



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

ANSC-TKS GALVANIZING CO., LTD (TAGAL)

<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>

February 2013

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2 BACKGROUND**2.1 Applications**Dumping

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 alleged that the Australian industry has suffered material injury caused by galvanised steel (the goods) 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 applications.

On 5 September 2012, following consideration of the applications, the Chief Executive Officer of Customs and Border Protection decided not to reject the application and initiated an investigation into the alleged dumping of galvanised steel exported 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 No. 2012/40 provides further details of the investigation and is available at www.customs.gov.au.

Subsidies

On 18 October 2012, an application³ was lodged on behalf of BlueScope Steel Limited (BlueScope) requesting that the Minister for Home Affairs (the Minister) publish countervailing duty notice in respect of zinc coated (galvanised) steel exported to Australia from China.

BlueScope alleged that that the Australian industry has suffered material injury caused by the cumulating effects of galvanised steel exported to Australia from China, Korea and Taiwan at dumped prices, and from China at subsidised prices.

On 2 November 2012, additional information and data were received in respect of the application. As a result, the Australian Customs and Border Protection Service

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

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

³ *Application for Countervailing Duties for Galvanised Steel exported from China*, received on 18 October 2012.

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(Customs and Border Protection) restarted the 20 day period for considering the application.

On 22 November 2012, following consideration of the applications, the Chief Executive Officer of Customs and Border Protection decided not to reject the application and to initiate an investigation into the alleged subsidisation of galvanised steel exported from China. Public notification of initiation of the investigation was published in *The Australian* on 26 November 2012. Australian Customs Dumping Notice No. 2012/56 provides further details of the investigations and is available at www.customs.gov.au.

2.2 Background to meeting

Following initiation of the investigation, a search of Customs and Border Protection's import database indicated that ANSC-TKS Galvanizing Co., Ltd (TAGAL)⁴ exported galvanised steel from China to Australia in the period 1 July 2011 to 30 June 2012 (the investigation period).

Customs and Border Protection notified TAGAL of the initiation of the investigation and sought its cooperation with the investigation and provided an exporter questionnaire in respect of galvanised steel for the company to complete. The company completed the exporter questionnaire, and a non-confidential version of the questionnaire response is available on the public record.

2.3 Events after date of visit

On 6 February 2013, Customs and Border Protection gave notice that a preliminary affirmative determination (PAD) have been made that there appears to be sufficient grounds for the publication of a dumping duty notice in respect of galvanised steel exported to Australia from China, Korea and Taiwan.

In reaching this preliminary decision, 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 PAD was based on the information available at the time of making the PAD. The preliminary findings, including dumping margins, may change between the time of the publication of the PAD and the publication of the statements of essential facts in respect of the investigation.

At the time of making the PAD, Customs and Border Protection further determined that securities should be required and taken under section 42 of the *Customs Act*

⁴ TAGAL is an acronym used by the company that is based on the names of the Joint Venture parent companies – Thyssenkrupp Steel Europe, and Angang Steel Company Limited – and the products manufactured and sold, being **GAL**vanised steel.

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1901⁵ 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 from China.

Further details of the PAD 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.

2.4 Purpose of visit

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

The TAGAL exporter questionnaire response consisted of background to its activities, exports sales data to Australia and other countries, domestic sales data, and cost to make and sell data. It also included a response to the market situation and subsidy questionnaire. The exporter questionnaire response was supported by attachments. A non-confidential version of the exporter questionnaire response was placed on the public record.

Verified information obtained during the visit to TAGAL has been used to make preliminary assessments of:

- who is the exporter and who is the importer;
- export prices and normal values;
- dumping margins; and
- countervailable subsidies and subsidy margins.

2.5 Visit

The visit for TAGAL took place at:

ANSC-TKS Galvanizing Co., Ltd

⁵ All references in this report to sections of legislation, unless otherwise specified, are to the *Customs Act 1901*.

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No. 68 GanTie Road
Dalian Development Zone, 116600
CHINA

Telephone: + 86 411 8751 8888
Fax: + 86 411 8751 6007

The following persons were present at various stages of the visit:

Dates	28, 29, 30, 31 January 2013
TAGAL	Wei Kewei, Director of sales dept. Li Xiuna, Sales Zang Xiaochu, Key account manager Zeng Yan, Accountant
Dacheng Law Offices	Marco Hu, Senior Associate Zhao Lin, Lawyer Zhao Gengpo, Lawyer
Customs & Border Protection	Geoff Gleeson, Director, Operations 3 An Chew, Supervisor, Operations 2 Cathy Cole, Supervisor, Operations 1

At the visit we provided a summary of the investigation process and timeframes as follows:

- the investigation period is 1 July 2011 to 30 June 2012;
- 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 (PAD) may be made no earlier than 5 November 2012 (Dumping) and 29 January 2013 (Subsidies) (after day 60 from the initiation date) (refer to section 2.2 above for details of the PAD for the dumping investigations);
- provisional measures may be imposed at the time of any PAD or at any time after a PAD has been made, but 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 and/or a countervailing duty notice;
- a statement of essential facts (SEF) for the investigation (dumping and subsidies) will be placed on the public record by 18 March 2013 ⁶;

⁶ The Minister has, under s. 269ZHL of the *Customs Act 1901*, extended the deadline for

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- the SEF 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 SEF will be considered when compiling the report and recommendations to the Minister);
- Customs and Border Protection's report to the Minister is due by 30 April 2013;
- the Minister will have 30 days from the date of receipt of the final report to make a final decision; and
- certain interested parties have the right to seek a review to the Trade Measures Review Officer in relation to the Minister's final decision.

the publication of the SEFs for the dumping investigations. See Australian Customs Dumping Notice No. 2012/63 for further details about the extension.

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3 COMPANY INFORMATION**3.1 Company background**

TAGAL is a limited liability joint venture company. Its shareholders are:

- Angang Steel Company Limited (ANSTEEL), 50%; and
- ThyssenKrupp Steel Europe AG (TKSE), 50%.

TAGAL's principal activities are the production and sale of galvanised and galvanized steel for use in the automotive, information technology and appliance industries. TAGAL regards both galvanised and galvanized products as being goods subject of the investigation, so it considers that all of its production and sales are related to the goods the subject of the application.

TAGAL has one plant, located in the Dalian Economic and Technical Development Zone. The Dalian plant has two production lines, one that commenced production in 2004 and the other commenced production in 2010. The total capacity for the two plants is approximately [REDACTED] tonnes per annum.

The information provided by TAGAL in its response to the exporter questionnaire showed that it was heavily focused on the domestic market. We noted that its domestic sales accounted for around 98% (by value) of its total sales for the investigation period. Sales to Australia account for approximately 1% of its total revenue in that period.

