.2	Approach.....	38
10	<i>ADJUSTMENTS</i>	39

10.1 Introduction.....39

10.2 Adjustments in respect of export sales39

10.3 Direct export expenses39

10.4 Other adjustments.....40

11 *NORMAL VALUES*41

12 *DUMPING MARGIN – PRELIMINARY ASSESSMENT*42

13 *LIST OF APPENDICES AND ATTACHMENTS*43

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

On 3 August 2012, an application¹ was lodged on behalf of BlueScope Steel Limited (BlueScope) requesting that the Minister for Home Affairs (the Minister) publish a dumping duty notice in respect of zinc coated (galvanised) steel exported to Australia from the People's Republic of China (China), the Republic of Korea (Korea) and Taiwan.

BlueScope alleges that the Australian industry has suffered material injury caused by galvanised steel being exported to Australia from China, Korea and Taiwan at dumped prices.

On 17 August 2012² and 27 August 2012 additional information and data were received in respect of the application. As a result, the Australian Customs and Border Protection Service (Customs and Border Protection) restarted the 20 day period for considering the application.

On 5 September 2012, following consideration of the application, the Chief Executive Officer (CEO) of Customs and Border Protection decided not to reject the applications and initiated an investigation in the alleged dumping of galvanised steel from China, Korea and Taiwan. Public notification of initiation of the investigation was published in *The Australian* on 5 September 2012. Australian Customs Dumping Notice (ACDN) No. 2012/40 provides further details of the investigation and is available at www.customs.gov.au.

The application identified Chung Hung Steel Corporation (Chung Hung Steel) as an exporter of galvanised steel from Taiwan. A search of Customs and Border Protection's import database also indicated that Chung Hung Steel exported galvanised steel from Taiwan to Australia during the investigation period (IP) of 1 July 2011 to 30 June 2012. Customs and Border Protection wrote to Chung Hung Steel advising it of the initiation of the investigation, requesting co-operation with the investigation and providing copies of the exporter questionnaire for it to complete.

Chung Hung Steel completed the exporter questionnaire, providing details regarding the company, export and domestic sales and cost to make and sell.

2.2 Purpose of visit

The purpose of the visit was to verify information submitted by Chung Hung Steel in its response to exporter questionnaire. The exporter questionnaire response was supported by confidential appendices and attachments, including confidential spread sheets containing sales and costs data requested in the exporter questionnaire. A non-confidential version of the response to exporter questionnaire was placed on the public record.

¹ *Application for Dumping Duties for Galvanised Steel exported from China, Korea and Taiwan* (Galvanised Steel Application) received on 3 August 2012 received on 3 August 2012.

² Additional information relating to minor issues was also provided on 20 and 21 August 2012.

Customs and Border Protection will use the verified information 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 dates and attendees

Prior to the meeting Customs and Border Protection forwarded an agenda to Chung Hung Steel and advised that it would require supporting documentation for the selected consignments that had been previously identified. A copy of the visit agenda is at **Confidential Attachment GEN 1**.

Verification meetings were held at Chung Hung Steel's Kaohsiung head office from Tuesday 4 December 2012 to Thursday 6 December 2012. A follow up meeting was held on Tuesday 11 December 2012. The following representatives were present at various stages of the verification meetings:

COMPANY:	Chung Hung Steel Corporation
ADDRESS:	317, Yu Liao Road, Chiao Tou District Kaohsiung City 825, Taiwan
DATES:	4, 5, 6, and 11 December 2012
ATTENDEES: Chung Hung Steel Corporation	
Mr Ivan E.H.Lee Mr Kankun Chen Mr Jerel Pan Mr Jack Lin Mr Gary Sun	Vice-President, Commercial Division Deputy General Manager, Marketing Department Manager, Commercial Administration Department Manager, Purchasing Department Administrator, Export Team ([REDACTED])
ATTENDEES: Consultants	
Ms LunFan Lin Ms Ming Ting	Wu Partners, Attorneys-at-Law (Partner) Wu Partners, Attorneys-at-Law (Associate)
ATTENDEES: Customs and Border Protection	
Mr Rod Jones Mr Sanjay Sharma	Manager, Operations 1 Manager, Operations 2

2.4 Preliminary issues

Chung Hung Steel cooperated with the verification of the exporter questionnaire response and provided further information when requested.

At the commencement of the meeting Chung Hung Steel advised that it had identified some minor discrepancies in relation to Australian Sales, Domestic and Australian costs to make and sell (CTMS) and spread sheets recorded in its response to

exporter questionnaire. Chung Hung Steel provided revised spread sheets of Australian export sales, domestic and Australian CTMS and corrections package (confidential attachment GEN 2 refers).

2.4.1 Investigation timeframes

At the commencement of the meeting, we outlined the key investigation timeframes, as detailed below:

- On 5 September 2012, the investigation into the alleged dumping of zinc coated (galvanised) steel exported to Australia from China, Korea and Taiwan was initiated.
- A preliminary affirmative determination (PAD) may be made at any time after 5 November 2012. Provisional measures may be imposed at the time of the PAD or at any time after the PAD has been made.
- Customs and Border Protection would not make such a determination until it was satisfied that there appears to be, or that it appears there will be, sufficient grounds for the publication of a dumping duty notice.
- A statement of essential facts (SEF) is due to be placed on the public record by 24 December 2012 or such later date as the Minister allows. The SEF will set out the material findings of fact on which Customs and Border Protection intends to base its recommendations to the Minister.
- Interested parties will be provided with an opportunity to make submissions within 20 days in response to the preliminary findings and issues contained in the SEF. Submissions received in response to the SEF will be considered when compiling the report and recommendations to the Minister.
- Customs and Border Protection's final report to the Minister is due no later than 7 February 2012.
- The Minister's decision is due within 30 days from the date of receipt of the final report.

We informed Chung Hung Steel that anti-dumping measures may only be imposed where the Minister is satisfied that the goods were dumped and the dumped goods had caused or were threatening to cause material injury to the Australian industry.

2.4.2 Visit report

We explained to Chung Hung Steel that following our visit we would prepare "*For Official Use Only*" and "*Public Record*" versions of our visit report.

We also advised that following our visit, we would provide the company with a draft of our report to review its factual accuracy and to identify those parts of the report it considered confidential. We further advised that, following consultation about confidentiality, we would prepare a public record version of the report for the public file.

3 COMPANY INFORMATION**3.1 Company information**

Chung Hung Steel is a publicly traded company listed on the Taiwan Stock Exchange. The holding of each shareholder varies in line with the shareholder's trading in the stock market.

Chung Hung Steel is a subsidiary of China Steel Corporation ("China Steel"), which is a publicly traded company listed on the Taiwan Stock Exchange. Chung Hung Steel employs [REDACTED] staff. Its operating income for the financial year ending 31 December 2011 was approximately [REDACTED] billion (New Taiwan Dollars).

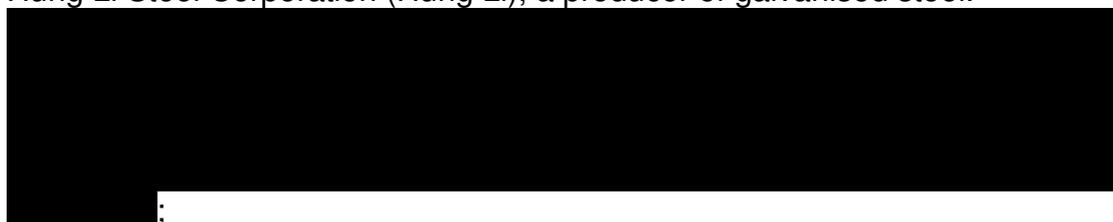
Based on the shareholders' roster as of 30 June 2012, only one shareholder China Steel owned more than 5% of Chung Hung Steel's shares with a direct holding of 28.76% and a total direct and indirect holding of 40.59%.

