

PUBLIC RECORD



Australian Government

**Australian Customs and
Border Protection Service**

INVESTIGATION INTO THE ALLEGED DUMPING AND SUBSIDISATION OF GALVANISED AND ALUMINIUM ZINC COATED STEEL

EXPORTED FROM

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

EXPORTER VISIT REPORT

YIEH PHUI (CHINA) TECHNOMATERIAL CO., LTD

<p>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</p>

January 2013

PUBLIC RECORD

1 CONTENTS

1	CONTENTS	2
2	BACKGROUND	4
2.1	Background to the current investigation.....	4
2.2	Purpose of visit.....	4
2.3	Meeting dates and attendees.....	6
2.4	Preliminary issues	6
3	COMPANY INFORMATION	8
3.1	Company information	8
3.2	Accounting.....	8
3.3	Production facilities and process	9
3.4	On-site verification	10
4	GOODS UNDER CONSIDERATION AND LIKE GOODS.....	11
4.1	Galvanised steel.....	11
4.2	Aluminium zinc coated steel.....	11
4.3	Thickness	12
4.4	Like goods	12
4.5	Key physical characteristics	13
5	SALES RECONCILIATION.....	15
6	SALES TO AUSTRALIA	16
6.1	Export sales process.....	16
6.2	Export sales – verification to source documents.....	17
6.3	The exporter.....	18
6.4	The importer.....	19
7	COST TO MAKE & SELL	21
7.1	Introduction.....	21
7.2	YPC's cost accounting system.....	21
7.3	Cost to make	21
7.4	Cost to make and sell – summary.....	27
8	DOMESTIC SALES	28
8.1	Domestic sales process	28
8.2	Domestic sales – verification to source documents.....	29
8.3	Arm's length transactions.....	30
8.4	Ordinary course of trade and volume of sales	30
8.5	Sales by other sellers.....	31
8.6	Domestic sales – summary	31
9	THIRD COUNTRY SALES	32
10	ADJUSTMENTS	33
10.1	Adjustments in respect of domestic sales.....	33
10.2	Adjustments in respect of export sales	33
10.3	Other adjustments.....	34
11	NORMAL VALUE.....	35
12	DUMPING MARGIN – PRELIMINARY ASSESSMENT	36
13	PARTICULAR MARKET SITUATION.....	37
13.1	Business licence	37
13.2	Galvanising line renovation	37

PUBLIC RECORD

13.3	Financing and investment	38
13.4	National Steel Policy	38
13.5	Sales of defective HRC	38
14	<i>SUBSIDY</i>	39
14.1	Other operating income.....	39
14.2	Income tax.....	39
14.3	Industries encouraged by the state.....	39
14.4	Import duty and VAT	39
15	<i>GENERAL COMMENTS</i>	41
16	<i>LIST OF APPENDICES AND ATTACHMENTS</i>	42

PUBLIC RECORD

2 BACKGROUND

2.1 Background to the current investigation

On 3 August 2012, applications were lodged by BlueScope Steel Limited (BlueScope) requesting that the Minister for Home Affairs (the Minister) publish dumping duty notices in respect of galvanised (zinc coated) steel and aluminium zinc coated steel exported to Australia from the People's Republic of China (China), the Republic of Korea (Korea) and Taiwan. Refer to the full description of the goods in section 4 of this report.

Additional information was received in respect of these applications and as a result, the Australian Customs and Border Protection Service (Customs and Border Protection) restarted the 20 day period for considering the applications. On 5 September 2012, following consideration of the applications, Customs and Border Protection decided not to reject the applications and initiated investigations in the alleged dumping of galvanised and aluminium zinc coated steel from China, Korea and Taiwan. Customs and Border Protection is treating these as two separate investigations, but is examining them together because BlueScope advised that many of the importers and exporters deal in both products.

A countervailing investigation regarding galvanised and aluminium zinc coated steel from China was initiated on 26 November 2012.

There are no current anti-dumping or countervailing measures on galvanised and aluminium zinc coated steel exported to Australia from China, Korea and Taiwan.

The applications identified Yieh Phui Technomaterial Co., Ltd (YPC) as an exporter of galvanised and aluminium zinc coated steel from China. A search of Customs and Border Protection's import database also indicated that YPC exported galvanised and aluminium zinc coated steel from China to Australia during the investigation period (July 2011 to June 2012). Customs and Border Protection wrote to YPC advising it of the initiation of the investigation, requesting co-operation with the investigation and providing copies of exporter questionnaires for it to complete.

YPC completed the exporter questionnaires, providing details regarding the company, exports, domestic sales and cost to make and sell (CTMS) expenses for galvanised and aluminium zinc for coated steel.

2.2 Events after date of visit

On 6 February 2013, Customs and Border Protection gave notice that preliminary affirmative determinations (PADs) have been made that there appears to be sufficient grounds for the publication of dumping duty notices in respect of:

- galvanised steel exported to Australia from China, Korea and Taiwan; and
- aluminium zinc coated steel exported to Australia from China, Korea and Taiwan.

PUBLIC RECORD

In reaching these preliminary decisions, Customs and Border Protection was satisfied that dumped goods appear to have caused material injury to the Australian industry producing like goods.

The decision to make PADs was based on the information available at the time of making the PADs. The preliminary findings, including dumping margins, may change between the time of the publication of the PADs and the publication of the statements of essential facts in respect of both investigations.

At the time of making the PADs, Customs and Border Protection further determined that securities should be required and taken under section 42 of the *Customs Act 1901*¹ in respect of interim dumping duty that may become payable in respect of certain goods from China, Korea and Taiwan, being satisfied that it is necessary to require and take securities in order to prevent material injury occurring to the Australian industry while the investigations continue.

Dumping securities will be taken in respect of any interim dumping duty that may become payable in respect of the goods entered for home consumption on or after 6 February 2013.

No PAD was made in respect of the alleged subsidisation of exports of galvanised or aluminium zinc coated steel from China.

Further details of the PADs are contained in Australian Customs Dumping Notice 2013/11 and the report, PAD 190. Both can be found on the electronic public record for the investigations.

Given the making of the PADs following the visit, this report serves both as an account of the verification conducted as well as providing details of the dumping margin calculated based on the preliminary determinations contained in PAD 190.

2.3 Purpose of visit

The purpose of the visit was to verify information submitted by YPC 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 to make preliminary assessments of:

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

¹ All references in this report to sections of legislation, unless otherwise specified, are to the *Customs Act 1901*.

PUBLIC RECORD

2.4 Meeting dates and attendees

Verification meetings were held at YPC's Changshu office from Wednesday 16 January 2013 to Friday 18 January 2013. A further meeting was held on Monday 21 January 2013. The following representatives were present at various stages of the verification meetings:

COMPANY:	Yieh Phui (China) Technomaterial Co., Ltd
ADDRESS:	1, Yieh Phui Road Riverside Industrial Park Changshu Economic Development Zone Jiangsu People's Republic of China 215536
DATES:	16, 17, 18 and 21 January 2013
ATTENDEES: Yieh Phui (China)	
Mr Christopher Y.F. Chang Mr Chih-Chien Cheng Mr Vincent W.M. Chen Mr Jungle Te-Ching Chen Mr Spring Chun-Yu Lee Mr Chris Po-Shun Chiu	President General Manager, Marketing and Sales Division General Manager, Finance Division Deputy General Manager, Global Business Division Deputy General Manager, Technology Division Section Manager, Global Marketing and Sales Section I
ATTENDEES: Yieh Phui (Taiwan)	
Mr Steve K. C. Ling	Manager, Mainland China Export Section, Global Marketing & Sales Division
ATTENDEES: Appleton Luff Pte Ltd International Lawyers (Consultants)	
Mr Jay Y. Nee Mr Huibin Zhang	Partner International Trade Law Consultant
ATTENDEES: Customs and Border Protection	
Mr Chris Vincent Ms Rachel Lohan	Manager, Operations 1 Supervisor, Operations 1

2.5 Preliminary issues

Prior to the meeting, we forwarded YPC an exporter visit agenda that included sales transactions and costs selected for detailed verification. YPC cooperated with the verification of the exporter questionnaire response and provided further information when requested.

2.5.1 Investigation timeframes

At the commencement of the meeting, we outlined the following key investigation timeframes.

- The investigation period is July 2011 to June 2012.

