Australian Government
Australian Customs and Border Protection Service

INTERNATIONAL TRADE REMEDIES BRANCH

INVESTIGATION

INTO THE ALLEGED DUMPING OF HOT ROLLED PLATE STEEL FROM THE PEOPLE'S REPUBLIC OF CHINA, JAPAN, THE REPUBLIC OF KOREA, THE REPUBLIC OF INDONESIA, AND TAIWAN

SHANG CHEN STEEL CO, LTD
Exporter Visit Report

MAY 2013

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

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1 PURPOSE AND BACKGROUND

1.1 The application

On 21 December 2012, BlueScope Steel Limited (the applicant) on behalf of the Australian industry manufacturing Hot Rolled Plate Steel (plate steel), lodged an application requesting that the Minister for Home Affairs (the Minister) publish a dumping duty notice in respect of plate steel exported to Australia from the People's Republic of China (China), the Republic of Indonesia (Indonesia), Japan, the Republic of Korea (Korea) and Taiwan, and a countervailing duty notice in respect of plate steel exported to Australia from China.

The application alleges that plate steel has been exported to Australia from China, Indonesia, Japan, Korea and Taiwan at prices lower than its normal value, that plate steel exported to Australia from China has received countervailable subsidies, and that this dumping and subsidisation has caused material injury to the Australian industry producing plate steel.

Following consideration of the application, the Australian Customs and Border Protection Service (ACBPS) decided not to reject the application. Public notification of initiation of the investigation was made in *The Australian* newspaper on 12 February 2013.

Australian Customs Dumping Notice (ACDN) No. 2013/18 and ACDN No. 2013/20 provides further details of this investigation and is available at www.customs.gov.au.

The investigation period is 1 January 2012 to 31 December 2012. ACBPS will examine exports to Australia of the goods during that period to determine whether dumping has occurred.

ACBPS will examine details of the Australian market from 1 January 2008 for injury analysis.

1.2 Purpose of visit

Prior to initiation of the investigation, Shang Chen Steel Co., Ltd (Shang Chen) was identified in ACBPS's import database as a potential supplier of plate steel from Taiwan during the investigation period. Consequently, Shang Chen was invited to participate in the investigation and was supplied a copy of an exporter questionnaire to complete.

Shang Chen provided a response to the exporter questionnaire, which was supported by confidential appendices and attachments, including confidential spreadsheets containing sales and costs data.

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

Following initial analysis of Shang Chen's response to the exporter questionnaire, ACBPS determined that the response was reasonably complete and warranted verification. Verification was undertaken with Shang Chen in Kaohsiung, Taiwan, and this report forms the record of that verification and subsequent analysis by the Verification Team.

ACBPS will use the information and data verified at the exporter verification visit to make preliminary assessments of:

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

1.3 Meeting dates and attendees

Verification meetings were held at the Kaohsiung facilities of Shang Shing Steel Industrial Co. Ltd (Shang Shin), a company related to Shang Chen.

Meeting dates were from Wednesday 7 May to Friday 10 May 2013.

The following representatives were present at various stages of the meetings.

Company/agency	Representatives
Shang Chen	Tsung-Ching Yu, General Manager
	Tony Sheng
Consultants – Staughton's	Troy Morrow, Senior Associate Mick Catanzariti, Senior Advisor
Consultants – Wu & Partners	Linda Lin, Associate Toshi Teng, Associate
ACBPS Verification Team	Andrea Stone, Manager Bill Walsh, Manager

1.4 Preliminary issues

Prior to the verification visit, an exporter verification visit agenda was forwarded to Shang Chen. This included listings of domestic and Australian sales transactions selected for detailed verification.

A copy of the visit agenda is at **Confidential Attachment GEN 1.**

A summary of the investigation process and key reporting timeframes is as follows.

- The investigation period is 1 January to 31 December 2012.

- ACBPS will examine the Australian market from 1 January 2008 for the purpose of analysing the condition of the Australian industry.

- The earliest a preliminary affirmative determination (PAD) could be made was 15 April 2013.

  Provisional measures may be imposed at the time of making a PAD or at any time after a PAD has been made, but ACBPS would not make such a determination until it was satisfied that there appears to be, or that it appears there will be, sufficient grounds for the publication of a dumping duty notice.

- A statement of essential facts (SEF) will be placed on the public record by 3 June 2013, or such later date as the Minister provides.

  The SEF will set out the material findings of fact on which ACBPS intends to base its recommendations to the Minister and will invite interested parties to respond, within 20 days, to the issues raised therein (timely submissions received in response to the SEF will be considered when compiling the report and recommendations to the Minister).

- ACBPS's report to the Minister is due on 17 July 2013.

1.5 Visit report and confidentiality

We explained to Shang Chen that we would prepare a report of our visit (this report) and provide it to the company to review its accuracy, and to identify those parts of the report considered to be confidential.

We noted that, in consultation with Shang Chen, we would prepare a non-confidential version of the report to be placed on the Public Record.

We explained that all documents and information submitted to us during the visit would be treated as confidential unless advised otherwise.

1.6 Previous verifications

Shang Chen was the subject of a recent verification visit by ACBPS (August 2012) in relation to the investigation into hot rolled coil steel (HRC) from Taiwan and other origins.

A report of that visit was placed on that investigation's public record.

2 COMPANY INFORMATION

2.1 Company information

Shang Chen is a private family owned and run company which has been operation for the past 35 years (a list of shareholders holding shares above 5% of the company share total is at **Confidential Attachment GEN 2**).

Shang Chen operates a steel mill that produces:

- plain (unfinished or further-worked, not pickled and oiled) HRC products; and
- plain (no patterns in relief or other finish) plate steel;

for both the domestic and international markets. The HRC products manufactured by Shang Chen are supplied either in coil form or sheared into steel sheets.

Shang Chen also supplies a range of products further to the above, which Shang Chen partially manufactures itself with additional processing by other parties. See Section 2.4 for further discussion of Shang Chen's full product range.

Shang Chen's production facilities are located in Kaohsiung, Taiwan.