As at 30 June 2012, only one shareholder, the Ministry of Economic Affairs (Taiwan Government) owns more than 5% of China Steel shares. The Ministry of Economic Affairs had 20.05% of the shareholding.

Chung Hung Steel was established in 1983 as a manufacturer of steel products. In 1987, the cold rolling and pipe plants were constructed and started production. The hot rolling plant was constructed in 1995 and started production in 1997. Chung Hung Steel's main products include Hot Rolled Coil (HRC), Cold Rolled Coil (CRC), Pickled and Oiled Coil, Skin Pass Coil, Galvanised Hot Rolled Coil (GHRC), Galvanised Cold Rolled Coil (GCRC), Black Pipe, Rectangular Pipe, Galvanised Pipe, API Pipe and PE Coated Pipe.

Chung Hung Steel produces and sells the goods in the domestic market and exports to Australia and other countries. Chung Hung Steel has three 100% owned subsidiary companies:

- Hung Li Steel Corporation (Hung Li), a producer of galvanised steel.



- Taiwan Steel Co., Ltd, was established in September 1993 and originally planned to build an integrated steel mill in Binnan Industrial Park in Tainan County, but have not proceeded with that plan as of June 2012; and
- Hung Kao Investment Co., Ltd., established in September 2006 for engaging in general investment businesses.

Chung Hung Steel's and Hung Li's costs and sales are accounted for and maintained as separate entities. Chung Hung Steel is organised into [REDACTED] divisions and [REDACTED]

departments, which are structured based on functions. The marketing department is responsible for sales of the galvanised coils. The hot and cold rolling departments produce coils.

[REDACTED]

Chung Hung Steel exports the goods to Australia

[REDACTED]

[REDACTED] [Confidential commercial arrangements] A copy of agreement are at **confidential attachment GEN 3**.

Chung Hung Steel also exports the goods to Australia through two unrelated trading companies;

[REDACTED]. Chung Hung pays a [REDACTED] to

these trading companies in relation to facilitating export sales of the goods.

3.2 Related parties

Chung Hung Steel provided a listing of affiliated companies within the exporter questionnaire response (**confidential attachment GEN 4**). In addition Chung Hung Steel provided a listing of companies that provide raw materials (**confidential attachment GEN 5**).

We examined the transactions between Chung Hung Steel and its related parties and compared selling prices and purchases with the related parties with those to unrelated parties. Further details are discussed in section 7 of this report.

3.3 Accounting

3.3.1 General

Chung Hung Steel advised that its accounting practices are in accordance with the generally accepted accounting principles in Taiwan. For accounting purposes Chung Hung Steel reports in NTD as its currency.

Chung Hung Steel's financial year is from January to December. Chung Hung Steel's financial statements are prepared separately and consolidated into financial statements which include results of its wholly owned subsidiaries.

As part of its exporter questionnaire response and at the visit Chung Hung Steel provided its:

- chart of accounts (**confidential attachment GEN 6**);
- Chung Hung Steel translated audited consolidated financial statement for 2011 and 2010 (**confidential attachment GEN 7**);
- Chung Hung Steel translated audited financial statement for 2012 first half Year (**confidential attachment GEN 8**);
- Chung Hung Steel translated consolidated audited financial statement for 2012 first half year (**confidential attachment GEN 9**);
- Hung Li's translated audited financial statement for 2011 and 2010 (**confidential attachment GEN 10**).

Chung Hung Steel's financial statements are audited every six months and Hung Li yearly. Consolidated financial statements for Chung Hung Steel and its subsidiaries are audited every six months and all significant intercompany transactions and balances are eliminated upon consolidation.

Chung Hung Steel advised that its financial statements are audited by independent auditors Deloitte and Touche. The auditors stated:

"In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Chung Hung Steel as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Security Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the ROC"(Republic of China)".

3.3.2 Accounting treatments

Chung Hung Steel uses the [REDACTED] method to value the inventory of raw materials, work-in-process, and finished goods in its cost accounting and financial accounting processes.

In Chung Hung Steel's cost accounting system, costs are tracked and cumulated

[REDACTED]. [Confidential accounting methodology]

Gross profit reports are prepared on a monthly basis for the product groups of

[REDACTED].

The gross profit centre for the goods is galvanised coil. Costs and revenue are reported for different product types within each group;

[REDACTED]. Sales and costs are reported separately for domestic and export sales.

[REDACTED]. Further discussion of the impact of this accounting treatment is at section 7. [Confidential accounting methodology]

[REDACTED]. [Confidential accounting methodology]

Chung Hung Steel uses the [REDACTED] method to value damaged or sub-standard (non-prime) goods. There is no by-product or joint product generated in the production of the subject goods. Scraps valued at a standard cost (based on sales value) are subtracted from the total cost of manufacturing and then the difference between standard cost and the actual sales value are treated as an adjustment to the cost of goods (COGS).

Depreciation is calculated by the straight-line method over the service lives of equipment/assets ranged as follows: buildings and improvement, 10 to 60 years; machinery and equipment, 3 to 18 years; and miscellaneous equipment, 3 to 18 years.

Non-derivative foreign-currency transactions are recorded in NTD at the rates of exchange in effect when the transactions occur, which is the date of invoice. For export sales the date of invoice is typically loaded on-board date. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognised in the profit and loss.

At the balance sheet date, foreign-currency monetary assets and liabilities are re-valued using prevailing exchange rates and the exchange differences are recognised in profit and loss. The exchange rate is based on exchange rate of the Bank of Taiwan.

Part A of Chung Hung Steel's response to the exporter questionnaire provides further details regarding Chung Hung Steel's treatment of inventory, assets and other accounting practices.

3.3.3 Chung Hung Steel's accounting system

Chung Hung Steel uses [REDACTED] system for financial and cost accounting functions. Chung Hung Steel provided flowcharts of the financial records maintained in [REDACTED] and for its cost accounting system (confidential attachment GEN 11 refers). During the verification process we sighted numerous accounting records and reports extracted from [REDACTED]. Chung Hung Steel's accounting system and methodology are discussed in further detail at section 7.

3.4 Production facilities and process

3.4.1 Production facilities

Chung Hung

Chung Hung Steel production facilities are located in Kaohsiung, Taiwan. Chung Hung Steel produces HRC and band, CRC, pipes including black, painted galvanised and API, and galvanised coils, strip and sheet products.

[REDACTED]

[REDACTED]. [Confidential commercial arrangements]

Hung Li

Hung Li's production facility is situated at a separate location from Chung Hung Steel, approximately 45 minutes' drive from Chung Hung Steel's head office.

[REDACTED]

[REDACTED]. The major products produced by Hung Li include galvanised hot rolled, galvanised cold-rolled coil, skin-passed HRC and CRC.

Hung Li advised that it mainly concentrates on

[REDACTED]

Hung Li claims that galvanising of CRC is a more time consuming and costly process than [REDACTED] HRC.

[REDACTED]. [Confidential commercial arrangements]

3.4.2 Production process

At the visit Chung Hung Steel and Hung Li provided a production process package (confidential attachment GEN 12 refers) and an overview of the HRC production

process. Chung Hung Steel advised that it manufactures HRC through [REDACTED]

In respect of the [REDACTED] production processes, Chung Hung Steel advised that the key difference between the processes is that the [REDACTED] process is used to make steel from liquid iron, while an [REDACTED] process is used to make steel from [REDACTED]. Both [REDACTED] processes are used in industrial settings to heat and mold metal.

HRC and CRC are produced in Chung Hung Steel's hot-rolling factory and cold rolling factory. The production process of hot-rolled products is provided at **confidential attachment GEN 13.**

Chung Hung Steel does not have any [REDACTED] from the production of the goods. In the process of producing the goods, scrap material, including [REDACTED] is recovered and offset against the costs of production.