PUBLIC RECORD

- Customs and Border Protection will examine the Australian market from July 2007 for the purpose of analysing the condition of the Australian industry.
- A preliminary affirmative determination can be made at any time. Provisional measures may be imposed at the time of the preliminary affirmative determination or at any time after the preliminary affirmative determination has been made. Refer to section 2.2 above for details of the PADs made in relation to dumping.
- In December 2012 the Minister for Home Affairs granted an extension to the publication date for the statement of essential facts (SEF) for the dumping investigations. The revised due date for the SEF for the dumping and subsidy investigations is 16 March 2013 or such later date as the Minister allows.
- The SEFs will set out the material findings of fact on which Customs and Border Protection intends to base its recommendations to the Minister and will invite interested parties to respond, within 20 days, to the issues raised (submissions received in response to the SEFs will be considered when compiling the report and recommendations to the Minister).
- Following the extension to the SEF date for the dumping investigations, Customs and Border Protection's reports to the Minister for both the dumping and countervailing investigations are due by 30 April 2013, unless a further extension to the SEF is approved by the Minister.
- The Minister will have 30 days from the date of receipt of the final report to make a final decision.
- Certain interested parties have the right to seek a review by the Trade Measures Review Officer in relation to the Minister's final decision.

We informed YPC 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. We also informed YPC that countervailing measures may only be imposed where the Minister is satisfied that the goods have been subsidised and had caused or were threatening to cause material injury to the Australian industry.

2.5.2 Visit report

We explained to YPC that following our visit we would prepare "*For Official Use Only*" and "*Public Record*" versions of our visit report. We advised that the classification "*For Official Use Only*" replaces the classification "*Commercial in Confidence*". We advised that following our visit and that 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 non-confidential version of the report for the public record.

PUBLIC RECORD

3 COMPANY INFORMATION

3.1 Company information

YPC was set up in December 2001 and is wholly owned by its parent Taiwanese company, Yieh Phui Enterprise Co., Ltd (Yieh Phui Taiwan) through Yieh Phui (Hong Kong) Holding Limited (Yieh Phui Hong Kong). YPC was established to service the mainland China market. Its parent company is publicly listed on the Taiwan Stock Exchange and has more than seventeen thousand shareholders. YPC is part of the E United Group, which was established in 2003. E United Group is not a legal entity but a group of companies associated with the chairman Mr I S Lin. Further information can be accessed from <http://www.e-united.com.tw>.

YPC provided company brochures in the public record versions of its exporter questionnaire responses.

YPC provided details outlining their internal organisation structure which consists of five divisions: Marketing and Sales, Production, Technology, Planning and Finance. The production division operates five divisions, the pickling and rolling production, galvanising production, coating production, equipment maintenance and the electrical maintenance. Galvanised and aluminium zinc coated steel is produced at the Changshu manufacturing facility.

Over the investigation period YPC exported galvanised and aluminium zinc coated steel to one independent Australian importer.

3.2 Accounting

YPC used Oracle software to prepare its financial statements. The accounting system uses a process costing system based on actual costs. YPC advised that its accounting practices are in accordance with the generally accepted principles in China and that its financial year is from January to December. YPC advised that an annual financial statement is produced each year and that it reports on a quarterly basis to its parent company. As part of its exporter questionnaire responses YPC provided the following documents:

- translated audited financial statements for YPC for 2010 and 2011;
- translated internal monthly financial statement for each month of the investigation period; and
- chart of accounts.

YPC advised that its financial statements are audited annually by an independent auditor. YPC provided an English translation of the auditor's report which stated:

In our opinion, the financial statements present fairly, in all material respects, the financial position of Yieh Phui (China) Technomaterials Co., Ltd as of December 31, 2011, and of its financial performance and its cash flows for the year then ended in accordance with the Accounting Standards for Business Enterprises and Accounting Systems for Business Enterprises.

PUBLIC RECORD

3.3 Production facilities and process

YPC produces galvanised and aluminium zinc coated steel at its Changshu works using HRC purchased from unrelated domestic suppliers. It refers to both these products as galvanised steel. The other major product YPC produces and sells is pre-painted steel. During the investigation period YPC sold small quantities of partly processed HRC (pickled and cold rolled coil (CRC)), damaged HRC that was not suitable for proceeding and it also performed tolling services. This revenue represented less than 1% of total revenue. YPC also sold scrap generated during the production process and revenue from these sales was offset against costs.

In its exporter questionnaire response, YPC provided details of all HRC purchases during the investigation period. These purchases include hot rolled band (HRB). YPC stated that HRB is used to refer to HRC that has not been skin passed. All references to HRC in this report include HRB.

YPC's production process involves four main steps - pickling, cold-rolling, coating and painting. During the pickling process, the HRC passes through hydrochloric acid baths to remove surface scale and is then edge trimmed to the desired width.

In the cold rolling mill, the pickled HRC is fed into a reversing cold rolling mill to reduce the base metal thickness (BMT). The majority of the pickled HRC was sourced from the pickling line, but small quantities were purchased from unrelated suppliers.

During the coating process, the CRC is introduced into the continuous galvanising line for coating. Zinc and aluminium ingots are placed into the coating baths as the material inputs. Once coated, the coil is then skin-passed and/or tension levelled depending on the customer's requirements. At this stage, surface treatment such as oiling, chromating, and resin coating is conducted if required. The majority of the CRC was sourced from the cold rolling mill, but small quantities were purchased from unrelated suppliers.

The zinc and aluminium coated steel coils are then either sent to the packing unit for packaging or to the painting line to produce pre-painted steel.

YPC has one pickling line with a capacity of 900,000 tonne per annum, two cold rolling mills, each with a capacity of 300,000 tonnes per annum, three coating lines, each with a capacity of 300,000 tonnes per annum and two painting lines, each with a capacity of 180,000 tonnes per annum. The capacity of the coating lines includes steel that is transferred to the painting lines.

Coating line 1 produces galvanised and 55% aluminium zinc coated steel, coating line 2 has only produced galvanised steel to date and coating line 3 produces 5% and 55% aluminium zinc coated steel. YPC explained that there were two metal baths on each coating line.

PUBLIC RECORD

3.4 On-site verification

During the verification visit an on-site inspection of YPC's galvanised and aluminium zinc coated steel production facilities was not considered necessary, as supported by the investigation case management team, reflecting the:

- limited timeframe to conduct the verification visit and need to allocate sufficient time to ensure adequate verification of substantial complex accounting system and records;
- minimal risk associated with not undertaking a plant tour as one of the verification team members had undertaken tours of BlueScope's galvanised and aluminium zinc coated steel production facilities; and
- YPC's detailed explanation (including video presentation) and supporting evidence provided to illustrate and verify production processes.

PUBLIC RECORD

4 GOODS UNDER CONSIDERATION AND LIKE GOODS

4.1 Galvanised steel

The imported goods the subject of this 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.

The amount of zinc coating on the steel is described as its coating mass and is nominated in grams per mere squared (g/m^2).

Product treatment

The galvanised steel application covers galvanised steel whether or not including any (combination of) surface treatment, for instance; whether passivated or not passivated, (often referred to as chromated or unchromated), oiled or not oiled, skin passed or not skin passed, phosphated or not phosphated (for zinc iron alloy coated steel only).

Goods excluded from investigation scope

Painted galvanised steel, pre-painted galvanised steel and electro-galvanised plate steel are not covered by the application and subsequent investigation.

Tariff classification

Galvanised steel is classified to tariff subheadings 7210.49.00 (statistical codes 55, 56, 57 and 58), and 7212.30.00 (statistical codes 61) of Schedule 3 to the *Customs Tariff Act 1995*. The general rate of duty is currently 5%, the DCS duty rate is free and the DCT rate is 5%. Imports from China are subject to the DCS duty rate.

4.2 Aluminium zinc coated steel

The imported goods the subject of this application are:

flat rolled products of iron and non-alloy steel, of a width equal to or greater than 600mm, plated or coated with aluminium-zinc alloys, not painted, whether or not including resin coating.

The amount of aluminium zinc coating on the steel is described as its coating mass and is nominated in g/m^2 .

Product treatment

The aluminium zinc coated steel application covers aluminium zinc coated steel whether or not including any (combination of) surface treatment, for instance; whether passivated or not passivated, (often referred to as chromated or unchromated), resin coated or not resin coated (often referred to as Anti Finger Print (AFP) or not AFP), oiled or not oiled, skin passed or not skin passed.

PUBLIC RECORD

Goods excluded from investigation scope

Painted aluminium zinc coated steel and pre-painted aluminium zinc coated steel are not covered by the application and subsequent investigation.

Tariff classification

Aluminium zinc coated steel is classified to tariff subheading 7210.61.00 (statistical codes 60, 61 and 62) of Schedule 3 to the *Customs Tariff Act 1995*. The general rate of duty is currently 5%, the DCS duty rate is free and the DCT rate is 5%. Imports from China are subject to the DCS duty rate.

4.3 Thickness

The thickness of both galvanised and aluminium zinc coated steel can be described in two ways – base metal thickness (BMT) or total coated thickness (TCT). BMT refers to the thickness of the base steel (substrate) only, whereas TCT refers to the steel base thickness plus the metallic coating thickness. Most international standards refer to the products in terms of BMT. References to thicknesses in this report are to the BMT.