2.2 Accounting structure and details of accounting system

Shang Chen has advised that the accounting package they operate is the Wenzhong (previously understood to be 'Winton') Accounting System.

Shang Chen explained that it operates four cost and profit centres:

- HRC;
- cold rolled coil (CRC);
- galvanised coil (GI); and
- plate.

These correspond with the four general product categories sold by Shang Chen (see Section 2.4.

The company uses New Taiwanese Dollars (NTD) as its accounting currency and the company's financial year is 1 January – 31 December.

As part of its response to the exporter questionnaire, Shang Chen provided its:

- chart of accounts (Confidential Attachment A 4.3 of the response);
- profit and loss statement for the investigation period (also Shang Chen's most recently completed financial year, Confidential Attachment A-5 of the response); and
- audited financial accounts for 2010 and 2011.

The company's accounts are externally audited on an annual basis.

Shang Chen advised that its audited accounts for the investigation period (2012) were not yet available (due to be submitted to the Taiwanese authorities by end of May 2013), but that the audit had been completed and that the auditor has made no significant changes the company's accounts.

We requested that Shang Chen provide an official written statement from its auditor to confirm this. This was supplied and forms **Confidential Attachment GEN 3**.

We note that the 2011 audit report conducted by Jiang Sheng & Co CPA's stated that audit was conducted in accordance with generally accepted auditing standards in Taiwan and found the financial statements presented fairly the financial position of Shang Chen. We also observed that Shang Chen's auditors found the 2011 accounts to be kept in accordance with the relevant generally accepted accounting principles (GAAP) of Taiwan.

It is further noted that a successful verification of Shang Chen's HRC sales and costs data to the company's 2011 audited financial accounts was conducted in relation to HRC during the recent verification of the company by ACBPS.

With the above assurance provided by the auditor in relation to Shang Chen's 2012 accounts, we consider that we can regard Shang Chen's management accounts to be reasonably accurate, to reconcile with their audited statements (when they become available) and to be kept in accordance with the relevant GAAP.

2.3 Accounting for sales data

Shang Chen advised that its sales invoices are created externally to its accounting system.

In relation to domestic sales, Shang Chen's accounting system is integrated with the system from which its domestic invoices are created. However, this is not the case with export sales.

Shang Chen explained that all domestic sales are entered into the computer system in detail line by line, so that Shang Chen's system records detail of each invoice line separately. However, we identified during the verification that this is completed in various levels of detail and does not consistently record all product data across domestic sales.

In relation to export sales, Shang Chen advised that the details of each invoice are entered into its accounting system manually. The company explained that each invoice is entered as one combined entry, rather than line-by-line, so it is not possible to distinguish product details within an invoice (i.e. for an invoice for five different products, only the whole invoice total volume and weight are recorded, rather than each product's volume and value).

Shang Chen advised that, to produce the detailed Australian sales listing supplied in its response to the exporter questionnaire (discussed further in Chapter 4) Shang Chen had to invest a considerable effort by manually examining all Australian sales invoices and entering the details into the supplied spreadsheet.

2.4 Product range

Shang Chen sells product that it categorises into four categories, which correspond with its profit centres:

- HRC - hot rolled product in coil and sheet form that is not galvanised or cold-rolled, in the thickness range of 1.2mm to 12mm (this can either be pickled and oiled finish or unfinished);
- GI;
- CRC; and
- plate - steel sheets in the thickness range of 15mm to 32 mm.

These are referred to as the company's 'product categories' throughout his report.

In addition, Shang Chen made a small number of sales of steel slab (the raw material for all product categories) during the investigation period, and scrap produced as part of its production process. Shang Chen also makes small volumes of sales of HRC that it did not manufacture (merchandise) - but rather purchased and on-sold to fulfil specific customer requirements.

As discussed in Section 2.1, Shang Chen manufactures plain HRC and plate at its Kaohsiung facility. The HRC can either be supplied in coils or sheared into sheet form (at which point Shang Chen refers to the product as 'sheet' or HRS, a sub-category of HRC).

In addition, Shang Chen 'subcontracts' the toll processing of HRC that it manufactures into pickled and oiled HRC, GI and CRC product. It also arranges for the toll process shearing (cutting/slitting) of some HRC into sheet (though some of this work is also performed by Shang Chen itself).

Shang Chen's product range (according to the company's product categorisation methodology) is summarised in the below table.

Product		Description	Process of production
CRC		Produced from HRC, further thinned by cold rolling.	Shang Chen manufactures plain HRC and the cold rolling process is subcontracted to third parties.
Plate 15mm to 32mm thick		Produced by hot rolling a steel slab into a thick steel sheet, that is cut into plates.	Whole process performed by Shang Chen.
GI		HRC that has been galvanised by coating steel with zinc to prevent corrosion.	Shang Chen manufactures plain HRC and the galvanising process is subcontracted to third parties.
HRC 1.2mm to 12mm thick	*Band*	Coil that has not been skin-passed (a final process of production to improve the surface of the HRC).	Manufactured by Shang Chen.
	HC (up to 6mm thick)	HRC that has been skin-passed, but is not finished by pickling and oiling. *Note: HRC thicker than 6mm cannot be skin passed.*	Manufactured by Shang Chen.
	PO	HRC that has been pickled and oiled to clean the product.	Shang Chen manufactures HRC and the pickling and oiling process is subcontracted to another party.
	HRS (sheet)	HRC that has been cut (sheared) into sheets. *For product up to 6mm thick, this will generally have been skin passed prior to shearing. Product above 6mm in thickness will not be skin passed (i.e. 6mm or less = made from 'HC'; above 6mm = made from 'band').*	Shang Chen manufactures the HRC and shears the product into sheets. Shang Chen also subcontracts the shearing of product into sheets to a third party (only HRS 3mm or below in thickness).

Note: the goods under consideration consist of:

1. the entirety of Shang Chen's 'plate' category; **AND**
2. HRS (a sub-category of HRC) that is greater than or equal to 4.75mm in thickness.

See Chapter 3 for further discussion of the goods under consideration.