For the galvanising (zinc coating) process, [REDACTED]

[REDACTED]
[Confidential commercial arrangements]

A flow chart of [REDACTED] continuous galvanising line (CGL) is provided at **confidential attachment GEN 14.**

3.5 Production capacity

Chung Hung Steel's operating production capacity in respect of HRC during the investigation period was [REDACTED] million metric tonnes.

[REDACTED] [Confidential commercial arrangements]

Hung Li advised that its production capacity for galvanising was [REDACTED] (operating [REDACTED] days in a month) during the investigation period due to [REDACTED].

3.6 On-site verification

During the verification visit we visited the production facility for galvanising steel at [REDACTED]. An on-site inspection of Chung Hung Steel's [REDACTED] production facilities was not considered necessary, as supported by the investigation case management team reflecting the:

- logistics involved in undertaking a plant tour;
- limited timeframe to conduct the verification visit;
- Chung Hung Steel's detailed explanation (including production flow chart); and
- supporting evidence provided for the production processes.

4	GOODS UNDER CONSIDERATION AND LIKE GOODS
----------	---

4.1 The goods the subject of the application

4.1.1 Description

The imported goods the subject of the application are:

“flat rolled products of iron and non-alloy steel of a width less than 600mm and, equal to or greater than 600mm, plated or coated with zinc”³.

The goods are generically called galvanised steel (referring to zinc coated steel). The application covers galvanised steel of any width. The application stated that trade and other names often used to describe galvanised steel include:

- “GALVABOND®” steel;
- “ZINCFORM®” steel;
- “GALVASPAN®” steel;
- “ZINCHITEN®” steel;
- “ZINCANNEAL” steel;
- “ZINCSEAL” steel;
- Galv;
- GI;
- Hot Dip Zinc coated steel;
- Hot Dip Zinc/iron alloy coated steel; and
- Galvanneal.

The application noted that the amount of zinc coating on the steel is described as its coating mass and is nominated in grams per meter squared (g/m²) with the prefix being Z (*Zinc*) or ZF (*Zinc converted to a Zinc/Iron alloy coating*). The applicant claims that the common coating masses used for zinc coating are: Z350, Z275, Z200, Z100, and for zinc/iron alloy coating are: ZF100, ZF80 and ZF30 or equivalents based on international standards and naming conventions.

4.1.2 Product standards

The application stated that:

“Typically each Australian and International Standard has a range of steel grades nominated as Commercial, Formable or Structural grades. The commercial/formable grades are those with mechanical properties suitable for general pressing and forming whereas the structural grades are those with guaranteed minimum properties that structural engineers utilize in the design of their final product designs”⁴.

³ Galvanised Steel Application, page 10.

⁴ Galvanised Steel Application, page 12.

(i) Australia

The application states that the Australian and New Zealand Standard Industrial Classification Code applicable to galvanised steel is category 2711.

(ii) International

The application states that there are a number of relevant International Standards for galvanised steel products (figures 1 and 2 refer) that cover a range of products through specific grade designations, including the recommended or guaranteed properties of each of these product grades.

International Standards	Product Grade Names
General and Commercial Grades	
AS/NZS 1397	G1, G2
ASTM A 653/A 653M	CS type A, B and C
EN10346	DX51D, DX52D
JIS 3302	SGCC, SGHC
Forming, Pressing & Drawing Grades	
AS/NZS 1397	G3
ASTM A 653/A 653M	FS, DS type A and B
EN10346	DX53D, DX54D
JIS 3302	SGCD, SGCD, SGCD
Structural Grades	
AS/NZS 1397	G250, G300, G350, G450, G500, G550
ASTM A 653/A 653M	33 (230), 37 (255), 40 (275), 50 (340), 55 (380), 80 (550)
EN10346	S220GD, S250GD, S280GD, S320GD, S350GD, S550GD
JIS 3302	SGC340, SGC400, SGC440, SGC490, SGC570 SGH340, SGH400, SGH440, SGH490, SGH570

Figure 1: International Standards for galvanised steel⁵

4.1.3 Tariff classifications

The application states that galvanised steel is classified to tariff subheadings 7210.49.00 (and statistical codes 55, 56, 57 and 58) and 7212.30.00 (and statistical code 61) of Schedule 3 to the *Customs Tariff Act 1995* (Tariff Act). Based on the information provided in the application, Customs and Border Protection's Trade Policy Branch confirmed that galvanised steel is correctly classified to these tariff subheadings.

The general rate of duty is currently 5% for goods imported under these tariff subheadings. Imports from China are subject to the DCS duty rate which is free. Imports from Korea and Taiwan are subject to the DCT duty rate which is 5%.

⁵ Galvanised Steel Application, page 11.

There are several Tariff Concession Orders (TCOs) applicable to the relevant tariff classification subheading 7210.49.00, which covers galvanised steel (figure 2 refers).

TC No.	Description
TC 0939596	STEEL, COIL, hot dip zinc coated, complying with Japanese Industrial Standard JIS G 3302:2007, having ALL of the following: (a) yield strength NOT less than 275 N/mm ² and NOT greater than 380 N/mm ² ; (b) tensile strength NOT less than 440 N/mm ² ; (c) elongation NOT less than 29% and NOT greater than 41%; (d) coating mass NOT less than 45 g/m ² and NOT greater than 65 g/m ² ; (e) thickness NOT less than 1.14 mm and NOT greater than 1.26 mm; (f) width NOT less than 1590 mm and NOT greater than 1605 mm
TC 9612218	STEEL, flat rolled non alloy, hot dipped galvanized, having ANY of the following: (a) differential coating mass on each side; (b) additional iron base alloy electroplated outer coatings; (c) width exceeding 1525 mm; (d) a minimum ultimate tensile strength of 340 MPa

Figure 2: TCOs applicable to tariff subheading 7210.49.00

Customs and Border Protection notes that the application did not specify that TCOs in respect of the goods were applicable. Customs and Border Protection considers that the relevance of the TCOs to the goods the subject of the application for galvanised steel requires further investigation.

4.2 Like goods

Chung Hung Steel manufactures and sells galvanised steel in a wide range of specifications, grades, widths, thicknesses and zinc coatings. For the purpose of identifying the goods sold in the domestic market that are most 'like' to those exported to Australia, Chung Hung Steel identified what it considered to be the key characteristics, being product category, steel grade category, zinc coating range, and thickness range. All models exported to Australia are grouped as detailed in the table below⁶.

6

* Category:

** Steel grade category:

***Zinc:

**** Thickness (mm):

The following table identifies the different models sold in the domestic market.

TABLE CONFIDENTIAL

4.2.1 Like goods – preliminary assessment

We consider that galvanised steel sold domestically by Chung Hung Steel during the investigation period has characteristics closely resembling to those of the goods exported to Australia and are therefore “like goods” in terms of subsection 269T(1).

5 SALES TO AUSTRALIA**5.1 Export sales process****5.1.1 Distribution channels**

[REDACTED]

Chung Hung Steel also sold goods to Australia through [REDACTED] are trading companies that on sold the goods to the Australian importers [REDACTED]. Chung Hung Steel paid [REDACTED] agreements are at **confidential attachment EXP 1)** to [REDACTED] for sales made by these companies during the investigation period that is shown in the Australian export spread sheet.

Sales are made on [REDACTED] terms. Chung Hung Steel customers send their inquiries to [REDACTED] for price quotations, either by fax or by email. After completing the price negotiation between [REDACTED], and the customer, a sales contract is sent by Chung Hung Steel to the customer to confirm the quantities, prices and the delivery schedule for the ordered products. The goods are shipped to the customers along with the commercial invoice and other shipping documents by Chung Hung Steel. A detailed sales process flowchart is at **confidential attachment EXP 2.**

Chung Hung Steel [REDACTED]. The selling prices are negotiated [REDACTED] on a case-by-case basis. However, Chung Hung Steel prepares [REDACTED] (**confidential attachment EXP3 refers**) for selling prices to help [REDACTED] to negotiate with customers. Chung Hung Steel explained that its export selling prices [REDACTED]. All quotations, contracts, pricing, invoices and payments are in [REDACTED].