4.4 Like goods

YPC sells galvanised and aluminium zinc coated steel on the domestic market in China. YPC uses a three digit product code, but this does not distinguish the key physical characteristics of the steel. We asked YPC what codes it used in production and inventory control. YPC stated that it does not have a comprehensive product code that identifies all characteristics. It has an eight digit specification code that is used in production planning and inventory management and a ten digit product specification code that identifies standard, specification and grade, but is not used for costing. YPC stated that it often relies on the product description. For better comparison of different galvanised and aluminium zinc coated steel models, YPC created a six digit model number that identifies five key attributes:

- coating type;
- BMT;
- width;
- coating mass; and
- product type (coil or cut/slit).

Identification of the key physical characteristic is discussed in the next section.

YPC exported ■ models of galvanised steel and ■ models of aluminium zinc coated steel to Australia during the investigation period. By comparison, it sold ■ and ■ models respectively on the domestic market. As part of the exporter questionnaire response YPC provided a comparison of the exported models and the models sold domestically in China. We consider that galvanised and aluminium zinc coated steel sold domestically by YPC during the investigation period has characteristics closely resembling those of the goods exported to Australia.

PUBLIC RECORD

4.5 Key physical characteristics

YPC claimed that the key physical characteristics that affect price are thickness, coating mass and to a lesser extent width. YPC provided export and domestic price extras tables to illustrate how these characteristics affect price. These documents are at **confidential attachment GOODS 1**.

The domestic price extras table only identifies price extras for thickness and coating mass. However, YPC stated that there is a price extra for width; the base price is for widths of [REDACTED] to [REDACTED] and anything outside this range incurs an extras charge of RMB [REDACTED]/tonne. YPC stated that this was not included on the price extras table because it was a simple adjustment.

The export price extras table identifies thickness, coating mass and width. However, it also identifies quality extras for structural grades (US\$[REDACTED]/tonne for Grade A, US\$[REDACTED]/tonne for Grades B and C and US\$[REDACTED]/tonne for grades D and E). There is an extra charge for sales based on theoretical rather than actual weight. However, YPC advised that all domestic sales and exports to Australia were based on actual weights.

Following the visit to Yieh Phui (Taiwan), YPC provided revised domestic and export sales spreadsheets identifying additional characteristics: specification (for example, AS, JIS or ASTM), grade, surface finish and quality (prime or non-prime).

Grade

YPC stated that on the domestic market there is not a price extra for grade. It stated that the price extras charged by its suppliers for different types of HRC were so small that it did not warrant having a price extras for grade. YPC also stated that the domestic market was currently very weak and that it would not be able to obtain any price extra for grade. It provided a summary comparing grades by standard (**confidential attachment GOODS 2**) and a summary of price extras for two of its largest HRC suppliers and a price list from one supporting the summary (**confidential attachment GOODS 3**).

[REDACTED] [supplier name] identified the following price extras for grade:

- RMB [REDACTED]/tonne for forming quality;
- RMB [REDACTED]/tonne for structural grade A;
- RMB [REDACTED]/tonne for structural grades C and D; and
- RMB [REDACTED]/tonne for structural grade E.

[REDACTED] [supplier name] identified the following price extras for grade:

- RMB [REDACTED]/tonne for forming quality;
- RMB [REDACTED]/tonne for drawing quality;
- RMB [REDACTED]/tonne for structural grades A, B, C and E;
- RMB [REDACTED]/tonne for structural grade D.

We noted that over [REDACTED]% of exports to Australia were structural grades [REDACTED] [grade types] and Grade [REDACTED] [grade type] accounted for about [REDACTED]%. By comparison, about

PUBLIC RECORD

■% of domestic sales of models used to establish normal values were commercial quality and a little over ■% were structural grades ■ [grade types].

We have not made an adjustment for grade as there was no adjustment for grade on the domestic price extras table, because the price extras for YPC's HRC suppliers were small and inconsistent. In addition no adjustment is necessary due to the product mix of models exported to Australia and models sold domestically and used to establish normal values.

Surface finish

YPC stated that it does not have price extras for surface finish. We have not made an adjustment for surface finish.

Quality

YPC stated that it manufactures to order for both the domestic and export markets. All exports were prime quality, but a number of domestic sales were non-prime quality. YPC provided translations of the features of some of the non-prime sales (**confidential attachment GOODS 4**). YPC stated that non-prime product was sold at a discount of ■% to ■% and that product was classified as non-prime because it was damaged or because it was outside the customers required specifications. We do not consider domestic sales of non-prime product are in the ordinary course of trade (that is, they are not sales made as part of YPC's normal business activities) and have excluded non-prime sales for the purpose of comparing export prices with normal values.

Colour

YPC offers a wide range of colours for which it charges a small premium for export customers. It stated that it does not charge this premium for domestic sales. We have not made an adjustment for colour.

Summary

We have made adjustments to domestic selling prices, where necessary, for thickness, coating mass and width.

PUBLIC RECORD

5 SALES RECONCILIATION

YPC provided a summary of domestic, Australian and third country sales for 2011 and the investigation period. It provided general ledger printouts of the main operating income accounts for domestic and export sales that also supported net income. YPC provided similar documents for the investigation period. It provided a monthly summary of its income statement for 2011 and the first six months of 2012. Revenue in the monthly summary for 2011 reconciled to net sales in the audited financial statements and the revenue for the first six months of 2012 reconciled to net sales in the internal financial statements provided at Exhibit 8 to the exporter questionnaire response (refer to confidential attachment COSTS 1). Supporting documents are at **confidential attachment REC 1**.

These summaries reported sales by category (for example, pickled coil, scrap, galvanised coil, pre-painted coil). We noted that there was a small difference (■%) between the value reported in the domestic sales spreadsheet and the sales summaries. YPC stated that this was non-subject goods. The value of exports to Australia reconciled to the export sales spreadsheet after adding back ocean freight. We noted almost ■% of revenue was attributed to galvanised and pre-painted steel.

YPC provided a download of all sales for the investigation period. The download identified shipping notice, coil number, invoice number, quantity and value and a description of the goods. We reconciled sales of galvanised and pre-painted steel from the summary to this download, which as stated above represents the majority of the total sales revenue. We verified the volume and value of sales from this download to the domestic and export sales spreadsheets for galvanised and aluminium zinc coated steel. We separately verified the volume and value of 5% and 55% aluminium zinc coated steel and verified that the non-subject aluminium zinc coated steel was slit coil. There were minor discrepancies in the value of export sales which YPC advised were due to exchange rate differences.

We are satisfied that the sales data provided for galvanised and aluminium zinc coated steel is complete.

PUBLIC RECORD

6 SALES TO AUSTRALIA

6.1 Export sales process

6.1.1 Distribution channels

During the investigation period YPC only exported to [customer name]. However, sales were negotiated with [customer name]. YPC stated that it did not know the relationship between [explanation of relationship between companies].

[customer name] sends details of its requirements via telephone or email on a monthly basis to [company name]. The details are then negotiated by the sales team in [country]. Once an agreement is finalised based on market conditions and production capacity, details are then sent to YPC. Based on the negotiated price, YPC draws up a contract and sends [customer name] an invoice. The contract is between YPC and [customer name] and the invoice is made out to [customer name]. [customer name] pays YPC. YPC then raises a production order and produces the steel. YPC stated that [company name] is not involved in this process. The time between finalisation of the contract and shipment is typically [] days.

YPC advised that the selling prices for goods sold to Australia do not differ according to level of trade. Rather, selling prices are based purely on input costs, production capacity and price negotiations. YPC claimed that the Australian market for galvanised and aluminium zinc coated steel was very weak during the investigation period. YPC provided an export price extras tables for variations in width, thickness, coating mass and quality (confidential attachment GOODS 1). YPC offers a wide range of colours which it claims are not offered by BlueScope and charges a premium for tinted colours. No extras are charged for regular or spangled finish.

YPC exported galvanised and aluminium zinc coated steel to [place names]. During the investigation period, these sales were predominantly made on an [incoterm] basis, however occasionally sales were made [incoterm]. YPC stated that [incoterm] was a new incoterm, with [incoterm] meaning [incoterm meaning] and [incoterm] means [incoterm meaning]. [incoterm] means container yard to container yard. Only about []% of sales were made on [incoterm] terms.

Invoices are in US dollars and YPC uses the exchange rate at the time the sales are booked in the accounts. Payment terms for all sales to Australia are [payment terms]. During the investigation period all payments for goods made by [customer name] were made prior to shipment.

