



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**

DUMPING MARGIN CALCULATION

WUHAN IRON AND STEEL COMPANY LIMITED

<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>

March 2013

PUBLIC RECORD

1 TABLE OF CONTENTS

1	TABLE OF CONTENTS	2
2	BACKGROUND	3
2.1	APPLICATIONS.....	3
2.2	BACKGROUND	3
2.3	PRELIMINARY AFFIRMATIVE DETERMINATION	4
2.4	PURPOSE OF THE REPORT	4
2.5	COMPANY BACKGROUND	5
2.6	ACCOUNTING	5
3	GOODS UNDER CONSIDERATION AND LIKE GOODS	6
3.1	THE GOODS THE SUBJECT OF THE APPLICATIONS.....	6
3.1.1	Description.....	6
3.1.2	Product standards.....	6
	Figure 1: International Standards for galvanised steel	7
3.1.3	Tariff classifications.....	7
3.2	LIKE GOODS.....	8
3.2.1	Like goods – preliminary assessment	8
4	EXPORT SALES TO AUSTRALIA	9
4.1	GENERAL	9
4.2	THE EXPORTER	9
4.3	THE IMPORTER.....	9
4.4	EXPORT PRICE – PRELIMINARY ASSESSMENT	10
5	COSTS TO MAKE & SELL	11
6	DOMESTIC SALES.....	12
6.1	GENERAL	12
6.2	ORDINARY COURSE OF TRADE.....	12
6.3	DOMESTIC SALES – PRELIMINARY ASSESSMENT	12
7	THIRD COUNTRY SALES	14
8	ADJUSTMENTS.....	15
8.1	GENERAL	15
8.2	EXPORT INLAND FREIGHT, HANDLING AND INSURANCE.....	15
8.3	IETC's AND WUGANG AUSTRALIA's SG&A	15
8.4	UN-REFUNDABLE VALUE-ADDED TAX	15
8.5	ADJUSTMENTS – CONCLUSION	15
9	NORMAL VALUE.....	16
10	DUMPING MARGIN – PRELIMINARY ASSESSMENT.....	18
11	LIST OF APPENDICES AND ATTACHMENTS.....	19

PUBLIC RECORD

2 BACKGROUND

2.1 Applications

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.

2.2 Background

Following initiation of the investigation, a search of Customs and Border Protection's import database indicated that Wugang Australia Pty Ltd (Wugang Australia) supplied galvanised steel from China to Australia in the period 1 July 2011 to 30 June 2012 (the investigation period). Wugang Australia subsequently advised that it supplies galvanised steel manufactured by Wuhan Iron and Steel Company Limited (WISCO).

Customs and Border Protection notified WISCO 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 two exporter questionnaires, one for WISCO and another for International Economic and Trading Corporation Wugang Group (IETC), a related company that WISCO exports its products through. Non-confidential versions of the questionnaire responses are available on the public record.

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

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

PUBLIC RECORD

2.3 Preliminary Affirmative Determination

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 1901*³ 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 this report

Based on the volume of WISCO's exports relative to the total export volume during the investigation period a decision was made not to conduct an on-site verification visit at WISCO's premises.

The purpose of this report is to assess WISCO's and IETC's exporter questionnaire responses and to make a preliminary assessment of:

³ All references in this report to sections of legislation, unless otherwise specified, are to the *Customs Act 1901*.

PUBLIC RECORD

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

2.5 Company background

According to the exporter questionnaire response, WISCO is a public listed company listed on the Shanghai Stock Exchange. Wuhan Iron and Steel (Group) is the parent company of WISCO and owns 65.32% of the shares in WISCO.

WISCO states that it is one of the biggest producers of steel products in China, including galvanised steel. It is also responsible for all sales of self-produced products on domestic market.

WISCO states that it does not export its products by itself directly. All exports are carried out through its related company, IETC. IETC is a company essentially engaged in export sales of a broad range of steel products.

It is also noted that IETC sells galvanised steel to Wugang Australia, another company in the Wugang Group located in Australia, which then on-sells the goods to unrelated Australian customers.

2.6 Accounting

The exporter questionnaire responses state that WISCO's and IETC's financial accounting period is from 1 January to 31 December. Both companies provided copies of their chart of accounts, financial statements and annual reports.

The exporter questionnaire responses also state that the financial accounting practices and policies used by WISCO and IETC are in line with the generally accepted accounting principles in China.