Payment is by [REDACTED], but terms of [REDACTED] were offered to [REDACTED].

For sales with [REDACTED] terms, Chung Hung Steel as seller/shipper passes ownership and transfers risk to the buyer [REDACTED].

- delivery notice;
- packing list;
- original mill inspection certificate;
- mill test certificate (model specification);
- bill of lading;
- screen shots of order entry into [REDACTED] system;
- screen shots of receipt of payment into [REDACTED] system;
- screen shots of delivery notice detail into [REDACTED] system;
- delivery notice sheet;
- copies of [REDACTED];
- list of marine survey fee
- certificate of list of measurement and /or weight
- negotiated exchange rates and charge receipt;
- notification of [REDACTED];
- packing cost; and
- payment record.

Supporting documentation for the selected shipments are at **confidential attachments EXP 5**

We verified details for the selected shipments to the export sales spread sheet. We noted that most invoice numbers have multiple lines covering different types of coil. We also verified that for the selected shipments the appropriate export code was identified on the delivery notice of the [REDACTED] screenshot.

For the selected shipments we verified the delivery number, invoice quantity, invoice value, discounts offered, terms of trade, date of payment and reconciled with the Australian sales spread sheet.

We also verified that exchange rates used for the [REDACTED] to NTD were similar to rates from the Reserve Bank of Australia website.

We verified that the packing type in the export sales spread sheet matched the information in the delivery sheet.

We noted that [REDACTED] customer [REDACTED] credit terms. However the export sales spread sheet showed the sales as [REDACTED]. Chung Hung Steel explained that

[REDACTED]

[REDACTED]. [Confidential payment terms]

We are satisfied that the data provided by Chung Hung Steel in its Australian sales spread sheet is accurate.

5.4 The exporter

Customs and Border Protection will generally identify the exporter as:

- a principal in the transaction located in the country of export from where the goods were shipped who gave up responsibility by knowingly placing the goods in the hands of a carrier, courier, forwarding company, or their own vehicle for delivery to Australia; or
- a principal will be a person in the country of export who owns, or who has previously owned, the goods but need not be the owner at the time the goods were shipped.

Where there is no principal in the country of export Customs and Border Protection will normally consider the exporter to be the person who gave up responsibility for the good as described above.

For sales from Chung Hung Steel through [REDACTED] to importers in Australia, we consider Chung Hung Steel was the exporter of the goods. Chung Hung Steel:

- manufactured the goods to the specific order of the Australian customer;
- was listed as the supplier on the bill of lading;
- invoiced the Australian customer for the goods;
- arranged and paid for the goods to be taken to port;
- arranged and paid for loading charges for [REDACTED] shipments; and
- receives payment for the goods exported to Australia.

For sales from Chung Hung Steel through [REDACTED] [trading companies] to importers in Australia, we consider Chung Hung Steel was the exporter. Chung Hung Steel:

- manufactured the goods to the specific order of the Australian customer;
- arranged and paid for the goods to be taken to port;
- arranged and paid for loading charges for [REDACTED] shipments; and
- receives payment for the goods exported to Australia

5.5 The importer

According to subsection 269T(1), the importer is the beneficial owner of the goods at the time of their arrival within the limits of the port or airport in Australia at which they have landed.

We [REDACTED] noted [REDACTED] that [REDACTED]:

- were named as the customers on supplier invoices;
- were named as the consignee on the bills of lading; and
- arranged customs clearance and logistics in Australia.

We consider that [REDACTED] were the beneficial owners of the goods at the time of importation and were therefore the importers.

5.6 Arm's length

Chung Hung Steel stated that it has no relationship to its Australian customers other than that of buyer and seller. In respect of Chung Hung Steel exports to Australia in the investigation period we found no evidence of:

- any consideration payable for or in respect of the goods other than their price; or
- the price being 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
- any direct or indirect reimbursement, compensation or other benefit in respect of the whole or any part of the price.

Accordingly, we consider Chung Hung Steel's export transactions of galvanised steel to be arms length in terms of s. 269TAA of the Act.

5.7 Export price – preliminary assessment

In respect of sales to importers by Chung Hung Steel through [REDACTED], we consider:

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

Therefore, we are satisfied that export prices can be established under s. 269TAB(1)(a), being the price paid or payable by the importer less any part of the price that represents a charge in respect of transport of the goods or in respect of any other matter arising after exportation.

In respect of sales through [REDACTED], [trading companies] we consider:

- that the goods were exported to Australia otherwise than by the importer;
- that the goods were not purchased by the importer from the exporter; and
- the purchases of the goods were arm's length transactions.

Therefore, we are satisfied that export prices can be established under s. 269TAB(1)(c), having regard to all the circumstances of the exportation.

We adjusted export prices as follows:

- for sales at [REDACTED] (for direct and indirect sales) we added charges to bring the export price to an [REDACTED] level using the average of charges for those sales at a [REDACTED] level;
- for sales to [REDACTED] we deducted the [REDACTED] fee paid to those companies from the export price shown in the spread sheet.

We deducted the [REDACTED] fee paid to those companies as we consider the export price shown for those companies is not the price paid for the goods due to the payment of the [REDACTED] fee. We do not consider that the payment of the

██████████ fee affects the arm's length assessment for those companies as we can quantify the amounts paid.

Preliminary export price calculations are at **Confidential Appendix 1**.

The quantity and value of total sales in the gross profit spread sheet reconciled to the domestic and export sales reconciliation.

Having been satisfied that the gross profit sales report reconciles to the audited income statements, we then sought to reconcile it to the Australian export sales spread sheets. During the visit, Chung Hung Steel provided a full download from its system of its total galvanised steel export sales listing for the investigation period. We were able to match the total export sales volume and revenue to the total galvanised export sales revenue amount shown on the sales report. We were then able to match the total Australian export sales revenue and volume of galvanised steel to the sum of the gross profit sales spread sheets.

Chung Hung Steel provided details of export sales by country code in its response to exporter questionnaire. Chung Hung Steel exported product directly to other countries.

We consider the domestic and export sales information provided by Chung Hung Steel is complete.

7 COST TO MAKE & SELL**7.1 Introduction**

Chung Hung Steel sells GHRC and GCRC on [REDACTED] markets. Hung Li sells GHRC and GCRC on [REDACTED].

[REDACTED] [Confidential commercial arrangements]

[REDACTED]. Coils are packed differently according to whether the customer is a domestic or export customer with export packing requiring more materials. Coils are delivered directly from [REDACTED] warehouses to domestic customers and to the shipping docks for export customers.

[REDACTED] [Confidential commercial arrangements]

Chung Hung Steel provided detailed cost to make and sell information for each month of the investigation period in its exporter questionnaire response. This information included:

- separate CTMS for Chung Hung Steel and Hung Li and a combined CTMS of the two companies. A combined cost to make (CTM) for each month for the two entities for the separate products of galvanised cold roll coil (GCRC) and galvanised hot rolled coil (GHRC) was calculated using total CTM divided by total production quantities. A combined cost to sell (CTS) was calculated by weighting the individual CTS of each company according to production volume and then applying the subsequent percentage to the combined CTM;
- CTMS for GCRC and GHRC was provided for each month of the investigation period. Production quantities were provided and CTM was separated into material costs and manufacturing overheads (including labour and depreciation). Sales quantities were provided and selling, general and administration, CTS, were separated into selling, administrative, finance and other costs. CTS was calculated as a percentage of the CTM;
- Raw materials information for Chung Hung Steel, comprised of listings of purchases of slabs used to make coils and purchases of HRC, HRB and CRC; and
- Domestic and export packing costs summarised into major components.