6.1.2 Discounts, rebates and allowances

YPC stated that it does not offer any discounts or pay any rebates to its customers. We did not find any evidence that YPC offers discounts or rebates.

PUBLIC RECORD

6.1.3 Date of sale

YPC reported the date of sale as the commercial invoice date.

6.2 Export sales – verification to source documents

YPC provided a list of all its export sales to Australia during the investigation period in its exporter questionnaire response. To facilitate downwards verification of YPC's export sales to source documentation, prior to the visit, we requested that YPC provide supporting documents for 14 selected invoice numbers, six for galvanised steel sales and eight for aluminium zinc coated steel sales. YPC provided the following documents for each of these selected shipments:

- sales contract;
- commercial invoice;
- packing list;
- bill of lading;
- export declaration form;
- advice of letter of credit;
- transfer voucher;
- payment checklist;
- bank slip displaying line of credit;
- bank statements displaying payments to YPC for goods;
- statement of account;
- shipping notice;
- inland freight invoice;
- handling and brokerage invoice;
- cargo organisation invoice;
- YPC payment record for each inland freight, handling and brokerage and cargo organisation;
- bank statements noting payment by YPC for each inland freight, handling and brokerage and cargo organisation invoice; and
- bank charges.

We verified details for the selected shipments to the export sales spreadsheet. We noted that each transaction in the spread sheet refers to a specific coil with the unique coil number identified. Supporting documentation for the selected shipments, including proof of payment, are at **confidential attachments EXP 1 to 14**.

We consider that the export sales data provided by YPC is accurate.

Export inland freight and insurance

We noted that in reporting export inland freight and insurance costs, a weighted average allocation was used based on the net weight of the coil shipped. Most export inland freight costs were low due to the close proximity of the factory to [REDACTED] [port name] on the Yangtze River ([REDACTED] km). For all the selected invoices we were able to reconcile the export inland freight costs reported in the export sales spreadsheet to source documents. YPC stated that it does not take out inland freight

PUBLIC RECORD

insurance for goods exported from [REDACTED] [port name]. However, it does take out insurance on goods exported through Shanghai Port.

Cargo organisation, preloading survey, brokerage and handling fees

YPC incurs these fees when loading steel at the port. The cargo organisation fee is for physical support for the coil during shipment, the preloading survey confirms the actual quantity and brokerage covers the customs declaration and the brokers handling fees. We noted that these fees were allocated to each invoice based on net weight. For all the selected invoices we were able to reconcile the charges reported in the export sales spreadsheet to source documents.

Bank fees

YPC incurs bank fees on international transactions when payment is received. We noted that bank fees were allocated to each invoice calculated on the ratio of the gross invoice values. For all the selected invoices we were able to reconcile bank fees reported in the export sales spreadsheet to source documents.

Ocean freight

Ocean freight was only reported for shipments made to Australia on [REDACTED] [incoterm] terms. Ocean freight was allocated to each invoice based on the net weight of the goods shipped. For all the selected invoices where the goods were shipped [REDACTED] [incoterm] we were able to reconcile the ocean freight reported in the export sales spreadsheet to source documents.

Packing costs

YPC calculated packing costs for each type of packing using the standard cost for each packing type, adjusted using the total cost of the packing unit. It calculated packing costs using the weight of the goods and the type of packing used. YPC stated that there is no difference in packing between export and domestic sales. It stated that it operates a packing unit and offers a wide range of packing types and that the customer selects how it wants the goods packed. YPC claims that domestic packing can be more expensive than export packing, especially when goods are shipped long distances by road. We verified the overall cost of packing to the packing unit ledger. YPC provided a detailed description of the different types of packaging available. Supporting documents are at **confidential attachment EXP 15**.

6.3 The exporter

For sales from YPC to its Australian customer, [REDACTED] [customer name], we consider YPC was the exporter. YPC:

- 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 the inland freight;

PUBLIC RECORD

- was 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; and
- sent the goods for export to Australia and was aware of the identity of the purchaser of the goods.

6.4 The importer

For exports to Australia, we consider [REDACTED] [customer name] was the importer. We noted that [REDACTED] [customer name]:

- was named as the customer in the sales contract
- was named as the customer on supplier invoices;
- was named as the consignee on the bill of lading;
- was the applicant for the letter of credit and
- paid for the goods.

We consider [REDACTED] [customer name] was the beneficial owner of the goods at the time of importation and are therefore the importer.

6.5 Arm's length

In respect to YPC's sales of galvanised and aluminium zinc coated steel to [REDACTED] [customer name] during the investigation period, we found no evidence that:

- there was any consideration payable for or in respect of the goods other than their price;
- 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; or
- the buyer, or an associate of the buyer, was directly or indirectly, reimbursed, compensated or otherwise received a benefit for, or in respect of, whole or any part of the price.

We therefore consider YPC's export sales to Australia during the investigation period were arm's length transactions.

6.6 Export price – preliminary assessment

In the case of direct export sales to Australia by YPC, we consider:

- 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 arm's length transactions.

Therefore, we consider that export price for direct export sales from YPC can be established under section 269TAB(1)(a) using the invoiced price less any part of the

PUBLIC RECORD

price that represents a charge in respect of transport of the goods or in respect of any other matter arising after exportation.

A summary of export prices is at **confidential appendix 1**.

PUBLIC RECORD

7 COST TO MAKE & SELL

7.1 Introduction

YPC's exporter questionnaire response contained cost to make and sell (CTMS) spreadsheets for galvanised and aluminium zinc coated steel produced and sold domestically in China and exported to Australia during the investigation period. YPC initially reported the monthly CTMS of each model sold on the domestic market, but subsequently provided quarterly costs. The following costs were reported:

- material costs – HRC, CRC, zinc, aluminium and scrap recovery;
- direct labour by production process;
- manufacturing overheads by production process; and
- selling, general and administration (SG&A) expenses.

We emphasised that we wanted to reconcile the cost data upwards to audited financial statements and management reports to ensure completeness of the data and also downwards to supporting source documentation to ensure accuracy and reliability of the data.

7.2 YPC's cost accounting system

YPC uses a process costing system based on actual costs rather than standard or budget cost. Manufacturing costs are captured in the individual direct and indirect cost centres. Direct cost centres are those involved in the production of goods (pickling, cold rolling, galvanising and painting), while indirect cost centres are those involved in activities such as equipment maintenance and repair. Costs incurred in indirect cost centres are allocated to each direct cost centre by production quantity.

YPC's normal accounting procedures capture the costs of manufacturing zinc and aluminium coated steel at the three major cost centres and does not allocate costs to individual models. For example, YPC's coating lines produce galvanised steel, 5% aluminium zinc coated steel and 55% aluminium zinc coated steel coil. For cost accounting purposes, each coating line has one unit manufacturing cost for all products produced.

YPC stated that accounting information from its cost accounting system is used to prepare YPC's financial accounts.

7.3 Cost to make

Prior to the visit we advised YPC that we wanted to verify HRC, zinc, scrap offsets, cold rolling direct labour and galvanising depreciation in November 2011.

7.3.1 Verification from financial statements

YPC stated that as production costs are not allocated to individual models, it calculated costs from its financial statements. HRC costs for each model were calculated using the unit cost of production for each month multiplied by sales volumes; that is, the unit cost is the same for each model each month for HRC from

PUBLIC RECORD

the same source (HRC fully processed by YPC or purchases of partly processed HRC). A unit direct labour amount was used to calculate these costs for the pickling and cold rolling lines (using processing time for each three digit product code), but processing time for each model was used to calculate direct labour for each galvanising line. Manufacturing overheads were calculated in the same way as direct labour.

YPC provided a monthly summary of its income statement for 2011 and the first six months of 2012. The cost of sales in the monthly summary for 2011 reconciled to the cost of main operations in the audited financial statements and the cost of sales for the first six months of 2012 reconciled to the cost of sales in the internal financial statements provided at Exhibit 8 to the exporter questionnaire response. YPC then prepared a monthly summary of the cost of sales for the investigation period identifying costs for domestic sales, tolling services and export sales for each product type sold. As noted previously, goods described as galvanised steel coil include both galvanised and aluminium zinc coated steel. YPC provided ledger printouts that reconciled to the monthly summary. These documents are at **confidential attachment COSTS 1**.

We selected November 2011 for verification. YPC provided a document titled “operation cost table” for November that identified:

- raw material opening and closing balances;
- raw material purchases and consumption;
- direct labour and manufacturing overheads; and
- opening and closing balances of work in progress (WIP) and finished goods.

We reconciled these costs to the monthly income statement for November. We asked YPC to explain an entry “WIP transferred from finished goods”. YPC explained that this was galvanised steel transferred to the painting lines. Supporting documents are at **confidential attachment COSTS 2**.