PUBLIC RECORD

3 GOODS UNDER CONSIDERATION AND LIKE GOODS

3.1 The goods the subject of the applications

3.1.1 Description

The imported goods the subject of the application are:

“flat rolled products of iron and non-alloy steel of a width less than 600mm and, equal to or greater than 600mm, plated or coated with zinc”⁴.

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;
- “GALVSPAN®” 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.

3.1.2 Product standards

The application stated that:

“Typically each Australian and International Standard has a range of steel grades nominated as Commercial, Formable or Structural grades. The commercial/formable grades are those with mechanical properties suitable for general pressing and forming whereas the structural grades are those with guaranteed minimum properties that structural engineers utilize in the design of their final product designs”⁵.

⁴ Galvanised Steel Application, page 10.

⁵ Galvanised Steel Application, page 12.

PUBLIC RECORD

- (i) Australia

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

- (ii) International

The application states that there are a number of relevant International Standards for galvanised steel products (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 steel⁶

3.1.3 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).

⁶ Galvanised Steel Application, page 11.

PUBLIC RECORD

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

Figure 2: TCOs applicable to tariff subheading 7210.49.00

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

3.2 Like goods

Subsection 269T(1) defines like goods to mean:

Goods that are identical in all respects to the goods under consideration or that, although not alike in all respects to the goods under consideration, have characteristics closely resembling those of the goods under consideration.

WISCO's and IETC's exporter questionnaire responses provide details of the models of galvanised steel exported to Australia by IETC and sold domestically in China by WISCO. Some models that are exported to Australia are also sold on the domestic market.

It appears that the galvanised steel sold in the domestic market are either identical or have characteristics closely resembling the goods exported to Australia.

3.2.1 Like goods – preliminary assessment

The galvanised steel produced and sold domestically by WISCO have characteristics closely resembling those of the goods exported to Australia by IETC and are therefore "like goods" in terms of subsection 269T(1).

4.1 General

- sales contract between IETC and Wugang Australia;
- commercial invoice from IETC to Wugang Australia; and
- the bill of lading.

- is the manufacturer of the goods;
- owned the goods at the time of export;
- is the principal in the transaction located in the country of export from where the goods were shipped; and
- sent the goods for export to Australia and was aware of the identity of the Australian end customer of the goods.

Wugang Australia's customers purchase galvanised steel at [REDACTED] terms and therefore arrange and [REDACTED]
[REDACTED]
[REDACTED] [Confidential commercial terms – evidence that customers are the importers]

9

PUBLIC RECORD

4.4 Export price – preliminary assessment

It appears that the goods have been exported to Australia otherwise than by the importer, however, the goods have not been purchased directly from the exporter. Therefore, the export price has been determined under s. 269TAB(1)(c) having regard to all the circumstances of the exportation. Specifically, the export price has been ascertained using the price invoiced by Wugang Australia.

The weighted average quarterly [REDACTED] export price in [REDACTED] [currency] is summarised in the table below:

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

[Confidential commercial terms and prices]

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

PUBLIC RECORD

5 COSTS TO MAKE & SELL

In its exporter questionnaire response, WISCO provided a cost to make and sell spreadsheet for galvanised steel. The spreadsheet shows monthly costs data for each model sold domestically and exported to Australia.

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

PUBLIC RECORD

6 DOMESTIC SALES

6.1 General

In its exporter questionnaire response, WISCO provide a spreadsheet containing detailed sales of galvanised steel in the domestic market.

WISCO sells to related and unrelated parties on the domestic market. The related parties are identified with WISCO in its name.

An analysis of the weighted average selling prices over the investigation period between related and unrelated parties was undertaken and the results for the top three selling models are summarised in the table below.

Model	Unrelated	Related	Difference
██████████	██████████	██████████	██████████
██████████	██████████	██████████	██████████
██████████	██████████	██████████	██████████

[Confidential commercial terms]

From the table above, selling prices to related parties for these ██████████ models were lower than sales to unrelated parties by between ██████████. Therefore, it appears that the price of galvanised steel sold to related parties has been influenced by a commercial or other relationship and are not arm's length prices.

6.2 Ordinary course of trade

As stated in section 2.3 above, 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, an ordinary course of trade (OCOT) test has been undertaken for the purpose of calculating a profit.

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

This test was undertaken 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.