Reconciliation of the CTMS for each entity from the CTMS for December 2011 to inventory statements, costs centre reports and to the audited financial statements for 2011 were provided in the exporter questionnaire response.

We have used CTMS and sales information relating only to Chung Hung Steel as Chung Hung Steel is the exporter and has sales on the domestic market. We verified costs from Chung Hung Steel and Hung Li as part of the visit, certain costs verified from Hung Li are noted in this section that was part of the verification process.

7.2 Cost to make and sell

The material costs in Chung Hung Steel's CTMS comprises the cost of the coil, cold rolled or hot rolled, and the cost of freight for the coils from Chung Hung

The cost of the coil is comprised of coils purchased from related parties and coils produced by Chung Hung Steel.

The costs of coil are captured in separate cost centres for the separate production processes of the hot rolled band and coils and the cold rolled coils. These processes include skin pass, pickling and slitting.

The costs for producing the galvanised coil are captured in two separate cost centres,

[Confidential commercial and manufacturing details]

7.2.1 Verification upwards to audited financial statements

Chung Hung Steel provided the following documents to demonstrate the reconciliation of the cost to make to its financial statements.

- A. Spread sheet for production quantities, material costs, manufacturing overheads and total cost to make for December 2011 for GCRC and GHRC.
- B. Finished goods inventory statement for GCRC and GHRC for each month of calendar year 2011 and year to date figures that include production quantities and value which matched to the amounts on **A**. Costs of goods sold quantities and values were also included in the inventory reports.
- C. Detailed cost centre statements for December for [REDACTED]. The production quantities and values matched to the amounts on **A**.
- D. Gross profit margin reports for December 2011 and the year to date that included the cost of goods sold quantities and values which matched to the inventory statements at **B**.
- E. Cost of goods for the 2011 year reconciled to operating expenses in the statement of income for the year ended December 2011 that comprised part of the audited financial statements for Chung Hung. These costs also reconciled to the relevant appendices in the exporter questionnaire response.

Chung Hung Steel also provided gross profit margin reports for the six months ended June 2011 and June 2012 that reconciled to operating expenses in the statement of income for the six months ended June 2011 and June 2012.

Documents relating to the verification of costs to audited statements are at **confidential attachment CTMS1**.

7.2.2 Raw materials

Raw material costs comprise the cost of purchased coils, coils produced by Chung Hung Steel and credits for recyclable material recovered. The major raw material cost is the cost of coil produced by Chung Hung Steel.

All purchased coils are from the related company [REDACTED] to the audited financial statements, Related Party Transactions, says the selling prices of steel products for related parties were similar to those for third parties. However there was a difference in payment terms [REDACTED]. [Confidential payment terms]

We reviewed the information provided by Chung Hung Steel and noted that the verification visit to [REDACTED] investigation considered the sales of [REDACTED] to its related parties, [REDACTED], were arms length transactions. We were able to match sales data from the visit to [REDACTED] with purchase data from this visit to Chung Hung Steel. And consider that the purchase of coils from [REDACTED] were arms length transactions.

Costs for producing hot rolled coil consist of raw material costs and overheads and are captured in the hot rolled mill cost centre.(i)

Raw material costs comprise purchases of slabs and credits for recovery of scrap and [REDACTED] recycling. [REDACTED]. Chung Hung Steel is able to purchase slabs from [REDACTED] under this agreement and pays a [REDACTED] in addition to the purchase price. Chung Hung Steel also has an [REDACTED] arrangement to [REDACTED]. Further details of the [REDACTED] and slab [REDACTED] arrangements are in [REDACTED] to the audited financial statements. The majority of slabs are purchased from [REDACTED] with smaller purchases from two unrelated companies, [REDACTED]. [Confidential commercial arrangements]

We noted that the cost of slabs purchased from [REDACTED] was similar to that from the two unrelated parties and that the visit report to Chung Hung Steel in respect of the recent Hot Rolled Coil investigation had considered the prices of slabs to reflect market prices. We consider that the price of slabs in Chung Hung Steel's CTMS reflects market prices.

The slab cost is comprised of the beginning inventory, purchases, slabs borrowed and returned and price adjustments. Chung Hung Steel provided a listing of purchases and we selected four invoices from the listing for verification. Chung Hung Steel provided invoices, mill certificates and documents supporting proof of payment for the selected invoices. The details on the invoices matched to the listing. (ii)

Overheads comprise wages and salary, maintenance, utilities, supplies and other service departments including depreciation. Chung Hung Steel advised that overheads are allocated based on production quantity, staff levels or direct costs for that cost centre.

Chung Hung Steel provided documents for the allocation of shipping and warehouse costs. These costs are shared between the hot rolled mill and the skin pass line and are allocated based on staff hours, the allocated cost matched to the cost in the overheads. (iii) . The largest cost in utilities related to fuel oil used in the production of coil. Chung Hung Steel provided documents from the [REDACTED] demonstrating the calculation of this cost. (iv)

Depreciation consists of amounts directly attributable to the hot roll mill, such as machinery, and shared depreciation amounts that are allocated. Chung Hung Steel provided a listing of depreciation amounts. The listing included item details, date purchased, years depreciated over, purchase value and accumulations for the month, year to date and total accumulated. We selected the fire alarm system for further verification and Chung Hung Steel provided invoice details and payments relating to the values shown on the schedule. The values on the schedule matched to the amount in the mill cost centre, Chung Hung Steel also demonstrated that the depreciation for the hot mill formed part of the total depreciation shown in the audited accounts.(v)

Chung Hung Steel provided an inventory report to demonstrate the unit price of the produced hot roll coil for December 2011 and calculations showing this unit price matching to the unit price shown in the cost of produced hot rolled coil in the cost centres for [REDACTED].(vi)

Documents relating to the costs of raw materials are at **confidential attachment CTMS2**.

7.2.3 Overheads- Cost of galvanising

As noted above the cost of overheads for galvanised coil produced by Chung Hung Steel

[REDACTED].

Chung Hung Steel advised that [REDACTED] was not related to it or to any of its related or affiliated [REDACTED] companies

[REDACTED].

[REDACTED]

[Redacted] [Confidential commercial arrangements]

Hung Li galvanising line

Hung Li provided a detailed cost centre statement for the cost centre for its galvanising line for December 2011. Material costs comprised purchases of band and coil, scrap and recyclable recoveries and the cost of the zinc used in galvanising. Hung Li provided inventory statements and cost centre reports to reconcile the costs to the audited accounts. These documents are at **confidential attachment CTMS3**.