TAGAL provided a copy of an introductory presentation on the company and its products, which is at **confidential attachments GEN 1**.

3.2 Accounting

TAGAL's financial year is the calendar year, 1 January to 31 December.

TAGAL provided copies of the following documents in the exporter questionnaire response and at the verification meeting:

- Chart of Accounts (**confidential attachment GEN 2**);
- "Cost Center Overview", which detailed the list of its cost centres and related accounting treatment (**confidential attachment GEN 3**);
- Annual reports for 2010 and 2011, and
- Interim report for the six months ending 30 June 2012.

TAGAL explained that because it makes only galvanised and galvanized steel, it has only one profit centre for management reporting purposes.

TAGAL advised that it uses SAP as its accounting information system.

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In the domestic sales data for galvanised steel submitted by TAGAL, it identified sales to three related parties, [REDACTED], [REDACTED], and [REDACTED]. We noted that the proportion of galvanised steel sold to related parties was [REDACTED]% for the investigation period.

TAGAL also advised that 100% of its hot rolled coil purchases in the investigation period were supplied by its parent companies, Angang Steel Company Limited and ThyssenKrupp Steel Europe AG.

TAGAL stated that its zinc ingot requirements were purchased from independent parties.

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4 GOODS UNDER CONSIDERATION AND LIKE GOODS**4.1 The goods the subject of the applications****4.1.1 Description**

The imported goods the subject of the Galvanised Steel 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”⁷.

The goods the subject of this application (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 applications 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

⁷ Galvanised Steel Application, page 10.

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guaranteed minimum properties that structural engineers utilize in the design of their final product designs”⁸.

(i) Australia

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

(ii) International

The applications state that there are a number of relevant International Standards for galvanised steel products (figure 1 refers) 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, SGCDL,
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 steel⁹

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%.

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

⁸ Galvanised Steel Application, page 12.

⁹ Galvanised Steel Application, page 11.

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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 3: TCOs applicable to tariff subheading 7210.49.00

Customs and Border Protection notes that the applications 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

4.2.1 TAGAL's products

TAGAL stated that it produces and sells galvanised steel in a wide range of specifications, mainly for the domestic market, but also for export markets including Australia.

TAGAL explained that its galvanised steel can be broadly categorised into three different categories based on its application – Automotive, Appliance and construction.

TAGAL used a model number to identify the key characteristics of each finished product and the model number is linked to a particular product code description. An example of a product code is [REDACTED], where the alpha and numeric characters mean the following:

- [REDACTED] means the product is downgrade (non-prime), which accounted for around 1.4% of all domestic sales in the investigation period (the lack of the [REDACTED] prefix means the product is a prime product)
- [REDACTED] is the steel grade
- [REDACTED] is the zinc thickness (gsm)
- [REDACTED] is the surface quality ([REDACTED])
- [REDACTED] is the thickness (mm)
- [REDACTED] is the width (mm)
- [REDACTED] is the quality ([REDACTED])

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When asked about the factors that are most important for determining price, and for comparing export sales and domestic sales, TAGAL explained that the major considerations were:

- steel grades
- zinc weight;
- thickness; and
- surface treatments.

We noted that these attributes were all identified in the domestic sales spreadsheet for each transaction.

TAGAL considers that despite variations in grades, specifications and properties, the galvanised steel it produces and sells domestically are like to the goods sold to Australia. TAGAL explained that the products are physically similar, undergo the same manufacturing process and are substitutable.

However, we note that while downgrade product is sold in the domestic market, it is not exported to Australia. Therefore, we do not consider downgrade products to be like goods.

4.2.2 TAGAL's products - summary

In summary, we found that apart from downgrade products, TAGAL produced and sold domestically a range of like goods to the galvanised steel exported to Australia.

To enable a more appropriate comparison to the goods exported to Australia, we categorised the galvanised steel by model number.

4.2.3 Like goods – preliminary assessment

We consider that the galvanised steel produced and sold domestically by TAGAL have characteristics closely resembling those of the goods exported to Australia and are therefore “like goods” in terms of subsection 269T(1).

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5 EXPORT SALES TO AUSTRALIA**5.1 General****5.1.1 Volumes and sales routes**

TAGAL exported the following volume of galvanised steel to Australia during the investigation period:

Coated steel type	Quantity (MT)
Galvanised steel	

TAGAL sold some of its galvanised steel through a related trader [REDACTED] and the remainder through unrelated traders [REDACTED] and [REDACTED]:

Customer name	Quantity (MT)
[REDACTED]	[REDACTED]
Grand Total	[REDACTED]

The details of the sales and sales routes are described below.

5.1.2 Sales process

During the investigation period, TAGAL had [REDACTED] channels for its sales of galvanised steel in Australia. The majority of its sales were made through an unrelated trader, [REDACTED], with a small volume of sales to another unrelated trader [REDACTED]. The remaining sales were to a related trader, [REDACTED].

TAGAL advised that it supplies galvanised steel for automotive applications to [REDACTED] and for appliance and construction applications to [REDACTED] and [REDACTED].

TAGAL noted that all sales were subject to purchase order and that it was very rare for customers to purchase from inventory. It advised that it does not have price lists or price extras for Australian export sales.

Sales to [REDACTED]

TAGAL advised that the end user of the galvanised steel sold to [REDACTED] was [REDACTED].

The sales process for sales to [REDACTED] is as follows:

- [REDACTED] [confidential negotiation and pricing circle] [REDACTED] negotiates with TAGAL a supply agreement for galvanised steel. The agreement sets prices for [REDACTED].

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- [REDACTED] follows the prices negotiated between [REDACTED] and TAGAL.
- Every month [REDACTED] sends a purchase order via email to TAGAL stating the quantity required.
- TAGAL enters data from the [REDACTED] purchase order into SAP and begins production of the goods.
- When production is complete the goods are delivered to the port for shipping directly to Australia.
- Upon delivery of the goods in Australia the original Bill of Lading and invoice is couriered to [REDACTED].
- [REDACTED] [confidential payment term]
[REDACTED] make a payment to TAGAL.

Sales to [REDACTED]

The sales process for sales to [REDACTED] is:

- [REDACTED] places a purchase order with TAGAL via email.
- TAGAL provides its prices and [REDACTED] negotiates before the terms of sale are settled upon.
- TAGAL prepares a sales contract based on the terms negotiated with [REDACTED].
- Upon completion of the sales contract, TAGAL enters purchase order data into SAP and begins production of the goods.
- When production is complete, the goods are delivered to the port for shipping directly to Australia.
- TAGAL issues an invoice and packing list to [REDACTED].
- Payment terms are [REDACTED] [confidential payment term].