2.5 Related parties

At the verification, Shang Chen provided a copy of a group chart showing all companies legally related to Shang Chen. This forms **Confidential Attachment GEN 4**.

Shang Chen advised that, within its group of companies, it interacts commonly with Shang Shin, which itself was established in 2005.

Specifically, Shang Chen advised that Shang Shin performs some further-working on HRC produced by Shang Chen (shearing HRC into HRS), as well as performing the role of the export arm of goods for both companies to Indonesia.

Shang Shin's facilities are also located in Kaohsiung at a different site to Shang Chen.

2.5.1 Relationship with suppliers of raw materials

Shang Chen advised that it has a commercial relationship with its suppliers of steel slab (the raw material for its products).

Shang Chen purchases steel slab from Brazil, Japan, Korea and the Commonwealth of Independent States (CIS). Shang Chen advised that it buys a mix of different types of steel slab from each source.

The company advised that it does not purchase any of its raw materials from related companies, and all purchase transactions are arm's length, set at market prices.

No other materials or manufacturing inputs are supplied to Shang Chen by any related party.

2.5.2 Relationship with processors/service providers

As discussed above, Shang Chen supplies a number of products that are further-worked by other entities, including HRS that has been processed (cut into sheet) by Shang Shin (related). It is understood that Shang Shin provides this service free of charge.

Shang Chen explained that Shang Shin only performs this process for HRC that is 3mm or less in thickness, and therefore this does not apply to the goods under consideration (thickness of 4.75mm or greater – see Chapter 3).

Shang Chen advised that no other such service is provided by related parties. We found no evidence of any other service being provided by a related party.

2.5.3 Relationship with customers in the Australian market

Shang Chen advised that it has a normal commercial relationship with its Australian customers, and that all sales transactions are made at arm's length, based on normal commercial terms.

2.5.4 Relationship with customers in domestic market

Shang Chen stated that it has an arm's length relationship with each of its domestic customers, noting that although the company makes 'sales' to Shang Shin that are then exported to Indonesia, the price of these sales reflects the price to the unrelated Indonesian importer and remain at arm's length. Shang Chen explained that Shang Shin performs this task due to licensing issues, and is not paid any fees for the service, nor takes any margin on the on-sale of the exported products.

The company did not make any sales of product considered to be like to the goods under consideration (see Chapter 3) to Indonesia (either via Shang Shin or otherwise) during the investigation period.

3 THE GOODS UNDER CONSIDERATION

3.1 The goods under consideration (the goods)

3.1.1 Description

The goods the subject of the application (the goods) are:

Flat rolled products of:

- *iron;*
- *non-alloy steel; or*
- *non-heat treated alloy steel of a kind commonly referred to as Quench and Tempered (Q&T) Green Feed;*

of *a width greater than 600 millimetres (mm), with a thickness equal to or greater than 4.75mm, not further worked than hot rolled, not in coils, with or without patterns in relief.*

Goods excluded from the investigation are:

- 250 mega Pascal (MPa) yield strength grades of plate steel with a thickness greater than 150mm;
- 350 MPa yield strength grades of plate steel with a thickness greater
- than 100mm;
- Q & T Green Feed grades of plate steel with a thickness greater than 105mm; and
- heat treated Q & T grades of plate steel.

3.1.2 Tariff classification

The goods are classified to the following tariff subheadings in Schedule 3 to the Customs Tariff Act 1995:

- 7208.40.00 statistical code 39;
- 7208.51.00 statistical code 40;
- 7208.52.00 statistical code 41;
- 7225.40.00 statistical codes 22 and 24.

For tariff subheadings 7208.40.00, 7208.51.00 and 7208.52.00, the general rate of duty is 5 per cent for goods imported from Japan and free for imports from China, Indonesia, Korea and Taiwan.

For goods imported under the tariff subheading 7225.40.00 the general rate of duty for goods imported from Japan, Korea and Taiwan is 5 per cent and 4 per cent for imports from China and Indonesia.

3.2 Shang Chen's range of plate steel

Shang Chen manufactures and sells (domestically and for export) a range of product considered to fall within the description of the goods.

As outlined above, the goods description classifies plate steel for the purposes of this investigation to be steel not in coil form (i.e. sheets) greater than or equal to 4.75mm in thickness.

As noted previously, for its own product categorisation purposes, Shang Chen categorises 'plate' to be steel sheet between 12mm – 32mm in thickness and HRS or 'sheet' to be HRC that has been sheared into sheets of a thickness between 1.2mm – 12mm.

Consequently, Shang Chen's range of plate steel (the goods under consideration) is comprised of product from two of Shang Chen's product categories, and comprises:

1. the entirety of Shang Chen's 'plate' category; **AND**
2. HRS (a sub-category of HRC) that is greater than or equal to 4.75mm in thickness.

For the purposes of this report, the term 'plate steel' is used to refer to all Shang Chen product that meets the goods description (i.e. both Shang Chen's 'plate' product and HRS of 4.75mm or greater thickness collectively).

Shang Chen's product details and specifications brochure (**Confidential Attachment GEN 5**) shows that the company offers a wide range of standards of plate steel to the domestic and international markets.

These include:

- AS1594;
- AS3678;
- ASTM A36;
- ASTM A572;
- JIS G3101; and
- JIS G3131.

Shang Chen explained that AS1594 and AS3678 are the applicable Australian standards, and that AS1594 relates to plate steel manufactured from HRC while AS3678 relates to plate steel manufactured directly from slab (see further discussion of the company's production process at 3.3).

Consequently, Shang Chen's exports to Australia of 4.75 – 12mm plate steel are of AS1594 standard while 15 – 32mm plate steel are of standard AS3678 (see Shang Chen's production process as Section 3.3).

Shang Chen advised that plate steel manufactured from HRC is considered to be fit for end uses that involve laser cutting, and has a smoother surface finish than that manufactured directly from slab. For this reason, this type of plate steel generally attracts a price premium to AS3678 product.

Shang Chen produces and supplies plate steel of 250 and 350 grades. It does not manufacture or sell Q & T green feed product. The grade of the plate steel refers to its tensile strength (i.e. 350 grade is of a higher tensile strength than 250 grade).