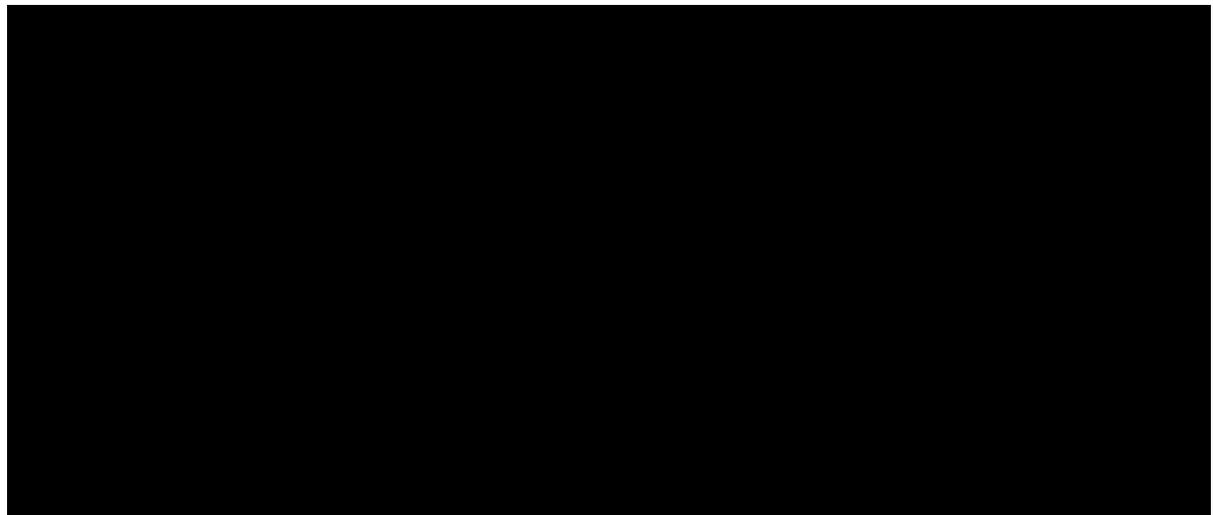
Hung Li demonstrated the cost of the zinc in the cost centre and provided an invoice and other documents in support of this cost. These documents are at **confidential attachment CTMS4**.

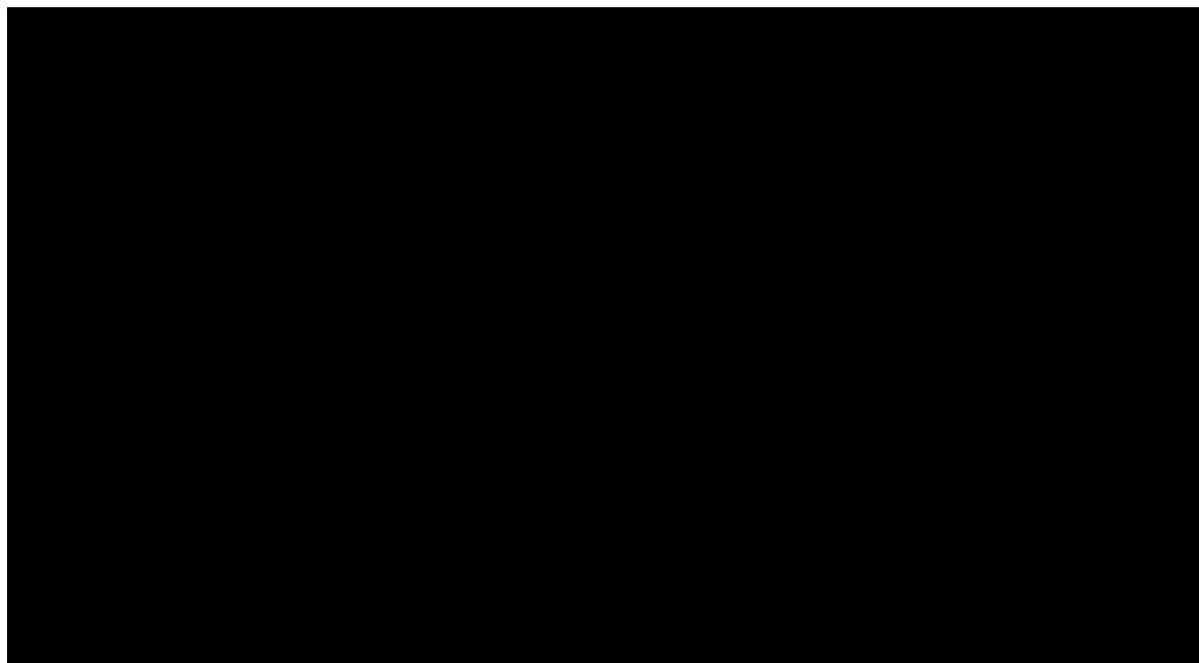
Overheads for coil galvanised by Hung Li comprise wages and salary, maintenance, utilities, supplies and other service departments including depreciation. Overheads may be allocated based on production quantity, staff levels or direct costs for that cost centre.

Hung Li provided documents for the allocation of management overheads. These costs are shared between the galvanising line, the skin pass line and the pickling and are allocated based on quantities, the allocated cost matched to the cost in the overheads.

Depreciation consists of amounts directly attributable to the galvanising line, such as machinery, and shared depreciation amounts that are allocated. Hung Li provided a schedule of depreciation amounts. The schedule included item details, date purchased, years depreciated over, purchase value and accumulations for the month, year to date and total accumulated. The values on the schedule for equipment for the galvanising line matched to the amount in the cost centre. These documents are at **confidential attachment CTMS5**.

We consider that the costs are a reasonably complete, relevant and accurate reflection of the actual costs of Hung Li to galvanise coil during the investigation period.





[Confidential commercial arrangements]

7.3 Selling, general, administration and other expenses

Chung Hung Steel provided a calculation of sales, general, administration and other expenses (SG&A) based on the proportion of those expenses to the total costs as shown in the audited accounts.

Included in the calculations were amounts relating to non-operating income such as gains on investments, disposal of assets and revaluations. We advised that we did not consider those items related to the production of the goods and should not be included in the calculation of SG&A.

Selling expenses relate to Chung Hung Steels expenses on the export and domestic markets.

We calculated SG&A as a proportion of the cost to make based on selling expenses, general and administrative expenses, interest expenses and revenue and foreign exchange gains. We consider that foreign exchange gains are related to the cost of production of the goods. Chung Hung purchase raw materials such as the slabs in [REDACTED] and exports in [REDACTED], the values are booked to the accounts using the rate of exchange applying on invoice date and any foreign exchange gains and losses result in differences in the exchanges rates from the invoice date and payment date.

Calculations relating to SG&A expenses are at **confidential attachment CTMS7**.

7.4 Cost to make and sell – summary Chung Hung Steel

We consider the CTMS (including the revisions set out above) are a reasonably complete, relevant and accurate reflection of the actual costs of Chung Hung Steel to make and sell GHRC and GCRC during the investigation period.

7.4.1 Model costing

Chung Hung Steel does not record costs down to a model basis for the width and thickness of the coils and the zinc coverage applied. The main differential in costing is the cost of the coil used, hot rolled or cold rolled, and the cost of galvanising for that type of coil.

The cost of galvanising varies depending on the type of coil to be galvanised. Cold rolled coils incur a higher cost per tonne [REDACTED]. Chung Hung Steel explained during the tour of Hung Li galvanising facilities that galvanising cold rolled coil was a far longer and more time consuming process than that for hot rolled and incurred more costs per tonne. [REDACTED]. [Confidential commercial arrangements]

The base [REDACTED] for cold rolled coil is around [REDACTED] NTD per tonne whilst the base [REDACTED] for hot rolled coil is around [REDACTED] NTD per tonne. Extra costs apply for the thickness of the zinc coating and the thickness of the coil.

Chung Hung Steel proposed a CTMS for models based on the zinc [REDACTED]. Chung Hung Steel calculated a CTMS for the models by removing the total costs for applying zinc to each product type, cold rolled or hot rolled for that month and then reapplying the cost of zinc based on the [REDACTED]. The individual zinc [REDACTED] was obtained by the allocation of the total zinc cost by production volume and then applied by unit zinc [REDACTED] for that product.

We considered that the method was reasonable for determining and applying costs for the different models. Chung Hung Steel provided electronic copies of the workings for its individual model costing and documents in support of its costing methodology which are at **confidential attachment CTMS8**.

We reconciled the costs in the model worksheet to the costs in the Chung Hung Steel worksheets. Our calculations of model costs for the goods produced by Chung Hung Steel is at **Confidential Appendix 2**.

7.5 Conclusion CTMS Chung Hung Steel

We consider the CTMS for models (including the revisions set out above) are a reasonably complete, relevant and accurate reflection of the actual costs of Chung Hung Steel to make and sell GHRC and GCRC during the investigation period.