Sales to [REDACTED]

The sales process for sales to [REDACTED] is:

- [REDACTED] make price inquiries with TAGAL via telephone or email.
- TAGAL provides its prices and [REDACTED] negotiates before the terms of sale are settled upon.
- TAGAL prepares a sales contract based on the terms negotiated with [REDACTED].
- Upon completion of the sales contract, TAGAL begins production of the goods.
- When production is complete, the goods are delivered to the port for shipping directly to Australia.
- TAGAL issues an invoice and packing list to [REDACTED].

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- Payment terms are [REDACTED] [confidential payment term]. Once the goods have been shipped TAGAL forwards an original set of documents to its bank in China. TAGAL's bank then forwards the original documents to [REDACTED] bank in Australia. Upon receipt of these documents the bank in Australia will remit payment to the bank in China.

5.1.3 Inland freight and handling

TAGAL stated that it has a Transportation Agent Service Agreement with [REDACTED], a related party, to provide short distance transportation by truck from TAGAL to Heshangdao Port in Dalian Bay at a cost of RMB [REDACTED]/MT inclusive of 7 per cent VAT. A copy of the transportation agreement is at **confidential attachment EXP 1**.

With regard to handling, bundling, and fumigation services, TAGAL advised that these services are also provided by [REDACTED].

5.1.4 Warehousing fees

TAGAL advised that all exports are shipped from Heshangdao Port, located 10 Km from the factory. As mentioned above, coils are transported to the port as per the service agreement with [REDACTED] and warehousing, should it be required, is provided free of charge.

5.1.5 Packaging

TAGAL stated that the packaging of coils is as per the customer request and there is no specific packaging for coils exported to Australia. TAGAL advised that for the investigation period all export sales were packaged to the OM standard that incorporates two pieces of fibreboard and paper carton.

5.2 Verification of export sales up to audited financial statements

In TAGAL's exporter questionnaire response, it provided an export sales spreadsheet listing its sales of galvanised steel exported to Australia for the investigation period. Prior to the visit we were provided with an updated spreadsheet and during the visit the spreadsheet was updated to include related companies, material type, description, application, packaging type, gross quantity for [REDACTED] transactions, updated exchange rates and updated handling and inland freight expenses (**confidential attachment EXP 2**).

The spreadsheet details the volumes and values in USD and RMB for each of the coil types included on each invoice. We note that each transaction in the export sales spreadsheet refers to specific coil descriptions.

We sought to verify the completeness and relevance of this spreadsheet up to audited financial statements and this was undertaken as part of the domestic sales verification. For details, refer to section 7.5 below.

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We were able to reconcile TAGAL's galvanised steel Australian export sales spreadsheets up to the audited financial statements and are satisfied that the spreadsheet is complete and only contains relevant sales.

5.3 Verification of export sales down to source documents

5.3.1 Source Documents

Prior to the visit, we selected six galvanised steel export sales from the detailed Australian export sales spreadsheet and requested that TAGAL provide source documents in relation to each invoice.

During the visit TAGAL provided copies of the following documents for each selected invoice:

- Sales order;
- Commercial invoice;
- Packing list;
- Bill of lading;
- Proof of payment; and
- Handling and other expenses (including inland freight) documents.

TAGAL advised that for sales to [REDACTED], the invoice is based on gross weight whereas for sales to [REDACTED] and [REDACTED] the invoice price is based on the net weight. TAGAL noted that the export sales spreadsheet shows invoices prices based on the net weight for all sales. The [REDACTED] source documentation and updated export sales spreadsheet included sufficient detail for us to recalculate the invoice price of sales to [REDACTED] using gross weight.

We were able to match the sales information in the source documents to the data contained in the detailed sales spreadsheet.

The source documents, including proof of payment, of the selected sales are at **confidential attachment EXP 3**.

5.3.2 Inland freight and handling

In the export sales spreadsheet, TAGAL included a column for 'handling & other' expenses. TAGAL explained that these expenses include inland freight costs.

TAGAL advised that there were errors in handling and other expenses and provided us with revised figures during the visit.

TAGAL provided copies of the following documents for each of the selected invoices:

- an internal application for payment prepared by the TAGAL Logistics section and forwarded to the TAGAL Financial department,
- invoices from [REDACTED] for handling charges and inland freight, and
- an internal TAGAL Logistic Reimbursement Sheet.

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For invoices 90035942 and 90035945, TAGAL also provided:

- a screen shot from SAP of the [REDACTED] accounts receivable ledger, and
- a copy of the bank deposit showing payment by TAGAL to [REDACTED].

The handling and inland freight source documents are at **confidential attachment EXP 4**.

We were able to reconcile the invoices from the internal payment document to [REDACTED] to the internal TAGAL Logistic Reimbursement Sheet. We are satisfied with the accuracy of the inland freight costs for all transactions listed in the export sales spreadsheet.

With regard to payment we were provided with sufficient documentation to reconcile the inland freight for all of the selected invoices to the bank deposits. We note that the bank deposits include payments for multiple invoices.

5.3.3 Exchange rates

The exchange rate used for converting USD sales into RMB is sourced from the China State Administration of Foreign Exchange (SAFE). TAGAL enters into SAP the exchange rate that prevailed on the last working day of the month for the subsequent month. TAGAL provided screen shots from the SAFE website of the exchange rates used in SAP for the investigation period (**confidential attachment EXP 5**). We were able to verify these rates on the English version of the website and noted that these were the rates used in the detailed export sales spreadsheet.

5.3.4 Conclusion

Having been able to reconcile TAGALs galvanised steel export sales spreadsheet down to source documents, we are satisfied that the spreadsheet is accurate, except for inland freight and handling charges.

5.4 Date for comparison of export and domestic sales

TAGAL advised that the date of sale as included in the export sales spreadsheet refers to the date of invoice. TAGAL advised that invoices are processed in batches after the goods have been shipped.

Customs and Border Protection usually regards the invoice date as the date of sale (that is, the date that best represents when the material terms of the sale have been established) unless there is clear evidence to indicate that another date is appropriate. In this instance, this is what TAGAL also proposes and we have accordingly used the invoice date as the date of sale.

5.5 The exporter

We consider TAGAL to be the exporter of galvanised steel exported to Australia from China. TAGAL:

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- is the manufacturer of the goods and manufactured the goods to the specific order of the Australian customer;
- owned the goods at the time of export;
- is listed as the supplier on the bill of lading;
- arranges and pays the inland freight;
- is the principal in the transaction located in the country of export from where the goods were shipped that gave up responsibility by knowingly placing the goods in the hands of a freight forwarder for delivery to Australia; and
- sent the goods for export to Australia and was aware of the identity of the Australian end customer of the goods.