YPC provided a raw material reconciliation worksheet that identified the value of steel coil, zinc, aluminium and paint consumed. The total reconciled to raw material consumption in the “operation cost table”. Supporting documents are at **confidential attachment COSTS 3**.

Hot rolled coil

YPC provided a summary of steel input into the various production processes by production line (for example, pickling, cold rolling line 2, galvanising line 3). The total reconciled to the amount for steel coil at **confidential attachment COSTS 3**. YPC also provided a ledger printout supporting the total amount for steel coil. Supporting documents are at **confidential attachment COSTS 4**.

- The largest component (over ■%) was purchased HRC put into the pickling line and then processed in the cold rolling mills and galvanising lines.
- YPC also purchased CRC that was not of the required thickness and had to be further processed through the cold rolling mills.
- YPC also purchased CRC of the required thickness that was put directly into the galvanising lines.

PUBLIC RECORD

The total value reconciled to the value of steel consumed in the raw material reconciliation worksheet at confidential attachment COSTS 3. YPC also provided a detailed summary of the different types of steel consumed by coil specification and production line and the November steel coil inventory ledger. We reconciled the detailed summaries to consumption in the steel coil inventory ledger. We also reconciled November HRC purchases provided in the exporter questionnaire response to purchases in the steel coil inventory ledger. Supporting documents are at confidential attachment COSTS 5.

YPC estimated the monthly cost of HRC and CRC in each model using the following methodology.

Step 1. Using the quantity and value of steel input into the various production lines at confidential attachment COSTS 3, YPC calculated the unit price of HRC and CRC consumed.

Step 2. YPC calculated yield ratio for each production line using input and output quantities. Details of the calculation of yield ratios for the investigation period and a ledger printout showing input and output quantities for November are at confidential attachment COSTS 6. YPC calculated single yield ratios for cold rolling and galvanising using the average for all production lines.

Step 3. YPC calculated the value of HRC consumed by applying the yield ratios for the relevant production processes to the unit cost in step 1. For example, the pickling, cold rolling and galvanising yield ratios were applied to HRC, but only the galvanising yield ratio was applied to CRC input directly into the galvanising lines.

Step 4. The unit costs from step 3 were used to calculate the cost of HRC in each model for each month. YPC provided a “COM calculation worksheet” for November illustrating how the HRC cost was calculated. YPC identified the quantity of each model produced on each galvanising line and the source of the coil (that is, whether HRC or CRC and whether the CRC was further cold rolled or fed directly into the galvanising lines). During the month some models were produced on more than one production line using either HRC or CRC. YPC stated that it traced the production history using coil numbers. We noted that some thicker models of galvanised steel were produced using HRC that did not pass through the cold rolling mill. A reconciliation spreadsheet provided by YPC is at confidential attachment COSTS 7.

Step 5. In the CTMS spreadsheets, YPC calculated the cost of HRC and CRC using the unit costs from step 4 multiplied by sales volumes in each month. We verified unit HRC and CRC prices for selected models from these spreadsheets to the “COM calculation worksheet” for November. If there were sales of a particular model in certain months, but no production, YPC did not report any costs. For the purpose of our ordinary course of trade test, if no costs were recorded in a particular quarter we used costs from a previous quarter, or if there were no costs in a previous quarter we used costs for investigation period.

PUBLIC RECORD

HRC purchases

In its exporter questionnaire response YPC provided details of all HRC purchases during the investigation period. All HRC was purchased from unrelated suppliers. We verified November purchases to the November steel coils inventory ledger (confidential attachment COSTS 5 refers) and are satisfied that the list of purchases provided is complete. Prior to the meeting we asked YPC to provide invoices and evidence of payment for HRC purchases from two suppliers in November 2011 and May 2012. We also asked YPC to provide evidence of freight and other costs for November.

YPC advised that the general purchasing practice for HRC and CRC is to first establish a purchase order. The supplier will deliver the coil in batches and YPC will book the quantity and value in its steel coil inventory account on receipt. The supplier will subsequently issue a VAT invoice. One invoice may cover multiple shipments or there may be multiple VAT invoices for a delivery. Payment is made before delivery. In the list of purchases YPC reported the contract price and the amount reported each month for freight was freight, handling, brokerage and various adjustments.

For the selected purchases YPC provided a summary identifying the inventory record, contract number, VAT invoice number, quantity, contract value and billing adjustment. We verified details from the summary to the list of purchases provided. We noted that for the selected November purchases the billing adjustment was less than █% of the reported value and there was no billing adjustment for the selected May purchases. YPC advised that billing adjustments are price adjustments for the previous months' invoices that are reflected in the VAT invoices.

YPC provided the inventory records, VAT invoices, details of payment and contracts. Documents supporting the selected November purchases are at confidential attachment COSTS 8 and documents supporting the selected May purchases are at confidential attachment COSTS 9.

Documents supporting the reported November freight cost are at confidential attachment COSTS 10. November adjustments include a small quality claim and billing adjustments. YPC provided a summary, ledger printout supporting the freight, handling and brokerage charges, details of the quality claim and a list of billing adjustments. We reconciled the billing adjustments for the selected November purchases to this list.

We noted that the reported freight component was negative in November, but positive in every other month. This was due to a large adjustment described as the estimated billing adjustment for one supplier. YPC advised that this supplier had granted price reductions of RMB █ per tonne and RMB █ per tonne for its September and October purchases. It estimated the value of this adjustment and included it in November freight costs.

PUBLIC RECORD

HRC price comparisons

We compared the into store monthly price of HRC incurred by YPC with reported HRC prices. Prices in the following table are US dollars per tonne. The Metal Bulletin prices are world export and SBB prices are CFR East Asia.

Month	YPC	Metal Bulletin	SBB
July 11	■		713
August 11	■		730
September 11	■		730
October 11	■		666
November 11	■		630
December 11	■		630
January 12	■	624	633
February 12	■	644	648
March 12	■	656	661
April 12	■	648	662
May 12	■	637	652
June 12	■	602	629

Zinc

YPC calculated the value of zinc in each model by allocating the total value of zinc consumed using the theoretical coating weight of zinc. The theoretical coating weight was obtained from product specifications. YPC reported the theoretical coating weight times the production volume in the “COM calculation worksheet” for each month.

YPC provided a document identifying the quantity and value of zinc and aluminium consumed on each galvanising line during each month of the investigation period. It provided a printout of the zinc and aluminium raw material ledgers identifying the volume and value of zinc and aluminium consumed in November. The total value of zinc and aluminium consumed in November was also identified in confidential attachment COSTS 2 which was reconciled to total raw material consumption in the “operation cost table”. YPC also provided a ledger printout of the quantity of zinc and aluminium consumed each day of November. These documents are at confidential attachment COSTS 11.

The value of zinc in each model was calculated in the “COM calculation worksheet”. YPC calculated a zinc allocation ratio for each model produced on each production line. This ratio is the theoretical coating weight for each model produced expressed as a percentage of the total theoretical coating weight for the production line on which the goods were produced. These ratios were applied to the total value of zinc consumed on the relevant production lines. YPC then calculated a unit cost of zinc consumed for each model produced. The cost of zinc in the CTMS spreadsheets was calculated by multiplying this unit value by sales volume.

PUBLIC RECORD

Steel scrap

YPC calculated quarterly scrap offsets for steel and zinc. It identified quarterly revenue from scrap sales for different types of scrap generated during the various production processes. The types of scrap include iron oxide from the pickling process and trimming and end scrap from the various production processes. Two types of scrap could not be attributed to any specific production process and were allocated to each production process using the quantity of scrap generated during each process as a percentage of total scrap generated.

YPC calculated a scrap offset unit price for each production process using the value of scrap generated by that process divided by the output quantity from each production process. The value of steel scrap in the CTMS spreadsheets was calculated by multiplying this unit price by sales volume. YPC did not include scrap generated from the coating lines in this calculation.

YPC provided a spreadsheet summarising the calculation of the scrap offsets, a printout of the general ledger main operating income account (domestic scrap) verifying scrap income in the December quarter and ledger printouts showing the output quantities from each production process in October and December (the November printout is at confidential attachment COSTS 6). These documents are at **confidential attachment COSTS 12**.

Cold rolling direct labour

YPC provided a document identifying direct labour by production line for each month of the investigation period. The total for November reconciled to the “operation cost table” for November. It also provided ledger printouts supporting the amounts for the two cold rolling mills. Direct labour includes labour for the coil treatment unit and YPC also provided a document illustrating how this was allocated to the various production lines. YPC provided a document showing how direct labour was allocated to the three digit product codes using processing time and calculating unit direct labour costs. These documents are at **confidential attachment COSTS 13**. The cost of direct labour in the CTMS spreadsheets was calculated by multiplying these unit costs by sales volume.