Over the investigation period [redacted]% of Shang Chen's overall sales of plate steel product were sold to the Australian market, [redacted]% was sold on the domestic market and the balance was sold to third countries.

3.3 Production process

During the verification visit, we discussed the production process of plate steel with Shang Chen. We understand the production process of plate steel by Shang Chen to be as outlined in the below table.

<table>
<tr><th colspan="2">Step one – common to all plate steel produced by Shang Chen</th></tr>
<tr><td colspan="2">

Shang Chen purchases raw material (all imported) in the form of steel slabs.
When Shang Chen begins production of a certain type of plate steel, it undertakes a selection process of an appropriate slab from its slab inventory (noting that several grades of plate steel can be made from certain types of slab, depending on their chemical composition).
These slabs are processed through reheating furnaces and then de-scaled to remove millscale.
The slab is then rolled through the reversing rougher several times to flatten, and then rolled in to a coil box, which rolls the steel into coil form.
The steel is then unrolled, and is de-scaled once again.
From the de-scaling process the steel moves through a crop shear where the length of steel is trimmed at the start and end.

At this point, plate steel between 4.75mm – 12mm (i.e. Shang Chen's 'sheet' or HRS) and plate steel between 15mm – 32mm (i.e. Shang Chen's 'plate') enter different production paths.
</td></tr>
<tr><th>Step two – 'HRS' (4.75 – 12mm)</th><th>Step two - 'Plate' (15mm – 32mm)</th></tr>
<tr>
<td>

The cropped steel slabs are rolled through a finishing mill six times and then x-rayed to test for stresses.
ROT spray is then sprayed onto the steel, which is then passed through the down coilers to be re-coiled.
The steel that is 6mm or less in thickness is then uncoiled run through a temper mill in a process known as 'skin passing' and then re-coiled.
The steel is then uncoiled and sheared (slit) into sheets.

</td>
<td>

The cropped steel slabs are rolled through a 'hot lever' and then x-rayed to test for stresses.
ROT spray is then sprayed onto the steel.
The steel is then sheared into sheets, passes over a cooling bed, through cooling levers, and is then inspected and marked.

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</table>

Shang Chen's production process of plate steel is also described in its product brochure (Confidential Attachment GEN 5).

Shang Chen stated that its plant operates 24 hours a day, 7 days a week.

3.4 Exports of plate steel to Australia

In its response to the exporter questionnaire, Shang Chen provided a detailed Australian sales listing, showing line-by-line information of all sales of plate steel to Australia during the investigation period. This listing is examined in detail in Chapter 4.

The sales data showed sales of plate steel were of the following standard and grade combinations.

Standard/grade	Volume (MT)
AS1594 HA250	[redacted]
AS1594 HA350	
AS3678 HA250	
AS3678 HA350	
JIS G3101 SS400	

These sales were of various widths, lengths and thicknesses, and all were of prime quality product.

In its response to the exporter questionnaire, Shang Chen categorised its Australian sales into a four-digit identifying code (titled a product control number or 'PCN') using a grade and thickness categorisation. This is outlined in the below table.

PCN digits 1 and 2 (standard/specification)		PCN digits 3 and 4 (thickness)	
HA 250	A1	4.75 - 6mm thick	B1
HA 350	A2	6.01 - 12mm thick	B2
		15 - 32mm thick	B3

For example, a product that is 350 grade, and 7mm thick is classified as A2B2.

Shang Chen explained that the thickness categories of the PCN directly relate to its domestic and export pricing methodology, where:

- products up to 6mm in thickness attract no pricing extra;
- 6.01 – 12mm thick product attracts one level of pricing extra; and
- 15mm+ product attracts another level of pricing extra.

We examined these categories in pricing documents provided by Shang Chen, discussed further in Chapters 4 and 6.

It is noted this also effectively groups product by specification as Shang Chen's AS1594 specification (made from HRC) only relates to product between 4.75mm and 12mm (i.e. B1 and B2), and AS3678 specification product (made from slab) is only 15mm+ product (B3).

Shang Chen explained that these groupings were developed solely for the purposes of categorising product in its response to the exporter questionnaire, and are not routinely in use by the company.

3.5 Like goods (domestic sales of plate steel)

3.5.1 Data supplied

As with Australian sales, Shang Chen provided a domestic sales spreadsheet that included line-by-line detail of all domestic sales of plate steel made during the investigation period. This spreadsheet is examined in more detail in Chapter 6.

This data showed that Shang Chen sold the following types of plate steel on the domestic market in the investigation period.

Standard/specification	Volume (MT)
JIS G3131 SPHC	[redacted]
A572	[redacted]
ASTM A36	[redacted]
ASTM A709	[redacted]
SN400B	[redacted]
SS400	[redacted]
SS490	[redacted]
'Head and tail' and 'Leeway' product	[redacted]
	[redacted]

These products are sold as 'prime' or 'not prime' (i.e. less than perfect quality), in various widths, lengths and thicknesses.

Of the above, only 'head and tail' and 'leeway' product were listed as 'not prime' by Shang Chen, which it described as being of poor thickness consistency, or off cuts of plate steel (which Shang Chen considers to be a saleable by-product of higher value than scrap). As such, sales of these products are recorded as an actual sale of product rather than scrap revenue.

We note that, despite being of non-prime quality, both head and tail and leeway appear to meet the description of the goods under consideration.

3.5.2 Comparability with Australian sales

As with exports to Australia, in its domestic sales details provided in response to the exporter questionnaire, Shang Chen also included the four-digit 'PCN', identifying the grade and thickness of each product sold.

The below table outlines how Shang Chen's domestic PCNs were generated.

PCN digits 1 and 2 (standard/specification)		PCN digits 3 and 4 (thickness)	
SS400	A1	4.75 - 6mm thick	B1
SN400B		6.01 - 12mm thick	B2
ASTM A36		15 - 32mm thick	B3
SPHC (JIS)			
SS490	A2		
ASTM A709 GR50			
A572			

For example, SS490 grade, 20mm thick product is recorded as A2B3, while A572, 25mm thick product is also A2B3.