5.6 The importer

We consider that for export sales of galvanised steel to Australia, the Australian customers were the beneficial owners of the goods at the time of importation. The beneficial owner is considered to be the one who was entitled to all the benefits associated with ownership even though they may not be the legal owner of the goods. We noted that [REDACTED] and [REDACTED]:

- negotiated with TAGAL either directly or indirectly;
- are considered by TAGAL to be the end customers;
- are named as the consignee on the bills of lading; and
- arranges and pays ocean freight, marine insurance, Customs clearance, logistics, and storage of the goods after they're delivered to the Australian port.

We consider [REDACTED] and [REDACTED] to be the importer.

With regard to export sales to [REDACTED], then on-sold to [REDACTED], we also noted that the packing list identifies [REDACTED] as the buyer and [REDACTED] as the payee. An analysis of Customs and Border Protection's import database identifies [REDACTED] as the importer and MISO as the supplier. We also note that the [REDACTED] importer visit report identifies [REDACTED] as the importer of the goods.

We consider [REDACTED] to be the importer, noting that the case management team may form a different view.

5.7 Arms length

In respect of TAGAL's sales to Australia, we found no evidence that:

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

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- the buyer, will, subsequent to the purchase or sale, directly or indirectly, be reimbursed, be compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.

We consider the export sales of galvanised steel by TAGAL to its Australian customers were arm's length transactions.

5.8 Export price – preliminary assessment

For sales made to [REDACTED] and [REDACTED] we are satisfied that:

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

We consider that the export price for these sales can be determined under s. 269TAB(1)(a) using the invoiced price by TAGAL less any part of that price that represents a charge in respect of the transport of the goods after exportation or in respect of any other matter arising after exportation.

For sales made to [REDACTED], then on-sold to [REDACTED], we are satisfied that:

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

We consider that the goods have not been purchased directly from the exporter. We therefore consider that the export price for these sales can be determined under s. 269TAB(1)(c) having regard to all the circumstances of the exportation. Specifically we consider it appropriate to ascertain the export price using the invoiced price by TAGAL less any part of that price that represents a charge in respect of the transport of the goods after exportation or in respect of any other matter arising after exportation.

The weighted average quarterly free-on-board (FOB) export price in USD is summarised in the table below:

USD/MT	Sep 11	Dec 11	Mar 12	Jun 12
Galvanized Steel	USD [REDACTED]	USD [REDACTED]	USD [REDACTED]	USD [REDACTED]

Details of the export price calculations and summary export prices are at **confidential appendix 1**.

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6 COSTS TO MAKE & SELL**6.1 General**

In the initial response to the exporter questionnaire, TAGAL provided cost to make and sell (CTMS) spreadsheets for Domestic and Australian sales of galvanised steel. These spreadsheets provided monthly CTMS data at the goods level. Subsequently, TAGAL was requested to provide, inter alia, CTMS data separately for each model individually.

In its supplementary exporter questionnaire response, TAGAL provided monthly domestic and export CTMS data for each PCN. These updated CTMS spreadsheets are at **confidential attachment CTMS 1**.

During the verification visit, TAGAL explained that it had to rework its costs spreadsheets as the version submitted in the supplementary export questionnaire calculated monthly costs based on a weighted average cost over the investigation period. TAGAL provided us with a revised cost spreadsheet based on actual monthly costs data at **confidential attachment CTMS 2**.

TAGAL explained that its costs calculations are based on standard costs from SAP. This spreadsheet (confidential attachment CTMS 2) shows the standard costs of all sales transactions made by TAGAL over the investigation period. TAGAL then adjusted the standard costs for each transaction based on the total monthly cost of goods sold (COGS), which represents actual costs, to reach an actual cost per transaction using the following formula:

$$\frac{\text{Monthly standard cost for the model}}{\text{Total standard cost for the month}} \times \text{total monthly cost of goods sold}$$

6.2 Verification of production costs to audited financial statements

We sought to verify the completeness and relevance of the cost spreadsheets by reconciling the cost spreadsheet up to financial statements. We were able to match the sum of the total COGS column in the cost spreadsheet (confidential attachment CTMS 2) to the operating cost amount for the investigation period in the income statement provided in the exporter questionnaire response (**confidential attachment CTMS 3**), which reconciles to the audited financial statements (see section 7.5 below for details).

6.3 Verification of production costs to source documents**6.3.1 Standard costs**

TAGAL stated that each model has a standard bill of material that shows the amount of raw material for each unit of output. It explained that the bill of material for that model is formulated when a new model is developed and no adjustment to the bill of material is undertaken once it's uploaded into SAP. SAP would then calculate the

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standard cost for each model based on standard unit price of the raw material. TAGAL advised that it updates the standard unit price on a monthly basis.

We selected models 800428 (the largest model exported during the investigation period) and 200431 (the largest construction grade model exported during the investigation period) for further verification and we requested the bills of material for these two models showing standard costs for each month during the investigation. TAGAL provided the relevant screenshots from SAP at **Confidential attachment CTMS 4** showing the following items in the bill of material:

- HRC
- Zinc
- Scrap
- Packaging
- Other materials

We were then able to reconcile the unit standard costs from the SAP screenshots to the updated costs spreadsheet, noting that for some transaction, it may be based on the previous month's standard costs. TAGAL explained that this is due to products being manufactured in a previous month.

An analysis of the SAP screenshots found that for the automotive model 800428, HRC accounted for 93% of costs while for the construction grade model 200431, HRC accounted for 90% of costs (**confidential attachment CTMS 5**).

We noticed some unusually low standard costs for certain transactions in the spreadsheet, in particularly models 800360, 800863 and 8001120 in August 2011 and 800360 in November 2011. TAGAL advised that in all these instances, the model was from inventory that was manufactured in previous years and therefore used standard costs from that period. For instance, the unusually low standard cost transaction for model 800360 was manufactured in August 2009, for model 800863 in January 2010 and for model 801120 in January 2010 (**Confidential attachment CTMS 6**). We consider that these outliers should be excluded from the cost calculations as it was manufactured outside the investigation period. TAGAL advised that it did not have any objections to this approach.

6.3.2 Cost of goods sold

TAGAL advised that it extracted the monthly COGS directly from SAP. We requested, and TAGAL provided, the monthly COGS reports from SAP for each month during the investigation period (**Confidential attachment CTMS 7**) and we were able to match the total COGS figure for each month in these reports to the monthly COGS in the cost spreadsheet (confidential attachment CTMS 2). The COGS report shows the following cost items:

- Raw materials
- Labour
- Overheads

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6.3.3 HRC

As HRC is the main feedstock in the manufacture of galvanised steel, we selected HRC for further verification down to source documents. We also selected the month of September 2011 (highest volume of Australian exports of the investigation period) and asked TAGAL to demonstrate the reconciliation from the COGS worksheet to HRC purchase source documents.