Galvanising depreciation

YPC provided a document identifying manufacturing overheads by account for each month of the investigation period. The total for November reconciled to the “operation cost table” for November. It also provided a ledger printout supporting the amount for November. YPC provided a document showing the allocation of costs by account to the various production lines. YPC provided details of total depreciation and identified the major items allocated to the galvanising lines. It also provided ledger printouts supporting these amounts. These documents are at **confidential attachment COSTS 14**. The identified items accounted for ■% to ■% of galvanising depreciation. YPC stated that the balance was allocations from indirect cost centres.

We noted that costs of the packing unit were excluded from this allocation. YPC advised it excluded these costs because they were separately reported in the export

PUBLIC RECORD

and domestic sales spreadsheets. For the purpose of the ordinary course of trade test we have included packing costs.

YPC allocated manufacturing overheads to each model produced in the “COM calculation worksheet” for November using processing time. The total allocated reconciled to confidential attachment COSTS 13. YPC calculated a monthly unit cost for manufacturing overheads for each model produced. The cost of manufacturing overheads in the CTMS spreadsheets was calculated by multiplying these unit costs by sales volume.

7.3.2 SG&A expenses

YPC obtained selling, administration, finance and other operating income/expenses for the investigation period from its audited financial statements and management accounts (confidential attachment COSTS 1 refers). It provided printouts identifying the accounts that made up these amounts. It excluded direct selling (delivery expenses) expenses from its allocations because these were reported separately in the domestic and export sales spreadsheets. YPC allocated these costs to galvanised and aluminium zinc coated steel using turnover as a percentage of total company turnover. It then expressed these allocated amounts in RMB per kilogram and used these figures to calculate SG&A expenses in the CTMS spreadsheets. Supporting documents are at confidential attachment COSTS 15.

We consider that the allocations are reasonable, but for the purpose of the ordinary course of trade test we have included direct selling expenses, excluding those that relate to export sales.

7.4 Cost to make and sell – summary

We are satisfied that sufficient information was available and verified to substantiate the CTMS for galvanised and aluminium zinc coated steel provided by YPC. We consider the CTMS are suitable for:

- determining a constructed normal value; and
- assessing whether domestic sales were sold in the ordinary course of trade.

The CTMS the various models is summarised at confidential appendix 2.

PUBLIC RECORD

8 DOMESTIC SALES

8.1 Domestic sales process

YPC sells galvanised and aluminium zinc directly to both end users and distributors on the domestic market. These end users and distributors are a combination of related and unrelated entities. YPC sold galvanised and aluminium coated steel to four related companies [redacted] [company names] and the value of these sales was [redacted]% to [redacted]% of total domestic sales. We compared prices to these companies with prices to other domestic customers and found no significant differences. YPC advised that it does not operate any agency, distributor agreements or other contracts in the domestic market. As with export sales, domestic sales are usually manufactured to order and as such, warehouses are not used for the goods.

Domestic customers contact YPC via telephone, fax or email to ascertain price quotations. Base prices for the goods are then offered to the customers. YPC prepares a price reference for its sales representatives to use in price negotiations on a monthly basis. The final price paid is negotiated between YPC and the customer based on a number of factors including purchase quantity and production capacity. The domestic price extras table is used to adjust prices for differences in certain product specifications. Both related and non-related entities negotiate in the same manner with YPC. Once a price has been negotiated and agreed to by both parties, YPC signs a sales contract with the customer. YPC then enters the order into the company system to create a production order. As the goods are produced to order, there is a lead time of approximately one month. Shipment of the goods is arranged once production is complete based on the terms of delivery agreed to in the sales contract. Any changes to the order must be made prior to the issuance of the VAT invoice. The delivery terms for most sales are on an ex-works basis. Around [redacted]% are made on a [redacted] [delivery term] basis. All sales made [redacted] [delivery term] are sold on [redacted] [delivery term] basis. Payment terms for two customers, [redacted] [customer names], is by [redacted] [payment term].

YPC stated that market conditions have been difficult over the past 12 months due to lacklustre demand and an oversupply in the market. Much of this oversupply has been driven by high domestic supply rather than an increase in imports. Over the period from July 2011 to September 2012 prices fell by about 30%. Increased demand from September 2012 has resulted in prices increasing by about 10%.

8.1.1 Discounts, rebates and allowances

Over the investigation period YPC offered three types of rebates to some of its domestic customers. YPC stated that rebate values are small when the market is depressed and represented [redacted]% of net sales revenue during the investigation period. The following rebates were offered by YPC:

Quantity rebate

Quantity rebates are offered to domestic customers on a monthly basis based on the total quantity shipped over the month. The factors determining the quantity rebate rate are the current market situation and potential future orders from the customer.

PUBLIC RECORD

Contract honouring rebate

YPC offers rebates to its domestic customers if their purchase quantity was relatively large for the month. The contract honouring rebate is determined by the market situation, quantity shipped for the month and potential for future orders. These rebates are given to the customer as a credit against future purchases.

Quality rebate

Quality rebates are granted by YPC if the quality of the products purchased fails to meet the expectations of the customer or are damaged during transportation.

8.1.2 Prime and non-prime goods

Goods sold on the domestic market can be sold as prime and non-prime goods. Non-prime goods are sold at a discounted price. Internal quality control grades goods according to their condition. Internal quality control test the product for surface defects, flatness, edge quality, coil condition, adhesion of coating to base material, mechanical proportions and size.

8.1.3 Date of sale

YPC reported the date of sale as the date of the shipping document. It stated that the VAT invoice may not be issued until the month following delivery. We noted that the VAT invoice to one customer was dated August 2012. YPC stated that this company changed its name so it did not issue the VAT invoice until the formalities were completed.

8.2 Domestic sales – verification to source documents

YPC provided a list of all its domestic sales of like goods during the investigation period in its exporter questionnaire response. To facilitate downwards verification of YPC's domestic sales to source documentation, prior to the visit, we requested that YPC provide supporting documents for 14 selected invoice numbers. YPC provided the following documents for each of these selected transactions:

- sales contract;
- tax invoice;
- shipping notice;
- YPC payment voucher;
- payment receivable voucher;
- YPC checklist;
- bank slip; and
- bank statement with payment record.

YPC provided a translation of each field in the sales contract, tax invoice and shipping notice. Supporting documents for the selected transactions are at **confidential attachments DOM 1 to 14**. We verified details for the selected transactions to the domestic sales spreadsheet.

We consider that the domestic sales data provided by YPC is accurate.

PUBLIC RECORD

Inland freight and insurance

We noted that in reporting inland freight and insurance costs, a weighted average allocation was used based on the net weight of the coil shipped. Inland freight costs were small because the terms of most domestic sales were [REDACTED] [sales term]. For the selected invoices where these costs were incurred we were able to reconcile the charges reported in the domestic sales spreadsheet to source documents.

Cargo organisation, preloading survey, brokerage and handling fees

YPC incurs these fees when loading steel at the port (YPC transports some domestic sales by ship). The cargo organisation fee is for physical support for the coil during shipment, the preloading survey confirms the actual quantity and brokerage covers the customs declaration and the brokers handling fees. We noted that these fees were allocated to each invoice based on net weight allocation. For the selected invoices where these costs were incurred we were able to reconcile the charges reported in the domestic sales spreadsheet to source documents.

Packing costs

YPC calculated packing costs for each type of packing using the standard cost for each packing type, adjusted using the total cost of the packing unit. It calculated packing costs using the weight of the goods and the type of packing used. YPC stated that there is no difference in packing between export and domestic sales.

8.3 Arm's length transactions

In respect of YPC's domestic sales of galvanised and aluminium zinc coated 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 YPC's domestic sales during the investigation period were arm's length transactions.

8.4 Ordinary course of trade and volume of sales

We compared the unit invoice price paid for each domestic sale with the fully absorbed CTMS for those models for the corresponding quarter. We then compared the selling prices of the loss making sales with the weighted average CTMS for the investigation period to test whether some of those sales may be taken to be recoverable within a reasonable period of time.

Domestic sales cannot be used to establish normal values if the volume of domestic sales that are in the ordinary course of trade is less than 5% of the volume of comparable goods exported to Australia.

PUBLIC RECORD

There were ■ models of galvanised steel exported to Australia during the investigation period. All of these models were sold on the domestic market, but ■ of these had an insufficient volume of sales that were in the ordinary course of trade.

There were ■ models of aluminium zinc coated steel exported to Australia during the investigation period. All of these were sold on the domestic market, but ■ of these had an insufficient volume of sales that were in the ordinary course of trade.

For models where there was an insufficient volume of domestic sales in the ordinary course of trade, for the purpose of comparing export prices and normal values we used similar models where there was a sufficient volume of domestic sales that were in the ordinary course of trade.