Shang Chen submitted that an Australian PCN product is directly comparable to the domestic product of that same PCN, and that they are effectively equivalent.

Shang Chen demonstrated that the domestic A1 and A2 category product specifications in the above table are effectively equivalent to the Australian grade 250 and 350 (export A1 and A2 respectively) by reference to its product specifications within the provided product guide (Confidential Attachment GEN 5).

In addition, as with export sales, the thickness categorisations (same as for export sales) account for plate steel produced from HRC or directly from slabs.

Shang Chen stated that no differentiation is made between the slabs to be used for product sold on the domestic market or to the export markets (i.e. slab for an A1 product to Australia is the same as slab for a domestic A1 product). We found no evidence to suggest otherwise.

In the verification visit agenda, we noted with Shang Chen that preliminary analysis had indicated that there were several instances in the investigation period where there were no or very little domestic sales of a particular PCN product to compare with Australian sales of that PCN. This was discussed during the verification.

Shang Chen provided a table (**Confidential Attachment GEN 6**) showing product PCNs by quarter to Australia, and an equivalent 'similar' product by PCN and quarter that the company considered reasonable to compare with the Australian sales (with adjustments for timing and/or physical differences).

Shang Chen submitted that it considers this approach (basing normal values on sales and adjusting for physical and timing differences) to be a more reasonable method of calculating normal value than constructing normal values or using sales to a third country.

This approach is discussed further at Section 6.7.2.

4 SALES TO AUSTRALIA

4.1 General

In its response to the exporter questionnaire, Shang Chen provided a detailed sales spreadsheet with all sales of plate steel to Australia from 1 January 2012 to 31 December 2012.

Shang Chen explained that its sales system was limited to providing detail relating to exports only on a combined-invoice basis (i.e. the total of the invoice is recorded and not broken into separate product sales, rather than line-by-line information). Therefore, the detailed sales listing spreadsheet was manually populated with reference to the sales invoices.

The Australian export sales listing included details for each invoice of:

- invoice date;
- date of order confirmation;
- invoice number;
- customer name;
- sales contract number;
- whether the product is HRS (Shang Chen's 'sheet' product categorisation) or HRP (Shang Chen's 'plate' product categorisation);
- PCN;
- thickness;
- width;
- length;
- grade (250 or 350);
- standard/specification;
- exchange rate;
- payment received date;
- terms of trade;
- quantity (MT);
- invoiced amount (NTD and USD); and
- various export expenses.

The detailed Australian sales listing (amended as discussed throughout this Chapter) forms **Confidential Attachment EXP 1**.

4.1.1 Export sales process

Shang Chen advised that it exports HRC to two international trading houses in Australia, [redacted] which on sell the product to customers.

Shang Chen considers these sales to be made at the wholesaler level.

Shang Chen advised that it does not operate ongoing sales contracts with these customers.

Shang Chen steel described its HRC export sales process during the investigation period as follows.

- Australian traders approach Shang Chen on a monthly basis to ascertain steel prices.
- In certain (rare) cases, these prices are then negotiated with Shang Chen by the Australian traders, which return with their own bid reflecting the Australian market.
- Shang Chen may either accept the trader's bid or make another offer.
- Once price negotiations are concluded a sales contract is established and a purchase order is raised.
- Once the sales contract and purchase order has been raised, Shang Chen enters the order details into its database and arranges receipt of the letter of credit.
- Shang Chen then begins production of the HRC (from slab held in inventory).
- Once production is complete, Shang Chen arranges delivery of the order to the Kaohsiung port for export to Australia using a freight forwarding company.
- During the investigation, sales to Australia were made under free on board (FOB) and free alongside (FAS) terms. Shang Chen advised that some of these sales were containerised but the majority of them were break bulk shipments.
- Shang Chen issues a commercial invoice and arranges shipping documentation. The invoices are issued in USD.
- It takes between [redacted] days and [redacted] months from the contract date to shipment.
- Payment is made by the Australian customers through an irrevocable letter of credit at sight of documents.

  If it is a very small order, payment by telegraphic transfer may also be accepted (unusual circumstances). During the investigation period, there were no instances where Australian customers paid using telegraphic transfer.

4.2 Pricing

4.2.1 Pricing approach

Shang Chen advised that its export pricing is generally set to reflect its raw material cost, plus conversion costs and a margin. However, Shang Chen explained that it negotiates export price for the Australian market based on current market conditions, domestic prices, other exporters' prices and the local production sales price.

Shang Chen explained that it does not maintain or release formal price lists for export sales of plate steel.

Shang Chen advised that, when pricing its plate steel, it maintains a base price that relates to:

- base grade (250 grade); and
- a base gauge (thickness) range.

Shang Chen advised that extra charges (in USD/MT) are added for sales of non-base thickness and grade.

To demonstrate this, Shang Chen provided two export pricing extras sheets that covered the entirety of the investigation period (sheet one related to January – June 2013 while sheet two covered from July 2013 onwards). These sheets form **Confidential Attachment EXP 2**.

We observed that the pricing sheet operated as follows:

- the 'base' or standard product is HRC in coil form, of 250 grade, up to 6mm in thickness, shipped break bulk;
- a pricing extra is charged separately for each of the following product elements:

    - 350 grade;
    - shearing (i.e. slitting of coil into sheets – only relevant to goods up to 12mm thick as above this the product is 'plate' and attracts the plate extra);
    - thickness of between 6 – 12mm;
    - plate (only relevant to product over 15mm thickness); and
    - containerised shipment.

Examples of how this pricing structure works are contained in the below table.

Product	Applicable extras
Product A - 250 grade plate steel, 9mm thick, containerised shipping	Shearing (HRC cut into sheet as below 12mm)
	Thickness (between 6-12mm)
	Containerised shipment extra
Product B - 350 grade plate steel, 25mm thick, break bulk shipment	Grade extra (350 - above the 250 standard)
	Plate steel extra (between 15 - 32mm)

This extras sheet demonstrated that the thicker the gauge of the plate steel, the greater the extra is charged by Shang Chen.