TAGAL provided us with an annotated September 2011 COGS report identifying the breakdown of the raw materials (**Confidential attachment CTMS 8**). To support the raw material breakdown figures, TAGAL provided us with a detailed raw material consumption ledger from SAP (**Confidential attachment CTMS 9**) which matched the annotations on the COGS report. We then asked TAGAL to show us how the total HRC costs consumed reconciled to the HRC purchases spreadsheet (**confidential attachment CTMS 10**) provided as part of its response to the market situation questionnaire. To reconcile these amounts, TAGAL provided us with SAP screenshots showing the beginning balance, ending balance and purchases of HRC for September 2011 (**Confidential attachment CTMS 11**) and we were able to calculate the HRC consumption amount with a variance of 0.1%.

We then sought to reconcile the total value of HRC purchases shown in the SAP report (confidential attachment CTMS 11) to the HRC purchase spreadsheet (confidential attachment CTMS 10). TAGAL advised that as the SAP report shows the free-into-store price whereas the HRC purchase spreadsheet shows the ex-works price, the figures need to be adjusted by the freight, insurance and tariff costs. To support these adjustments, TAGAL provided us with SAP screenshots showing the freight, insurance and tariff accruals for September 2011 (**Confidential attachment CTMS 12**). After deducting freight, insurance and tariff costs, we were able to reconcile the September 2011 HRC purchases shown in the SAP report (confidential attachment CTMS 11) to the HRC purchase spreadsheet (confidential attachment CTMS 10) for September 2011 with a variance of less than 0.1%.

We then sought to verify the HRC purchase spreadsheet (confidential attachment CTMS 10) down to source documents. We note that this spreadsheet shows monthly summaries of HRC purchases by supplier. TAGAL's suppliers of HRC are ANSTEEL and TKSE, its two parent companies. HRC supplied by ANSTEEL is manufactured in Anshan, China, and HRC supplied by TKSE is imported from Germany. Over the investigation period, 95% of TAGAL's HRC purchases were from ANSTEEL.

We asked TAGAL to provide us with detailed transaction listings of its HRC purchases for September 2011 which it was able to extract from SAP (**Confidential attachment CTMS 13**). We then tried to reconcile these spreadsheets to the HRC purchase summary spreadsheet (confidential attachment 10). While we were able to match the quantities, the values did not match. TAGAL advised that the detailed HRC purchase listing shows prices inclusive of freight, insurance and, for TKSE purchases, import tariff duties. While SAP listed freight of HRC purchased from ANSTEEL and TKSE separately, it did not for insurance. Therefore, after taking into account freight and tariff amounts (confidential attachment CTMS 12) (insurance

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could not be separated) we were able to reconcile the total values in the spreadsheets with variances of less than 0.1% for both suppliers.

TAGAL then provided us with HRC invoices from ANSTEEL and TKSE (**confidential attachment CTMS 14**). We were able to match the volume and value of TKSE's invoice using EUR/RMB rate of 9.50. In relation to the ANSTEEL HRC invoice, while we were able to reconcile the volumes, there was a 1% variance to the value. TAGAL advised that this variance is due to freight costs which are included in the spreadsheet (confidential attachment CTMS 13) but purchased ex-works from ANSTEEL. We consider this explanation reasonable.

In the exporter questionnaire response, TAGAL argued that the HRC prices purchased from ANSTEEL are arm's length prices and provided a monthly summary of HRC sales by ANSTEEL to TAGAL and other domestic customers (**confidential attachment CTMS 15**). During the verification visit to ANSTEEL, we were provided with detailed HRC sales (**confidential attachment CTMS 16**) and we found that HRC prices to TAGAL were comparable or higher than other non-related domestic customers.

6.3.4 Labour and overheads

As outlined in section 6.1 above, TAGAL allocates COGS across all its products based on standard costs. Consequently, as labour and overheads are items in COGS, the allocation of labour and overheads has also been made based on the standard costs of the goods in the bill of materials. We consider this approach reasonable.

6.4 Selling, general and administrative expenses

TAGAL explained that for the CTMS spreadsheet it submitted in the EQR, it calculated selling, general and administrative (SG&A) expenses based on its monthly income statements. However, we advised TAGAL that our preference is to calculate an SG&A as a proportion of revenue over the entire investigation period and TAGAL stated that it was comfortable with that approach. Therefore, we applied the SG&A based on the income statement provided in the EQR (confidential attachment CTMS 3) to the CTM to reach a CTMS for each model.

We also requested breakdown of the SG&A amounts however TAGAL was unable to provide SG&A to that detail. Nonetheless we are satisfied that SG&A calculated from its income statement is an audited statement and therefore contains all relevant expenses.

6.5 Costs to make and sell – preliminary assessment

We verified TAGAL's cost to make and sell galvanised steel to source documents and to audited financial statements. As a result, we are satisfied that the information provided is accurate, relevant and complete.

We consider these costs to make and sell are suitable for:

- determining a constructed normal value under section 269TAC(2)(c); and

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- assessing ordinary course of trade under section 269TAAD.

The calculation of unit costs to make and sell for galvanised steel from TAGAL is contained in **confidential appendix 2.**

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7 DOMESTIC SALES**7.1 General**

TAGAL advised that its domestic customers include strategic partners involved in the automotive industry (ie. automotive manufacturers and suppliers to automotive manufacturers), and smaller customers that are involved in the automotive, construction or appliance industries.

TAGAL explained that it co-exists in the domestic market alongside its parent company Angang Steel Company Limited without conflict because the latter focuses on sales to end-users in the appliance and construction industries while TAGAL focuses on customers in the automotive industry.

TAGAL explained that its products are generally made in accordance with specific customer requirements and therefore sales are made to order rather than sold from stock.

TAGAL explained that it does have a monthly price list but this generally only applies to smaller customers, and is negotiable. Copies of the price lists for each of the 12 months of the investigation period are at **confidential attachment DOM 1**.

It is evident from TAGAL's price list that a base price is offered with the following factors affecting price by way of "extra" charges:

- Steel grade;
- Thickness of zinc coating;
- Width and thickness;
- Surface treatment; and
- Coating and finish (noting galvannealed is only 100RMB/Tonne more)

We noted that packaging variations were also listed as affecting price and the maximum variation between types of packaging was 80 RMB/Tonne.