8.5 Sales by other sellers

There are other sellers of galvanised and aluminium zinc coated steel in China. Customs and Border Protection is visiting two other Chinese producers of galvanised and aluminium zinc coated steel.

8.6 Domestic sales – summary

We found a sufficient volume of sales of comparable models in the domestic market for galvanised and aluminium zinc coated steel that were arm's length transactions and sold at prices that were in the ordinary course of trade. The price paid for the goods in those domestic sales was established satisfactorily.

Following the visit, PADs were issued (refer section 2.2) and Customs and Border Protection has preliminarily determined that a market situation exists in relation to sales of galvanised and aluminium zinc coated steel in China. Because of this domestic selling prices are not suitable for the purpose of establishing normal value. Normal values have been established based on s. 269TAC(2)(c) using constructed costs and an amount for profit. Notwithstanding this treatment, the above section sets out the verification conducted in relation to selling prices, and the results of the ordinary course of trade test that was used to determine an appropriate amount of profit.

PUBLIC RECORD

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

As part of its exporter questionnaire response YPC provided a summary of galvanised and aluminium zinc coated steel it exported to countries other than Australia during the investigation period. We are satisfied that there is sufficient CTMS information for the purposes of calculating normal values. While we verified the total volume and value of galvanised and aluminium zinc coated steel sales to third countries as part of the sales reconciliation process, we did not undertake any further verification.

10 ADJUSTMENTS

We consider that several adjustments should be made to the constructed normal values for galvanised and aluminium zinc coated steel to ensure normal values can be fairly compared with export prices. We made positive adjustments to the constructed normal values under s. 269TAC(9) for:

- export packing;
- export inland freight and insurance;
- export handling and brokerage charges;
- bank fees; and
- VAT charges.

10.1 Adjustments in respect of domestic sales

10.1.1 Packing

YPC excluded packing costs from the CTMS as these were separately reported in the domestic and export sales spreadsheets. We have therefore not made an adjustment for packing costs.

10.1.2 Inland freight and insurance

YPC excluded direct selling (delivery) expenses from the CTMS as these were separately reported in the domestic and export sales spreadsheets. We have therefore not made an adjustment for delivery expenses.

10.1.3 Handling and brokerage charges

YPC excluded direct selling (handling and brokerage) expenses from the CTMS as these were separately reported in the domestic and export sales spreadsheets. We have therefore not made an adjustment for handling and brokerage expenses.

10.2 Adjustments in respect of export sales

10.2.1 Packing

YPC reported packing costs including packing materials, labour and overhead costs for each export transaction. We note that the reported packing costs for export and domestic sales were similar. However, we noted that other costs such as the cargo organisation fee were much higher for export sales. Further, export sales incurred additional costs in securing the cargo in the vessel.

10.2.2 Export inland freight and insurance

YPC reported transaction specific export inland freight and insurance expenses incurred to transport the goods from the factory to the port of export for each export transaction. Inland freight and insurance costs were verified for each selected export transaction.

PUBLIC RECORD

10.2.3 Export handling and brokerage charges

YPC reported transaction specific export handling and brokerage charges incurred at the port of export for each export transaction. Export handling and brokerage charges were verified for each selected export transaction.

10.2.4 Bank fees

YPC incurs bank fees on international transactions when payment is received. Bank charges were verified for each selected export transaction.

10.2.5 VAT charges

When YPC invoices customers it included 17% VAT on the VAT invoice (referred to as output tax). No VAT is paid on export sales, however 4% of the export sales value is regarded as non-refundable VAT. YPC pays VAT to its suppliers of goods and services (input tax). The amount of non-refundable VAT is deducted from input tax paid and the balance can be used to offset output tax collected from customers.

It is Customs and Border Protection's policy to increase the domestic price to account for the non-refundable VAT on export sales. The assumption is that this is a cost that is taken into account when negotiating export prices.

YPC stated that it could not understand the logic of this approach. It provided a VAT return for May 2012 to demonstrate that its total VAT liability was not affected by the non-refundable VAT. However, YPC stated that the non-refundable VAT was taken up as a cost in its accounts. Therefore we consider that domestic prices should be increased by 4% to account for non-refundable VAT.

A document titled "An Introduction to VAT Export Refund Rules in China", YPC's May VAT declaration and a worksheet are at **confidential attachment ADJ 1**.

10.3 Other adjustments

YPC did not claim and we did not identify any other adjustments.

PUBLIC RECORD

11 NORMAL VALUE

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

As stated above, following the visit Customs and Border Protection made PADs in relation to dumping of galvanised and aluminium zinc coated steel. Customs and Border Protection has preliminarily determined that a market situation exists in relation to sales of galvanised and aluminium zinc coated steel in China and normal values should be based on constructed costs and an amount for profit.

Customs and Border Protection also considers the cost of HRC reflected in Chinese exporters' records does not reflect a competitive market cost due to the various influences of the Government of China on the steel industry in China. PAD 190 contains details about the benchmark used to determine HRC costs for exporters in China. Applying this benchmark results in an uplift to YPC's cost of HRC during the investigation period.

Normal values have been constructed using the cost to make galvanised and aluminium zinc coated steel exported to Australia plus SG&A on the assumption that the goods, instead of being exported, were sold domestically. A rate of profit has been added using data related to the production and sale of like goods in the ordinary course of trade.

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

- export packing;
- export inland freight and insurance;
- export handling and brokerage charges;
- bank fees; and
- VAT charges.

A summary of normal values is at **confidential appendix 3**.

PUBLIC RECORD

12 DUMPING MARGIN – PRELIMINARY ASSESSMENT

In calculating the dumping margin we compared each export transaction with the corresponding quarterly normal value for the corresponding model of galvanised and aluminium zinc coated steel. The weighted average product dumping margin for galvanised steel is 7.3% and for aluminium zinc coated steel is 6.0%. A summary of dumping margin calculations is at **confidential appendix 3**.

PUBLIC RECORD

13 PARTICULAR MARKET SITUATION

YPC provided a separate response to the particular market situation exporter questionnaire.

YPC is a 100% owned by its parent company, Yieh Phui Taiwan. Prior to [date] 100% of YPC's shares were held by Yieh Phui Taiwan through [company name], an investment company incorporated in the [place name]. Since [date], 100% of YPC's shares were held by Yieh Phui Taiwan through another investment company, [company name], an investment company incorporated in Hong Kong.

YPC advised that none of YPC's directors, shareholders or employees are affiliated with the Government of China. YPC also stated that YPC has never been owned or controlled by the Government of China.

13.1 Business licence

YPC advised that the company was required to obtain a business license to indicate that the company has been legally registered with the government. It stated that it does not have to apply for the licence annually, but is required to submit an annual return. YPC advised that this was routine, similar to the requirement to submit a tax return annually to the authorities.

In order to apply for a business licence YPC advised there is a three step process. Firstly YPC was required to obtain "Notice of pre-approval of enterprise name" from Jiangsu Administration for Industry and Commerce. This notice shows that the enterprise to be registered does not contain the name of any other legal person or enterprise. Secondly, YPC was required to apply for a "Certificate of Approval" which proves the business is not involved in forbidden or restricted activities in China. Lastly, YPC was required to submit a register for a "Business Licence" within 30 days upon receiving the "Certificate of Approval."

YPC advised that the business licence could be revoked by the government should any of the following circumstances occur:

- provide false information or documents when applying for the business license;
- fail to commence business operations within six months after establishment without justification;
- fail to apply for deregistration in the case of liquidation or dissolution;
- fail to pass the annual business license review; or
- engage in business beyond the scope of that which is stated under the business license.

13.2 Galvanising line renovation

YPC explained that the company is free to purchase machinery and equipment without the approval of the government. However, YPC is required to receive approval from the Changshu Development and Reform Commission to construct a

PUBLIC RECORD

major fixed asset. This includes the project to increase the capacity of the cold rolling line. YPC referred to this as the galvanising line renovation project as the purpose was to eliminate the bottleneck in the cold rolling mills (as noted in section 3.3, the capacity of the cold rolling mills is less than the capacity of the galvanising lines). Refer to Exhibit 5 of the particular market situation response.

YPC advised that the company applied for approval to construct the cold rolling line 3 in 2010. It explained that the line is still being constructed and is as yet to be completed. YPC stated that it is considering whether to continue the project or to move the equipment back to Taiwan. It explained that this is due to two factors, firstly the sluggish demand in China and secondly to replace a cold rolling line lost in a fire at the Taiwan manufacturing facility in 2012.

YPC stated that any capital investment project has to conform with “relevant industry policy.” It provided a translated government of China document titled “Guidance for Foreign-invested industries” which outlines industries encouraged by the government of China. This document is at **confidential attachment PMS 1**. YPC explained that these were industries which were encouraged, rather than discouraged by the government of China and that YPC was operating in an encouraged industry.