We consider these CTMS are suitable for:

- determining a constructed normal value under section 269TAC(2)(c) of the Act; and
- assessing ordinary course of trade under section 269TAAD of the Act.

The revised CTMS for Chung Hung Steel are at **Confidential Appendix 2**.

8 DOMESTIC SALES**8.1.1 General**

Domestic sales by Chung Hung Steel and Hung Li were verified as part of the verification process.

However as noted in previous sections of this report we consider Chung Hung Steel to be the exporter of the goods and will only be using Chung Hung Steel costs to assess ordinary course of trade (OCOT) and to construct normal values where required.

As such all assessments for domestic sales were done on domestic sales by Chung Hung Steel only and exclude domestic sales by Hung Li.

Chung Hung Steel stated that the domestic market for GHRC has been declining since 2011. There is no company in the domestic market who is a price setter. Chung Hung Steel claims to be one of the three major producers and suppliers in the domestic market for GHRC. Its two main competitors were [REDACTED]. The end users mainly use the GHRC to produce C Sections for roofing applications.

Chung Hung Steel advised that it was a minor player in the GCRC market as it did not have the production facilities to supply large quantities. It identified [REDACTED] as the main player in the market. The main uses for GCRC were for computer cases, household appliances (such as fridge bodies) and cars.

Chung Hung Steel said that there was no government influence in the market, all parties were free to set prices and there was no influence on pricing or costs by the government in the market. There was no restriction on imports. Imports from [REDACTED] were major competitors in the domestic market for GHRC and GCRC.

Further Chung Hung Steel advised that:

- it has no plans to expand or to reduce its products as market conditions were difficult to predict and fluctuated depending on demand and imports;
- prices were slowly increasing as inventories were being built;
- that the [REDACTED];
- Chung Hung Steel stated that it supplies GHRC and GCRC to all parts of Taiwan despite being located in South Taiwan.

8.2 Domestic sales process

Both Chung Hung Steel and Hung Li sell on the domestic market but they do not compete with each other for the same customers. All sales are entered into Chung Hung Steel [REDACTED] system and separately identified as a sale belonging to Chung Hung Steel or Hung Li. Revenue relating to sales by Hung Li is transferred at the end of each month.

Chung Hung Steel sells mostly to end-users and to traders, with a minor amount (less than [REDACTED]) to Hung Li on the domestic market. We reviewed Chung Hung Steel's annual report and found that the vast majority of Chung Hung Steel's domestic sales were to unrelated companies.

All domestic customers (including [REDACTED]) wanting to purchase galvanised steel approach Chung Hung Steel with their required specifications and volumes. The information is entered into Chung Hung Steel's [REDACTED] system. When production is complete the goods are delivered directly to the customer from [REDACTED] factory or through [REDACTED] warehouses. Detailed flow chart of domestic selling process is at **confidential attachment DOM1**.

Chung Hung Steel stated that most sales are through [REDACTED]. We found that for a small quantity (less than [REDACTED]) of the sales, payment was made through [REDACTED]. Chung Hung claims that [REDACTED] were offered to any of its customers. [Confidential payment terms]

Chung Hung Steel stated that base prices are negotiated on market conditions. However, extra charges are applied for differences such as usage code, specification, thickness, width and coating. Details of these extra charges are at **confidential attachment DOM2**.

8.2.1 Discounts, rebates and allowances

Chung Hung Steel stated that it did not provide any discounts or rebates to its customers. However, during the verification we found "other discounts" were offered to some customers. Chung Hung Steel explained that discounts as follows:

- Quantity discount – when a customer purchases large volume of goods in a particular month, discount is normally given in the following month. The discount rates are varying from month to month depending on the market conditions. Discount rates range between [REDACTED] per metric tonne.
- General discount – these are discounts given for buying the goods from Chung Hung Steel. Discount rates vary between [REDACTED] per metric tonne.
- Other discount – the purpose for which the goods are used. Discount rates vary between [REDACTED] per metric tonne.

One or more discount type can be given to a customer. A copy of the full discount list is at **confidential attachment DOM3**.

8.3 Domestic sales - reconciliation to financial statements

Refer to section 6 of this report for the upwards reconciliation of Chung Hung Steel's Australian and domestic sales of galvanised steel to audited financial statements.

8.4 Domestic sales – verification to source documents

Chung Hung Steel provided a list of all its domestic sales of like goods during the investigation period in its response to the exporter questionnaire. To facilitate downwards verification of Chung Hung Steel's domestic sales to source documentation, prior to the visit, we requested that Chung Hung provide supporting documents for twelve selected invoice numbers. Chung Hung Steel provided the following documents for each of these selected transactions:

- tax Invoice;
- screen shots of order entry and details into [REDACTED] system;
- screen shots of details of delivery notice into [REDACTED];
- delivery notice sheet;
- screen shots of accounts receivable [REDACTED] system;
- screen shots of payment receipted in [REDACTED] system;
- details of 'other discounts' given to customers; and
- payment record.

Supporting documentation for the selected transactions are at **confidential attachment DOM4**.

We verified details for the selected transactions to the domestic sales spread sheet.

We consider that the domestic sales data provided by Chung Hung Steel is accurate.

8.5 Arm's length transactions

In respect of Chung Hung Steel's domestic sales of galvanised steel, we found no evidence that:

- there was any consideration payable for or in respect of the goods other than their price; or
- the price was influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller.

We therefore consider Chung Hung Steel's domestic sales during the investigation period were arm's length transactions.

8.6 Ordinary course of trade

In conducting the OCOT tests we only used domestic sales by Chung Hung Steel.

We compared the net unit invoice price paid for each domestic sale with the fully absorbed CTMS for those models for the corresponding month. We then compared the selling prices of loss making sales with the weighted average CTMS for the

investigation period to test whether those sales may be taken to be recoverable within a reasonable period of time.

We found that greater than 20 per cent of Chung Hung Steel's domestic sales were not profitable and not recoverable over the investigation period. These sales were excluded from our assessment of domestic sales for establishing normal values.

Domestic Sales and OCOT calculations are at Appendix 3.

8.7 Volume and suitability of sales

Domestic sales cannot be used to establish normal values if the volume of domestic sales is less than 5% of the volume of comparable goods exported to Australia. In comparing volumes we excluded domestic sales by Hung Li and only used domestic sales by Chung Hung Steel.

We compared the volume of Chung Hung Steel's domestic sales of each type and thickness category with comparable export sales over the investigation period.

We found [REDACTED] models where the volume of domestic sales in the OCOT was more than 5% of the volume of comparable goods exported to Australia.

Assessment of the volume of sales calculations are at Confidential Appendix 3.

8.8 Sales by other sellers

There are other sellers of galvanised steel in Taiwan. Customs and Border Protection is visiting two other producers.

8.9 Domestic sales – summary

We found sufficient volume of sales in the domestic market for [REDACTED] models that were arm's length and sold at prices that were in the OCOT. We consider that prices paid in respect of domestic sales for those [REDACTED] models are suitable for assessing normal value under s. 269TAC(1).

There were [REDACTED] export models where there were no domestic sales. We considered using the price of a similar model adjusted for price differences. However we noted in our verification of domestic sales that although there were price lists for the different model types the verified selling prices did not reflect the prices on the price lists and those price differences.

We consider that normal values for those [REDACTED] models should be constructed using Chung Hung Steel's verified CTMS data under s.269TAC(2)(c) plus a profit as calculated as per the regulations (Regulation 181A(2) of the Act). We consider a suitable profit is the average profit achieved by the [REDACTED] models we verified that were in the ordinary course of trade.

For the remaining [REDACTED] exported models we found that all sales for those models were at a loss. We consider that normal values should be constructed using Chung Hung Steels verified CTMS data under s.269TAC(2)(c) with no profit added as per s.269TAC(13).