7.2 Levels of trade

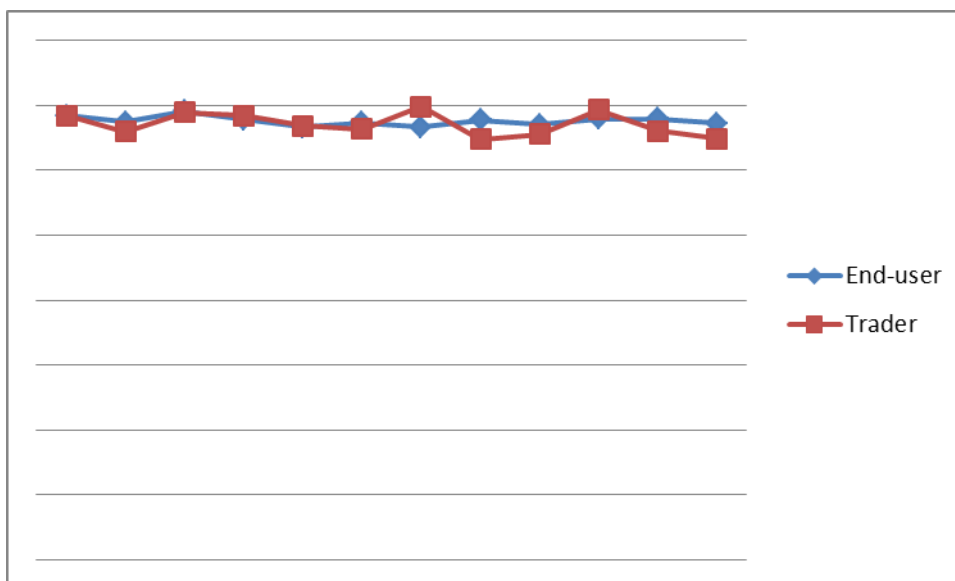
In its domestic sales data (**confidential attachment DOM 2**), TAGAL identified two levels of trade for its domestic customers: traders and end-users. This was identified for all individual transactions.

At the verification meeting, TAGAL stated that domestic selling prices do not vary according to these levels of trade.

The following chart shows the monthly price variations for domestic sales of product descriptions that are of DX54D grade and 140gsm zinc coating, which accounted for [REDACTED] % of all domestic sales of galvanised steel in the investigation period.

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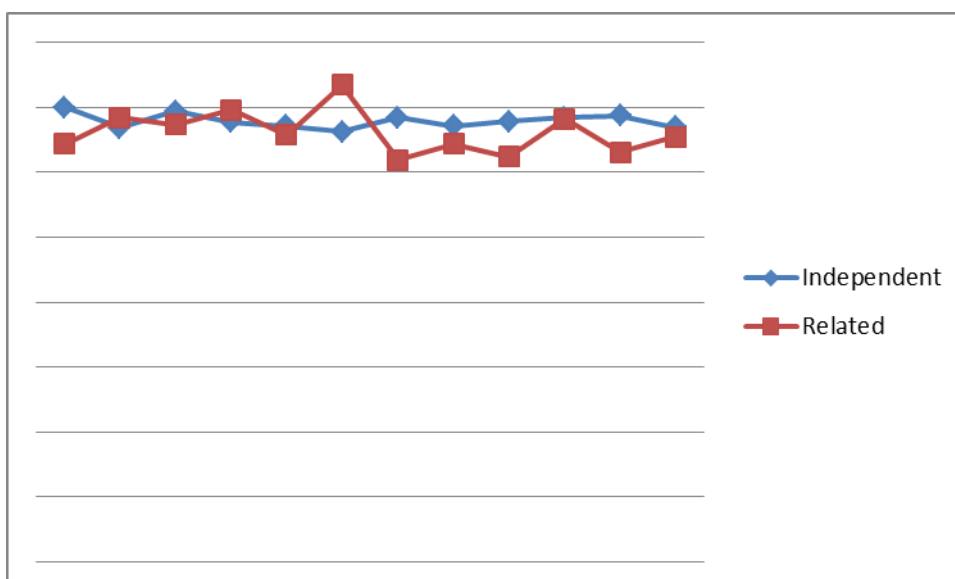
We consider that the evidence supports TAGAL's claim that the levels of trade did not have an effect on prices for domestic sales of galvanised steel in the investigation period.

7.3 Sales to related parties

As stated above, domestic sales made to related parties represented approximately █% of total domestic sales over the investigation period.

TAGAL stated that the relationship with these customers does not influence the price.

We compared the weighted average selling prices of galvanised steel for TAGAL's domestic sales to independent customers with prices to related customers. The following chart shows the monthly price variations for domestic sales of product descriptions that are of DX54D grade and 140gsm zinc coating, which accounted for █% of all domestic sales of galvanised steel in the investigation period.



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We noted that while the prices to related parties fluctuated more than prices to independent parties (which may have been due to the lower monthly volumes for related party transactions) and that there was no consistent relationship or trend over the investigation period that suggested related party transactions were at a price that was influenced by the relationship.

Having regard to the actual price differences observed between TAGAL selling prices to independent customers and to related parties, we consider that the price for goods sold to related parties has not been influenced by the relationship.

7.4 Domestic sales process, pricing, terms and payment**7.4.1 General**

TAGAL explained that the sales process for domestic sales of galvanised steel is as follows:

- customers place purchase orders by email or facsimile;
- price for strategic customers is already in the system, and price for smaller customers is negotiated;
- a sales contract is issued to confirm the order;
- the sales contract also acts as the production order as the details are input to the production system;
- production of the goods commences (noting that all production is to specific customer order, not for stock);
- once production is finished, delivery is arranged based on the delivery terms negotiated; and
- a tax invoice is issued one to twelve days after delivery (delay due to batching of invoice issue).

7.4.2 Delivery terms

The domestic sales spreadsheet showed delivery terms for each transaction. We noted that approximately ■% of domestic sales were ex-warehouse (EXW); ■% were cost, insurance and freight (CIF); and the remainder were door-to-door (DTD).

7.4.3 Payment terms

The domestic sales spreadsheet showed payment terms for each transaction. There was a variety of payment terms ranging from “100% payment before shipment” to 30 days credit.

7.4.4 Rebates, discounts and commissions

TAGAL explained that no rebates or discounts were available in relation to its domestic sales, and that the invoice amount was the final amount paid or payable. TAGAL also explained that no commissions were applicable to domestic sales.

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We asked TAGAL to demonstrate how the domestic and export sales data provided in the submission could be reconciled to audited financial statements.

TAGAL demonstrated how the revenue figures in the Income Statement that was provided in the response to the exporter questionnaire (containing revenue, operating costs and operating profit for 2011, and for the investigation period) matched the audited report of 2011.

TAGAL then demonstrated, using Profit and Loss Statements from SAP for the two relevant interim periods (first six months of 2011, and first six months of 2012), how its revenue figure was calculated for the investigation period (i.e. 2011 revenue minus revenue for the first 6 months of 2011 plus the revenue for the first six months of 2012). This reconciliation revealed a minor discrepancy (0.4%), which we considered to be immaterial.

TAGAL was also able to reconcile the revenue for the investigation period to a SAP download of all monthly revenues, taking account of the dissection for revenue between its own manufactured product and a small amount of other products.