4.2.2 Discounts, rebates and allowances

Shang Chen stated that it does not offer discounts, rebates or allowances to its Australian customers, and that the price on the invoice is the final price paid.

Shang Chen noted that it offers credits if the product is found to be faulty or fall below usual quality control standards, but that no such credits were made in relation to Australian sales of plate steel during the investigation period.

We found no evidence of any Australian credit notes during the investigation period.

We did not find any evidence of rebates or discounts when examining the various accounts and ledgers of Shang Chen.

We are satisfied that there are no rebates paid or discounts given to Shang Chen's Australian customers.

4.3 Level of trade

Shang Chen's [redacted] customers in Australia operate at the trader level, and as such, Shang Chen observed that it considers these customers are offered plate steel at similar prices.

This is supported by our analysis of Shang Chen's sales data, which found that the prices offered to Shang Chen's Australian customers for comparable products and times were similar.

4.4 Date of exchange rate

In the export sales worksheet, Shang Chen had converted the USD sale amount of export sales to Australia into NTD using the applicable exchange rate at the date of invoice (or thereabouts). Shang Chen explained that this exchange rate was the official rate that it had obtained from Taiwanese customs authorities.

During the verification, Shang Chen submitted that the USD/NTD exchange rate as at the date of order confirmation/sales contract was the appropriate rate to convert export prices to NTD for the purposes of comparison with NTD domestic sales.

We understood the rationale behind this submission to be as follows:

- the price of export sales (USD) is set at the date of order confirmation/sales contract;
- this USD price is set at the contract amount and is the price eventually invoiced to and paid by Shang Chen's Australian customers (i.e. the export price in USD does not change between the date of contract and invoice, regardless of fluctuations in exchange rate);
- the USD contract price is established having regard to the USD/NTD exchange rate at the time of the contract being established;
- similarly, the NTD price of domestic sales is set at the date of order confirmation/contract, and does not change from the date of contract to the date of invoice;
- both domestic and export sales are made to order from slab kept in inventory, and have a similar lead time between order confirmation/ contract and invoicing;
- consequently, domestic and export sales invoiced at the same time should have had their prices set at similar times; and
- it is therefore reasonable to convert the USD export price to NTD using the date of order confirmation/contract to arrive at a NTD export price that is more comparable to the NTD domestic sales price invoiced at a similar time (i.e. in the same quarter, as this comparison has been made on a quarterly basis) to determine whether goods have been dumped at the time of the price being set on order confirmation.

We consider that Shang Chen has not submitted that the date of sale for the purposes of conducting our comparison between domestic and export sales should

be altered, but merely that the date of exchange rate should be changed. Shang Chen has confirmed this.

From the data collected at our verification, we have observed that the invoiced price does not differ from the date of order to the date invoice, for both export and domestic sales, as was submitted by Shang Chen.

We note that Shang Chen does not take out forward cover for its export sales to Australia, and hence the NTD amount received by Shang Chen for its export sales relates to the exchange rate at date of payment, which is by letter of credit (i.e. the USD payment is received by Shang Chen on or close to the date of invoice, and the NTD amount received by Shang Chen is therefore at the applicable rate of exchange at that date of payment).

Consequently, we note that Shang Chen does not receive the NTD amount export price that it submits should be used for the dumping calculation, but an amount that may be higher or lower depending on the movements in exchange rates.

We note that Article 2.4.1 of the *Anti-Dumping Agreement* provides that, where a dumping comparison requires a conversion of currencies, a conversion should be made using the exchange rate on the date of sale or, where forward exchange cover is used, the rate at which that cover was established.

We note that Shang Chen does not take out forward cover, and that Shang Chen has not submitted or provided evidence to establish that ACBPS should consider the date of sale for the purposes of its dumping comparison be any date other than the date of invoice.

For this reason, we have used the rate of exchange as at the date of invoice as the rate at which to convert USD export prices to NTD for the purposes of comparing these export prices with normal values.

4.5 Export sales verification

4.5.1 Export (and domestic) sales verification - reconciliation to financial statements (completeness and relevance)

To check the completeness and relevance of export sales to Australia, we sought to verify the information contained in the exporter spreadsheets ‘upwards’ through management reports to audited financial statements.

This upwards reconciliation is discussed in the domestic sales chapter of this report (Chapter 6).

Following this reconciliation, we are satisfied of the completeness and relevance of the Australian sales data.

4.5.2 Verification to source documents (accuracy)

Prior to the visit (in the agenda), we requested that Shang Chen provide supporting documents for 12 selected sales of plate steel exported to Australia.

The details of these are outlined in the table below.

Selected sale number	Invoice number
1	[redacted]
2	[redacted]
3	[redacted]
4	[redacted]
5	[redacted]
6	[redacted]
7	[redacted]
8	[redacted]
9	[redacted]
10	[redacted]
11	[redacted]
12	[redacted]

Shang Chen provided the following documents for the selected consignments during the verification visit:

- sales contract;
- Taiwanese taxation invoice (for domestic taxation purposes);
- commercial invoice;
- bill of lading;
- packing list;
- invoices for:
    - harbour service fees;
    - inland transport;
    - handling and other charges;
    - terminal handling charge (THC) and container freight station charges (CFS); and
    - handling and other charges
- commission paid debit notes;
- the letter of credit; and
- a bank statement printout showing the credit of the letter of credit into Shang Chen's accounts.

This documentation is at **Confidential Attachment EXP 3**.

General data

We were able to verify:

- sales volume;
- invoice value (USD);
- customer details;
- thickness and grade (and hence PCN);
- standard;

- invoice date;
- contract/order confirmation date; and
- exchange rate (entered as the rate at invoice date)

using the commercial invoices, packing lists and bills of lading provided during the verification visit to the Australian export sales spreadsheet.

There were no discrepancies identified in the sample documentation.

Inland transportation

The export sales listing included line by line inland freight calculations for each consignment. These were split across multiple lines of each invoice by volume.

We were able to match the actual invoiced amount for inland transport for each selected shipment to the inland freight invoices, and observed that these amounts were correctly apportioned across the applicable shipment by volume.