6.3 Domestic sales – preliminary assessment

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

PUBLIC RECORD

an amount for profit. The above section sets out the results of the ordinary course of trade test that was used to determine an appropriate amount of profit.

Details of the OCOT test and profit calculation are at **confidential appendix 3**.

PUBLIC RECORD

7 THIRD COUNTRY SALES

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

There is sufficient information from the submission to calculate normal values for galvanised steel using domestic sales or a construction method.

PUBLIC RECORD

8 ADJUSTMENTS

8.1 General

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

8.2 Export inland freight, handling and insurance

An upwards adjustment for export inland freight, handling and insurance costs was applied to the normal value using the weighted average export inland freight, handling and insurance costs over the investigation period for each galvanised steel model.

8.3 IETC's and Wugang Australia's SG&A

As galvanised steel exported to Australia are sold through IETC and Wugang Australia, an upward adjustment for IETC's and Wugang Australia's SG&A in the normal value calculation is required to ensure a fair comparison to the export price. The SG&A expenses are based on IETC's and Wugang Australia's income statements. This SG&A adjustment is in lieu of Wugang Australia's trading margin.

8.4 Un-refundable value-added tax

WISCO 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, an upwards adjustment of 4% was applied to the normal value of export sales to Australia.

8.5 Adjustments – Conclusion

In accordance with s. 269TAC(9), these adjustments are necessary to ensure a fair comparison of normal values and export prices:

Export inland freight, handling and insurance	Add a cost of export inland freight, handling and insurance costs.
IETC's and Wugang Australia's SG&A	Add an amount for IETC's and Wugang Australia's SG&A.
Unrefundable VAT	Add the unrefundable VAT amount of 4%.

PUBLIC RECORD

9 NORMAL VALUE

As stated in section 2.3 above, 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.

WISCO is an integrated manufacturer of galvanised steel. Integrated manufacturers do not purchase hot rolled coil (HRC) but manufacture it themselves from other raw materials such as iron ore, coke or coking coal and scrap steel. However, Customs and Border Protection has found that the Government of China's influences in the iron and steel industry are wide ranging and affect competitive market supply of raw material inputs including HRC. Customs and Border Protection has observed that some of the cooperating integrated exporters of galvanised steel also sell HRC to some of the non-integrated producers. Because this selling price is said not to reflect a competitive market cost to the purchaser, and has been substituted by a benchmark, this leads to an inference that the HRC manufacture costs of the integrated producers also do not reflect competitive market costs. In the absence of

- sufficient information to establish a benchmark for each of the raw material inputs to HRC; and
- sufficiently detailed cost records from the cooperating exporters in their questionnaire responses to make the adjustment at this level,

it is considered reasonable to make the substitution at the HRC level for integrated producers.

Therefore, for WISCO, the weighted average percentage uplift found in relation to the cooperating non-integrated exporters was applied to its recorded costs to manufacture HRC. PAD 190 contains details about the benchmark used to determine HRC costs for exporters in China. Applying this benchmark results in an uplift to WISCO'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 domestically⁷. 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 trade⁸.

In using costs to make and sell as the basis for normal values, certain adjustments, in accordance with s. 269TAC(9), are necessary to ensure fair comparison of normal values with export prices as outlined in section 8 above.

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

⁷ s. 269TAC(2)(c)

⁸ Regulation 181A(2) of the *Customs Regulations 1926*

PUBLIC RECORD

Customs and Border Protection notes that due to the limited amount of time that WISCO has had to review Customs and Border Protection's calculations at the time of publishing this report, they are still under review and may change. Any changes will be notified on the public file.

PUBLIC RECORD

10 DUMPING MARGIN – PRELIMINARY ASSESSMENT

In calculating the dumping margin, each export transaction was compared with the corresponding quarterly normal value for the corresponding model of galvanised steel. The weighted average product dumping margin for galvanised steel is 21.2%. A summary of dumping margin calculation is at **confidential appendix 5**.

Customs and Border Protection notes that due to the limited amount of time that WISCO has had to review this report and Customs and Border Protection's calculations at the time of publishing this report, they are still under review and may change. Any changes will be notified on the public file.

PUBLIC RECORD**11 LIST OF APPENDICES AND ATTACHMENTS**

Confidential Appendix 1	Export price
Confidential Appendix 2	Cost to make and sell
Confidential Appendix 3	Domestic sales, OCOT and profit
Confidential Appendix 4	Normal values
Confidential Appendix 5	Dumping margin