9	THIRD COUNTRY SALES
----------	----------------------------

9.1 Introduction

As part of the response to exporter questionnaire, Chung Hung Steel provided a spread sheet summary of galvanised steel it exported to countries other than Australia during the investigation period (**confidential attachment THIRD 1** refers). This summary contained aggregate export sales data for ten export markets (three major markets were Korea, Malaysia and China) which represented the highest volume of Chung Hung Steel's total export sales to third countries.

During the investigation period Chung Hung Steel's export sales to third countries (other than Australia) accounted for approximately █% of total sales turnover and total volume of the goods under investigation.

9.2 Approach

We are satisfied that there is sufficient verified domestic sales and CTMS information for the purposes of calculating normal values, therefore third country sales do not need to be considered (and while we verified the total volume and sales value of galvanised steel exported to Australia as part of export sales reconciliation process, further detailed verification was not required).

10 ADJUSTMENTS

10.1 Introduction

Adjustments were made to normal values for domestically supplied GCRC and GHRC to ensure comparability to GCRC and GHRC export prices. These adjustments are detailed in the following section of this report.

10.2 Adjustments in respect of export sales

10.2.1 Packing

Chung Hung Steel provided information on packing costs that detailed the differences in the costs for export and domestic packing (**confidential attachment ADJ1 refers**). The exported goods incur a higher packing cost due to the extra protection required for the shipping of the goods.

We consider a downward adjustment for the domestic packaging expenses and an upward adjustment for export packing expenses in the normal value calculation at the stated amounts per tonne is required to ensure fair comparison of normal values to export prices.

10.3 Direct export expenses

We consider upward adjustments for direct export expenses as detailed below in the normal value calculation is required to ensure fair comparison of normal values to export prices.

██████████
Chung Hung Steel incurs ██████████ costs from its traders in respect of its export sales that it does not incur on its domestic sales.

This ██████████ is based on the export price. We calculated the ██████████ as a percentage of the export price and applied that percentage as an upward adjustment.

Chung Hung Steel also incurs a trade promotion fee collected by the Government of Taiwan in respect of its export sales that it does not incur for domestic sales. The fee is charged as a percentage of the export price. We applied the same percentage as an upward adjustment.

Bank credit costs

Chung Hung Steel incurs bank and credit costs for its exports that it does not incur on the domestic market. We found that for domestic sales the credit terms were generally as stated ██████████, for export sales extended credit terms were given, most notably to ██████████. We calculated bank and credit costs as a percentage of the export price and applied that percentage as an upward adjustment.

██████████ costs and inland transport

All of Chung Hung Steel domestic sales are [REDACTED] whilst the export sales are [REDACTED] or adjusted to [REDACTED] terms. We calculated weighted average inland freight and inland transport costs in NTD per tonne and applied this amount as an upward adjustment to normal values.

10.4 Other adjustments

Chung Hung Steel did not claim and we did not identify any other adjustments.

11 NORMAL VALUES

We consider that information gathered from all sources and detailed in this report and its attachments, can be relied upon to establish normal values.

For the [REDACTED] models where we found sufficient sales in the ordinary course of trade we established normal values under s. 269TAC(1) using sales in the domestic market that were arm's length transactions and sold at prices that were in the ordinary course of trade. If there were no export sales of the comparable exported models or no domestic sales in the month of export we constructed normal values based on cost. We added a profit to the constructed normal values, being the average profit achieved on the domestic sales in the ordinary course of trade of the [REDACTED] models.

For the [REDACTED] export models where there were no domestic sales we constructed normal values under s.269TAC(2)(c) plus a profit as calculated as per the regulations. We added a profit to the constructed normal values, being the average profit achieved on the domestic sales in the OCOT of the three models.

For the remaining [REDACTED] exported models we constructed normal values under s.269TAC(2)(c) with no profit added as per s.269TAC(13).

We made adjustments to the normal values under s. 269TAC(8) and 269TAC(9) for:

- Packing costs;
- Commissions;
- Bank and credit charges;
- [REDACTED] costs; and
- Inland freight.

A summary of normal value calculations is at **confidential appendix 4**.

12 DUMPING MARGIN – PRELIMINARY ASSESSMENT

In calculating the dumping margin we compared each export transaction with the corresponding monthly weighted average normal value for the corresponding model.

The weighted average product dumping margin calculated is 8.5%.

Dumping margin calculations are at **confidential appendix 5**.

13 LIST OF APPENDICES AND ATTACHMENTS

Confidential Appendix 1	Export price
Confidential Appendix 2	Cost to make and sell
Confidential Appendix 3	Domestic sales, OCOT and volumes
Confidential Appendix 4	Normal values
Confidential Appendix 5	Dumping margin
Confidential Attachment GEN1	Visit agenda
Confidential Attachment GEN2	Corrections package
Confidential Attachment GEN3	Copy of [REDACTED] agreement - Chung Hung Steel and [REDACTED]
Confidential Attachment GEN4	Chung Hung Steel's affiliated companies
Confidential Attachment GEN5	List of companies that provide Chung Hung Steel raw material
Confidential Attachment GEN6	Chart of Accounts
Confidential Attachment GEN7	Chung Hung Steel's translated consolidated audited financial statements for 2011 and 2010
Confidential Attachment GEN8	Chung Hung Steel's translated audited financial statement for 6 months to June 2012
Confidential Attachment GEN9	Chung Hung Steel's translated consolidated audited financial statement for 6 months to June 2012
Confidential Attachment GEN10	Hung Li Steel's translated audited financial statements for 2011 and 2010
Confidential Attachment GEN11	[REDACTED] cost accounting system flow chart
Confidential Attachment GEN12	Chung Hung Steel's company profile and hot rolled & cold rolled production process brochure
Confidential Attachment GEN13	Hung Li's company profile and hot-dip galvanising steel coil, hot rolled pickling and oiled coil processes brochure
Confidential Attachment GEN14	Flow chart of Hung Li's continuous galvanising Line(CGL)
Confidential Attachment GEN15	List of Model categorisations
Confidential Attachment EXP1	Copies of [REDACTED] agreements

Confidential Attachment EXP2	Detailed sales process flowchart for goods sold to Australia
Confidential Attachment EXP3	Chung Hung Steel - internal price guidelines
Confidential Attachment EXP4	Australian Sales Data
Confidential Attachment EXP5	Supporting documentation for the 12 selected shipments
Confidential Attachment REC1	Revised Australian and domestic sales data
Confidential Attachment REC2	Chung Hung Steel's accounts for the 2011 and 2010 gross profit report identifying sales by gross profit account code
Confidential Attachment REC3	Hung Li's gross profit account summary for 6 months June 2012, FY2011 and 6 months to June 2011 identifying sales by gross profit account code
Confidential Attachment CTMS1	Documents relating to the verification of costs to audited statements
Confidential Attachment CTMS2	Documents relating to the costs of raw materials
Confidential Attachment CTMS3	Galvanisation costs and reconciliation to audit accounts Hung Li
Confidential Attachment CTMS4	Documents relating to zinc costs Hung Li
Confidential Attachment CTMS5	Documents relating to overheads Hung Li
Confidential Attachment CTMS6	Galvanising [REDACTED]
Confidential Attachment CTMS7	SG&A costs Chung Hung Steel
Confidential Attachment CTMS8	Model costing
Confidential Attachment DOM1	Detailed flow chart of domestic selling process
Confidential Attachment DOM2	Details of extra charges on pricing
Confidential Attachment DOM3	Copy of full discount list
Confidential Attachment DOM4	Supporting documentation for the 12 selected invoices for domestic sales
Confidential Attachment THIRD1	Summary of galvanised steel exported to countries other than Australia during the investigation period
Confidential Attachment ADJ1	Information on packing costs for Domestic and Export markets