We observed that four lines of the sales data was missing information for inland transport. Shang Chen advised this was likely due to manual error.

We considered it reasonable to use the average unit/MT inland freight charges calculated for all other lines of sales to arrive at an amount of inland freight charges. This amendment has been made within the sales listing.

Handling and other charge, harbour service fees, THC and CFS

As with inland transport, Shang Chen calculated line by line:

- handling and other charges;
- harbour service fees; and
- THC and CFS charges

in the export sales listing, and apportioned the total charges invoiced to each line of sales by volume.

We were able to match the actual invoiced amount for these fees and charges for each selected shipment to their respective invoices and observed that these amounts were correctly apportioned across the applicable shipment by volume.

We observed that a handful of lines sales data were missing information for these charges. Shang Chen advised this was likely due to manual error.

We considered it reasonable to use the average unit/MT charges calculated for all other lines of sales for each element to arrive at an amount of the applicable charges for this sale. These amendments have been made within the sales listing (red cells).

Commission

Shang Chen submitted that it pays [redacted] a commission per MT for each Australian sale of plate steel.

The commission rates are $US[redacted]/MT and $[redacted]/MT respectively.

An amount for this commission in NTD was included in the Australian sales listing, and we were able to reconcile these amounts to the commission debit note provided (using the appropriate exchange rate), as well as by performing our own calculations.

Bank charges

Shang Chen's Australian sales listing also included line-by-line amounts for bank charges incurred for each shipment. These were supported by a worksheet (**Confidential Attachment EXP 4**) that listed the actual bank charge incurred for each sales contract/order, and the unit (NTD/MT) cost of these charges. This unit cost was then translated into the Australian sales listing.

We observed the accuracy of these calculations and their inclusion in the Australian sales listing.

Terms of trade

We observed that Shang Chen had reported in the Australian sales listing that all sales to Australia were either at 'FOBCY' or 'FASCY' terms, except for one shipment at 'FAS' terms.

Shang Chen explained that the 'CY' in these terms meant that the shipment was containerised. However, we noted that this did not correlate with Shang Chen's submission that most sales are break bulk, and that these terms did not match the details provided in Shang Chen's source documents on multiple occasions, which described the shipments as being break bulk.

Shang Chen explained this was likely due to a manual cell filling error.

Shang Chen explained that it could identify which shipments were containerised by identifying those that attracted 'CFS fees' which are only applicable to containerised shipments.

Noting that this was reported collectively with THC fees in the Australian sales, Shang Chen provided an additional workbook (**Confidential Attachment EXP 5**) that split THC and CFS charges by invoice detail.

We cross-referenced this with the source documents and verified that only shipments identified as containerised in these source documents attracted a CFS fee in the provided CFS spreadsheet.

We used the CFS spreadsheet to correct the terms of trade in the Australian sales spreadsheet to indicate whether they were containerised or not.

Trade promotion charge

Shang Chen advised that the Taiwanese government charges a 'trade promotion charge' for all exports that equates to [redacted]% of the NTD FOB invoiced value of exported goods.[1]

[1] Note: it is observed that this charge was not identified by Shang Chen in relation to its sales of HRC to Australia in the recent investigation into that product. However, the failure to include this charge (as an adjustment) in the dumping calculations of that product was unfavourable to Shang Chen at that time.

We observed that this charge was correctly calculated in the export sales listing.

Packaging

Shang Chen explained that all plate steel exported to Australia is packed in bundles that are wrapped in paper, covered with a protective steel sheet, and strapped with steel wrapping bands, and are then placed on a 'glut' or steel pallet.

Shang Chen advised that this differs from packaging of steel slab sold domestically (which is sold with no packaging or glut), and from product supplied in coil form sold domestically and to Australia.

Shang Chen advised that it had not included details of the cost of this packaging in the Australian sales listing, and that the cost of this had been included in the company's cost to make and sell (CTMS) calculations, discussed in Chapter 5 of this report.

During our discussion of these CTMS calculations, we observed that Shang Chen had in fact evenly allocated all packaging costs for all products across all product categories based on volume. We explained to Shang Chen that we did not consider this was reasonable, noting that the packaging for export sales of sheet would be considerably higher than packaging for coil products (which uses less packaging) and that domestic sales of plate steel should have no packaging costs allocated to them.

To accurately account for this packaging cost, Shang Chen:

- removed the averaged packaging costs from its CTMS that had been included; and
- calculated a per unit cost of export packing for plate steel, then added this on to its export CTMS.

To arrive at a unit cost of export plate steel packaging, Shang Chen:

- calculated the volume of each packaging element that went into packing one 'bundle' of plate steel;
- calculated the total cost of each of these elements; and
- divided this by what it considered to be an average product weight (MT) of each bundle.

This assumed that each bundle is approximately 3MT in product weight.

Shang Chen provided supporting invoices to demonstrate the cost of each packaging element (e.g. the cost of each glut). These invoices and Shang Chen's calculations form **Confidential Attachment EXP 6**.

To verify the 3MT/bundle calculation assumption made by Shang Chen, we examined the source documents for the 12 selected shipments, and determined this figure to be reasonable.

We have included the cost of packaging plate steel to Australia into the export sales listing for the purposes of our analysis.

Payment

We noted that the letter of credit numbers matched those listed on the commercial invoices, and observed that the letters of credit in some cases consisted of full payment for the goods for each shipment, and that the amounts credited to Shang Chen's bank account equated to that listed on the letters of credit.

In other cases, we observed that the letters of credit and amounts credit to Shang Chen's account were for well above the invoiced amount. Shang Chen explained that these letters of credit were for payment of whole contracts (and in some cases multiple contracts), and provided listings of each contract applicable to the supplied payment details. These form **Confidential Attachment EXP 7**.

We observed that the total invoice prices of these contracts totalled the full amount of these letters of credit.

4.5.3 Conclusion – export sales data

After our examination and verification of Shang Chen's export sales data (with amendments discussed above), we consider that the export sales data provided by Shang Chen is reasonably complete, relevant and accurate.