TAGAL then used SAP reports that listed monthly volume and value figures separately for domestic sales, export sales to Australia, and other exports. This data matched the Income Statement for volume and value.

Copies of the documents provided to demonstrate reconciliation of domestic and export sales data (provided in a detailed spreadsheet) to audited financial statements are at **confidential attachment DOM 3**.

We concluded that the domestic sales spreadsheet provided by TAGAL contained a complete and relevant list of domestic sales of like goods for the investigation period.

7.6 Verification of domestic sales down to source documents

Prior to the visit, we selected 6 galvanised steel domestic sales from the detailed domestic sales spreadsheet and requested that TAGAL provide source documents in relation to each invoice.

For each selected invoice, TAGAL provided copies of the following documents during the visit:

- Commercial invoice;
- Packing list;
- Proof of payment (in the form of a bank receipt and in two cases selected by the verification team, accounts receivable ledgers);
- Evidence of inland freight charges (in the 4 cases of CIF delivery terms)

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We noted, with one exception, the payment evidence showed amounts that did not correspond with the invoice values. TAGAL explained that this was because customers were generally treated as operating on an 'open account' system whereby sufficient funds had to be deposited in the TAGAL account to cover any order value before invoicing and delivery of the goods for that order was commenced. This was said to give effect to the payment in advance terms. Therefore, we cannot be satisfied that the credit terms quoted in the domestic sales spreadsheet are reasonably accurate.

In the one case where payment did match the invoice value, we noted that payment was made in accordance with the credit terms quoted in the spreadsheet (100% payment before shipment).

We matched the sales information in the source documents to the data contained in the detailed sales spreadsheet. The source documents, including proof of payment, of the selected sales are at **confidential attachment DOM 4**.

We concluded that the domestic sales spreadsheet provided by TAGAL contained a reasonably accurate list of domestic sales of like goods for the investigation period, with the exception that we are not be satisfied that the credit terms quoted in the domestic sales spreadsheet are reasonably accurate.

7.6.1 Inland transport

Of those selected transactions where the delivery terms were 'CIF' we asked for evidence of the inland freight charges. TAGAL provided copies of invoices and schedules of inland freight charges, and evidence of payment for the freight charges. The evidence matched the amounts reported in the detailed domestic sales spreadsheet. Copies of the freight charge documentation is at **confidential attachment DOM 5**.

TAGAL also provided a copy of an Agreement between it and the transport company which showed amounts per tonne by destination. We noted that these amounts matched the freight charges listed in the freight charge schedules discussed above. A copy of the Agreement on transportation fees is at **confidential attachment DOM 6**.

7.7 Arms length

In respect of TAGAL's domestic sales of galvanised steel in the investigation period, we found no evidence that:

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

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We therefore consider TAGAL's domestic sales of galvanised steel in the investigation period were made in arm's length transactions.

7.8 Ordinary course of trade

As stated in section 2.3 above, following the visit, the delegate made a PAD in relation to dumping of galvanised steel. The delegate has preliminarily determined that a market situation exists in relation to sales of galvanised steel in China and normal values should be based on constructed costs and an amount for profit. However, we have undertaken an ordinary course of trade (OCOT) test for the purpose of calculating a profit.

In order to test whether the domestic sales are in the OCOT, we first tested the profitability of each transaction individually by comparing the unit selling price to the corresponding quarterly weighted average CTMS for each model. For those sales found to be sold at a loss, we then tested its recoverability by comparing the unit selling price to the weighted average CTMS of the relevant model over the whole of the investigation period.

We undertook this test for each model individually and where the volume of unrecoverable sales exceeds 20%, the unrecoverable sales for those models were deemed not to be made in the OCOT. Of the [REDACTED] different models of galvanised steel, [REDACTED] models had unrecoverable sales exceeding 20%.

7.9 Domestic sales – preliminary assessment

Following the visit, a PAD was issued (refer section 2.3 above) and Customs and Border Protection has preliminarily determined that a market situation exists in relation to sales of galvanised 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.

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In its exporter questionnaire response, TAGAL provided a summary its galvanised steel export sales to third countries.

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

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

9.2 Packaging

No adjustments were made for packaging as the cost of packaging is unique to each model number and included in the CTMS amount.

9.3 Domestic inland freight

We note that some domestic sales of galvanised steel are delivered. Therefore, we made a downward adjustment for the weighted average domestic inland freight costs over the investigation period for galvanised steel.

We note that the constructed normal value may include a mixture of domestic and export delivery expenses, however, as stated in section 6.4 above, ANSTEEL did not provide us with a breakdown of SG&A expenses to enable us to isolate delivery costs in the SG&A figures provided.

9.4 Export inland freight and handling

We made an upwards adjustment for export inland freight and handling costs using the weighted average export handling charges over the investigation period for galvanised steel

We note that delivery and handling expenses may be included in TAGAL's SG&A expenses, however, as stated in section 6.4 above, TAGAL did not provide us with a breakdown of SG&A expenses to enable us to isolate these costs in the SG&A figures.

9.5 Un-refundable value-added tax

TAGAL incurs an un-refundable value-added tax (VAT) expense on export sales to Australia of 4%, being the difference between the VAT amount of 17% less 13% VAT refund on export sales of galvanised steel. Therefore, we applied an upwards adjustment of 4% to the normal value for direct export sales to Australia.

9.6 Domestic credit terms

As discussed in section 7.6 above, we could not be satisfied that the domestic sales credit terms accurately reflected the actual payment received by TAGAL from its domestic customers. Therefore we did not make a downwards adjustment for domestic credit terms.

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9.7 Export credit terms

As outlined in section 5.1.2 above, TAGAL provides credit terms of either L/C at sight, 3 days or 30 days for its export sales. We have made an upwards adjustment for the corresponding credit terms. TAGAL advised that it has no short term borrowings and suggested that interest be calculated based on the long term credit cost as noted in TAGAL's 2011 financial statements. We consider this approach reasonable and calculated the interest rate based on the total interest expenses on long term loans as a proportion of its long term loans at the end of 2011.

We note that finance charges may be included in TAGAL's SG&A expenses, however as stated in section 6.4 above, TAGAL did not provide us with a breakdown of SG&A expenses to enable us to locate finance costs in the SG&A figures.

9.8 Adjustments – Conclusion

We are satisfied that there is sufficient and reliable information to justify the following adjustments, in accordance with s. 269TAC(9), and we consider these adjustments are necessary to ensure a fair comparison of normal values and export prices:

Domestic inland freight	Deduct a weighted average cost of domestic inland freight.
Export inland freight and handling	Add a cost of export inland freight and handling charges.
Unrefundable VAT	Add the unrefundable VAT amount of 4%.
Export credit terms	Add credit expense for export credit terms

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10 NORMAL VALUE

As stated in section 2.3 above, following the visit, the delegate made a PAD in relation to dumping of galvanised steel. The delegate has preliminarily determined that a market situation exists in relation to sales of galvanised steel in China and normal values should be based on constructed costs and an amount for profit.