13.3 Financing and investment

YPC explained that its debt was serviced by financial banks at market rates through its related companies, [REDACTED] [company name] and [REDACTED] [company name]. It explained that at times money was also borrowed from stakeholders. YPC advised that it did not receive any preferential rates from the Government of China. It stated that short term borrowings were used for the purchase of input goods and long term borrowings for the purchase of buildings and capital. YPC provided a list of interest rates from 2007 to 2012 identifying the lender, the amount borrowed, annual interest rate and balances. This document is at **confidential attachment PMS 2**.

13.4 National Steel Policy

YPC stated that the National Steel Policy does not impact on YPC’s operations as the policy is directed at the macro level focussing on structural adjustment, industrial layout and technical updating. It stated that it does not receive subsidies from the Government of China as it is a foreign owned company. YPC stated that state invested enterprises may receive support from the government of China; however foreign owned companies need to rely on themselves to get through economic difficulties. This policy is at **confidential attachment PMS 3**.

13.5 Sales of defective HRC

YPC advised that it sold a small amount of HRC during the investigation period (approximately [REDACTED] tonnes). It explained that it never intended to sell HRC, but the HRC in question was defective and not suitable for production.

PUBLIC RECORD

14 SUBSIDY

YPC provided a separate response to the subsidy exporter questionnaire.

14.1 Other operating income

YPC provided a list of other operating income and non-operating income that identified the customer code, quantity (if relevant) and voucher number. Typically it comprised income from sales of used rollers from the cold rolling mill that could not be further machined, sales of paint barrels and wooden packing materials. YPC stated that it did not receive any subsidies. We reviewed the list and did not identify any income that appeared to be subsidies. We selected three transactions and obtained VAT invoices to support the amounts. The largest item was revenue from the sale of rollers and two where revenue from the sale of paint barrels. Non-operating income was income from the disposal of fixed assets. Supporting documents are at **confidential attachment SUB 1**.

14.2 Income tax

YPC provided copies of its tax returns for each year from 2007 to 2011 at Exhibit 4 to the subsidy exporter questionnaire response. We noted that YPC was profitable in three of the five years, but these profits were offset against previous years losses. YPC referred to Article 18 of the tax regulations that states

Where an enterprise incurs a loss in a tax year, the enterprise is allowed to carry the tax forward to subsequent years to be set-off against income from subsequent years, provided the loss carried forward does not exceed five years.

YPC explained that it was a relatively new company that had not yet made sufficient profits to offset losses. It anticipated that it would pay tax in the future.

We compared the 2011 tax return to the 2011 audited financial statements. We reconciled net income and profit from the audited financial accounts to the tax return. Supporting documents are at **confidential attachment SUB 2**.

14.3 Industries encouraged by the state

YPC stated that any capital investment project has to conform with “relevant industry policy.” It provided a translated government of China document titled “Guidance for Foreign-invested industries” which outlines industries encouraged by the government of China. This document is at **confidential attachment PMS 1**.

14.4 Import duty and VAT

In its subsidy exporter questionnaire response, YPC stated that it imported tax exempt equipment used for the production of galvanized, aluminium zinc coated and pre-painted steel. The import duty and VAT for imported equipment under this program were fully exempted.

During the visit, YPC advised that VAT has been payable since January 2009 and now only import duty is exempt on imported capital used as productive assets. YPC

PUBLIC RECORD

provided a tax policy update confirming this exemption policy ceased in January 2009 (refer **confidential attachment SUB 3**). YPC that this exemption was extended for six months and ceased in July 2009. It also stated that VAT has always been payable on locally produced capital equipment.

YPC provided a list of all equipment purchases where import duty and/or VAT was exempted from July 2007 to June 2012. It stated that these details were not maintained in YPC's financial system and were only recorded in an Excel spreadsheet. YPC stated that the spreadsheet was part of its normal record keeping and was not produced for this investigation. The list identified:

- the equipment;
- the tariff code and duty rate;
- amount in foreign currency;
- importation date;
- tax exemption certificate;
- customs declaration form;
- delivery terms;
- ocean freight (where applicable);
- fixed asset booking value;
- dutiable amount (fixed asset value plus ocean freight);
- amount of import duty and VAT exempted;
- expected life of the asset;
- exemption amount in the investigation period; and
- goods the assets was used to produce.

YPC claimed that the exemption amount should be allocated overall sales. We accepted this claim given that most of YPC's sales are galvanised and pre-painted steel and that pre-painted steel is made from galvanised steel. We divided the total amount exempted for the investigation period (RMB [REDACTED]) by total sales value (RMB [REDACTED]) and found that the exemption represented [REDACTED]% of sales revenue. The total amount exempted for the investigation period was calculated using the purchase date and estimated life of the asset.

We selected two purchases and asked YPC to provide supporting documentation. YPC provided:

- the purchase contract;
- commercial documentation;
- customs declaration form;
- copy of the relevant page from the customs tariff book confirming the duty rate;
- tax exemption certificate; and VAT payment voucher.

Supporting documents are at **confidential attachment SUB 4**.

PUBLIC RECORD

15 GENERAL COMMENTS

YPC stated that BlueScope did not produce a 5% aluminium zinc coated product and therefore its 5% aluminium zinc coated steel should be excluded from the scope of the investigation. It explained that 5% aluminium zinc coated steel was used for floor decking. Prior to the development of this product galvanised steel was used, but 5% aluminium zinc coated steel was now approved for use in the Australian standards.

YPC claimed that the price differences between 55% and 5% aluminium zinc coated steel meant that the two products did not compete and the two products could only be considered comparable if the price was not an issue. It noted that stainless steel was actually the preferred product to be used in floor decking, but due to its expense, it was not used and was not considered to be a market competitor to galvanised and aluminium zinc coated steel. In a similar way, 5% aluminium zinc coated steel should not be considered a market competitor to 55% aluminium zinc coated steel.

YPC also noted that BlueScope did not produce the colour range of tinted steel that it produced. It noted that BlueScope could only produce double sided blue tinted steel, while YPC could produce a range of colours and offered either single or double sided tints. YPC also offered environmentally friendly finishes which BlueScope didn't offer. It explained that automotive manufacturers required environmentally friendly steel if they were to export their finished products to Europe.

YPC stated that it did not consider that dumping or subsidisation was the cause of BlueScope's problems and considers that BlueScope also recognises this. It referred to the August 2011 press release announcing the restructure which stated

Mr O'Malley said the Company is experiencing an unprecedented combinations of economic challenges in the form of a record high Australian dollar, low steel prices and high raw material costs and these challenges are compounded by low domestic steel demand in the wake of the GFC.

YPC asked whether Customs and Border Protection is considering consolidating the investigation into one case.

PUBLIC RECORD

16 LIST OF APPENDICES AND ATTACHMENTS

Confidential appendix 1	Export price summary
Confidential appendix 2	CTMS summary
Confidential appendix 3	Normal values and dumping margin summary
Confidential attachment GOODS 1	Price extras tables
Confidential attachment GOODS 2	Grade comparisons
Confidential attachment GOODS 3	HRC suppliers price extras tables
Confidential attachment GOODS 4	Descriptions of non-prime product
Confidential attachment REC 1	Documents supporting sales reconciliation
Confidential attachment EXP 1 to 14	Documents supporting selected shipments
Confidential attachment EXP 15	Packing costs
Confidential attachment COSTS 1	Cost reconciliation
Confidential attachment COSTS 2	Operation cost table
Confidential attachment COSTS 3	Raw material input reconciliation
Confidential attachment COSTS 4	HRC inputs
Confidential attachment COSTS 5	HRC inventory
Confidential attachment COSTS 6	Yield ratios
Confidential attachment COSTS 7	Reconciliation
Confidential attachment COSTS 8	HRC purchases – November 2011
Confidential attachment COSTS 9	HRC purchases – May 2012
Confidential attachment COSTS 10	Freight
Confidential attachment COSTS 11	Zinc
Confidential attachment COSTS 12	Scrap
Confidential attachment COSTS 13	Cold rolling direct labour
Confidential attachment COSTS 14	Manufacturing overheads
Confidential attachment COSTS 14	SG&A expenses
Confidential attachment DOM 1 to 14	Documents supporting selected shipments
Confidential attachment ADJ 1	Documents supporting VAT adjustment
Confidential attachment PMS 1	“Guidance for Foreign-invested industries”
Confidential attachment PMS 2	Loan details
Confidential attachment SUB 1	Other operating income
Confidential attachment SUB 2	Reconciliation of tax return to accounts
Confidential attachment SUB 3	VAT tax policy update
Confidential attachment SUB 4	Documents supporting value of tax exemptions