The delegate 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 TAGAL's cost of HRC during the investigation period.

Normal values have been constructed using the cost to make galvanised steel exported to Australia plus SG&A on the assumption that the goods, instead of being exported, were sold domestically¹⁰. A rate of profit has been added using data related to the production and arm's length sales of like goods in the ordinary course of trade¹¹.

In using costs to make and sell as the basis for normal values, we consider that certain adjustments, in accordance with s. 269TAC(9), are necessary to ensure fair comparison of normal values with export prices as outlined in section 9 above.

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

¹⁰ s. 269TAC(2)(c)

¹¹ Regulation 181A(2) of the *Customs Regulations 1926*

PUBLIC RECORD**Exporter visit – ANSC-TKS Galvanising Co., Ltd****11 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 steel. The weighted average product dumping margin for galvanised steel is 30.8%. A summary of dumping margin calculations is at **confidential appendix 5**.

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12 PARTICULAR MARKET SITUATION**12.1 General**

The Australian industry claims that a 'particular market situation' exists in respect of galvanised steel from China due to government influence on both the prices of the goods and the major raw material inputs, including HRC, used in the manufacture of the goods.

TAGAL submitted a response to the Particular Market Situation questionnaire, which includes, inter alia, a spreadsheet listing its HRC purchases, during the investigation period (confidential attachment CTMS 10). We undertook a verification of the HRC purchase spreadsheet as part of the cost verification (see section 6.3.3 above for details).

ANSTEEL disputes the claim that there is a particular market situation in the Chinese steel industry. It claims that there is no government control on production levels, selling prices or any other aspects of the manufacture or supply of steel or any steel products.

12.2 Government of China Five-Year Plans

We asked TAGAL of its knowledge of the Government of China's 12th Five-Year Plan of Iron and Steel Industry and the Blueprint for Steel Industry Adjustment and Revitalization and if so, how these documents affect TAGAL.

TAGAL stated that it was aware of these documents through media coverage and understands that these types of national plans are required to ensure stability in the development of the Chinese economy, which has an aim of 10% growth per annum.

TAGAL advised that although these plans do not have any specific influence on the company itself, it stated that it does have an influence on the Chinese macro economy and specifically the steel industry. TAGAL explained that the relevance of the documents to the company is that in order to make sound business decisions, it must be fully aware of the Chinese macroeconomic conditions and the direction of the steel industry.

We asked TAGAL whether it has its own five year plan. TAGAL advised that it does have a five year strategic plan that outlines the company's goals and targets, including profit and market share. It stated that this is an internal document and does not publicise it. It also stated that there is no requirement to provide this plan to its shareholders, but is available to them if requested.

12.3 State-Owned Assets Supervision and Administration Commission

TAGAL claims that the State-Owned Assets Supervision and Administration Commission (SASAC) have no influence on the running of the company. It argues

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that SASAC is ultimately owned by ANSTEEL, one of its shareholders, and is too high up in corporate chain to have much influence in TAGAL.

TAGAL also advised that it currently does not have, or ever had, any representatives from the Government of China on its board or directors

12.4 Steel industry consolidation

TAGAL stated that it had plans to expand its manufacturing capacity by setting up a new production facility. It advised that this plan has been under consideration since 2011 and is considering several possible locations to build this facility, likely to be in Western China closer to many of its current customers.

We discussed the required approval process for this expansion. TAGAL advised that it will require approval from its shareholders and the usual governmental approvals for any building works, such as environmental assessments. It stated that even though it is half owned by a foreign company, it did not need to seek approval from any foreign approval board (or similar agency) nor does it require approval from SASAC.

TAGAL also states that it has not undergone any merger or acquisition activity since its inception of TAGAL in 2002.

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During the visit, we undertook a verification of TAGAL's response to the subsidy exporter questionnaire. We have identified additional cash payments provided by the Government of China in its Annual Report and have sought further information from TAGAL regarding these payments. At the time of drafting this report, we were analysing the information provided and gathering more information from TAGAL. We will make an addendum to this report in due course.

PUBLIC RECORD**Exporter visit – ANSC-TKS Galvanising Co., Ltd****14 LIST OF APPENDICES AND ATTACHMENTS**

Appendix 1	Export price
Appendix 2	Cost to make and sell
Appendix 3	Domestic sales and OCOT
Appendix 4	Normal values
Appendix 5	Dumping margin
Confidential attachment GEN 1	Introductory presentation on TAGAL
Confidential attachment GEN 2	Chart of accounts
Confidential attachment GEN 3	Cost centre overview
Confidential attachment EXP 1	Transport Agency Agreement
Confidential attachment EXP 2	Export sales spreadsheet
Confidential attachment EXP 3	Export sales source documents
Confidential attachment EXP 4	Inland Freight and Handling Charges
Confidential attachment EXP 5	SAFE exchange rates
Confidential attachment CTMS 1	Updated CTMS spreadsheets
Confidential attachment CTMS 2	Revised CTMS spreadsheets
Confidential attachment CTMS 3	Income statement
Confidential attachment CTMS 4	Standard cost SAP screenshots
Confidential attachment CTMS 5	Analysis of HRC as a proportion of costs
Confidential attachment CTMS 6	SAP screen shots explaining unusually low standard cost
Confidential attachment CTMS 7	COGS reports
Confidential attachment CTMS 8	Annotated September 2011 COGS report
Confidential attachment CTMS 9	Detailed raw material consumption ledger from SAP
Confidential attachment CTMS 10	HRC purchases spreadsheet

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Confidential attachment CTMS 11	SAP screenshots of beginning balance, ending balance and purchases of HRC for September 2011
Confidential attachment CTMS 12	SAP screenshots of freight, insurance and tariff accruals for September 2011
Confidential attachment CTMS 13	Detailed transaction listings of HRC purchases for September 2011
Confidential attachment CTMS 14	HRC invoices from ANSTEEL and TKSE
Confidential attachment CTMS 15	Monthly summary of HRC sales by ANSTEEL to TAGAL and other domestic customers
Confidential attachment CTMS 16	Detailed HRC sales
Confidential attachment DOM 1	Domestic sales price extras list
Confidential attachment DOM 2	Domestic sales spreadsheet
Confidential attachment DOM 3	Reconciliation of sales to audited financial statements
Confidential attachment DOM 4	Domestic sales source documents
Confidential attachment DOM 5	Freight charge documentation
Confidential attachment DOM 6	Agreement on transportation fees