4.6 The exporter

For all exports of plate steel to Australia, we consider Shang Chen was the exporter.

Shang Chen:

- manufactured the goods to the specific order of the Australian customer;
- is listed as the supplier on the Bill of Lading;
- invoices the Australian customer for the goods;
- 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;
- sent the goods for export to Australia and was aware of the identity of the purchaser of the goods; and
- received payment for the goods from the Australian importer.

4.7 The importer

We note that Shang Chen's Australian customers:

- negotiate directly with Shang Chen for the purchase of plate steel;
- are named as the consignee on the Bills of Lading; and
- arrange shipping, insurance, customs clearance, logistics, and storage of the goods after they have been delivered to the Australian port.

We consider that the Australian customers are the importers of plate steel exported by Shang Chen and these customers to be the beneficial owner of the plate steel at the time of importation.

4.8 Arm's length

In respect of Shang Chen's sales of plate steel to its Australian customers during the investigation period, we found no evidence that:

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

We therefore consider all of the Shang Chen's export sales to Australia during the investigation period were arm's length transactions.

4.9 Export price – preliminary assessment

For all exports of plate steel to Australia by Shang Chen, we consider:

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

Therefore, we are satisfied that export prices can be established under s. 269TAB(1)(a) of the *Customs Act 1901*[2], being the price paid or payable by the importer less any part of the price that represents a charge in respect of transport of the goods or in respect of any other matter arising after exportation.

A summary of export prices is at **Confidential Appendix 1.**

[2] All references to a section or subsection in this report are references to a provision of the Act, unless otherwise specified.

5 COST TO MAKE AND SELL

5.1 General

As noted at Section 2.2 Shang Chen provided its 2010 and 2011 audited financial reports. Shang Chen advised that its 2012 audited financial reports were not yet available at the time of the verification, but provided assurance from its auditor that no material changes had resulted from the audit of the 2012 accounts.

When the audited report becomes available we will examine if there are any material changes.

Shang Chen's accounting system has 5 main ledgers:

- raw materials - **Confidential Attachment CTMS 1**;
- unit cost for Finished Goods – **Confidential Attachment CTMS 2**;
- raw materials inventory – **Confidential Attachment CTMS 3;**
- finished goods inventory – **Confidential Attachment CTMS 4**; and
- merchandise inventory (purchases of HRC for resale and some scrap sales) – **Confidential Attachment CTMS 4(1)**

Shang Chen provided a copy of each of these 5 main accounting ledgers for the investigation period. They are key documents in the costs verification.

The raw materials ledger is a primary document relating to all slab purchases – slab is the only raw material in this ledger.

Shang Chen explained the other main ledgers in its system are the:

- labour ledger;
- overheads ledger; and
- operating expenses ledger, and
- sales ledger by product.

The raw materials ledger has modules that link to the inventory ledger and in turn finished goods.

The labour and the overhead ledgers are tied to the unit cost module – these ledgers aggregate the labour and the overhead costs as part of the unit cost calculations in that module. The operating expenses ledger is designed to collect all expenses for all products.

Shang Chen added more information to what was shown in the submission. As was noted in Section 2.2, there are four profit centres that correspond with the company's product groups:

- HRC;

- CRC;
- GI; and
- plate (or hot rolled plate (HRP)).

As discussed previously, the goods under consideration fall both within the plate/HRP and HRC categories (noting that only that HRC that is in fact HRS 4.75mm or above in thickness is included in the investigation).

The accounting system is designed to measure actual kg quantities and NTD sales values. So, for example, all slab purchases are recorded in kg and NTD.

5.1.1 Shang Chen's cost calculations in the ordinary course of business

The accounting system ordinarily calculates the cost of the finished goods at the end of the financial year. The yearly slab cost consumed in each product group is multiplied by the annual weighted unit cost of slab per kg to determine the total slab cost of each of the four groups identified above. SC does not ordinarily calculate costs for different grades of slab.

The cost accounting system must track the unit costs of each product group as part of normal record keeping. The system is designed to capture actual unit costs of the main product groups such as HRC and HRP – no standard costs are used by Shang Chen.

5.2 Presentation of CTMS data

In its submission, Shang Chen provided unit cost to make and sell in line with the requirements of the exporter questionnaire. This was done for domestic sales and export sales of the goods under consideration. These details are identified in the submission as exhibits G3 for domestic sales and G4 for Australian sales.

The cost data had been calculated to differentiate between 250 and 350 grades – which Shang Chen had identified as A1 for 250 grade and A2 for 350 grade (corresponding to the PCNs used to identify sales). The costing did not show CTMS calculations for thickness specifically, but distinguished between HRP and HRS (essentially categorising the CTMS as being for product between 4.75 – 12mm in thickness (HRS) and 15mm+ (HRP).

As was explained above, Shang Chen ordinarily does not make any differentiation between grades in its normal costing system. In order to cost at this level of detail Shang Chen had to undertake a special costing exercise solely for the purposes of this investigation. It was this exercise that we needed to verify.

To clarify, the CTMS data provided in the submission shows:

2012Q1	HRPA1
2012Q1	HRPA2
2012Q1	X
2012Q2	HRPA1
2012Q2	HRPA2
2012Q2	X
2012Q3	HRPA1
2012Q3	HRSA1
2012Q3	X
2012Q4	HRPA1
2012Q4	HRSA1
2012Q4	X

'X" refers to non –prime product. A1 and A2 refer to the two grades 250 and 350.

The summary cost calculation supporting the CTMS is shown in the response to the exporter questionnaire – see Exhibit 'Shang Chen-Exhibit G-4 2 COM Quarterly Calculations' - reproduced at **Confidential Attachment CTMS 5.**

CTMS 5 also includes a hard copy of main source documents used in verification.

5.3 Shang Chen's costing methodology - for this investigation

Noted above was Shang Chen's normal practice of keeping annual costs for each of the main product groups (it produced quarterly costs for the purpose of this investigation).

Shang Chen tracks unit costs in the '*Unit Costs Module'*.

Because there is a significant cost differential between the two grades (250 and 350 - referred to as A1 and A2 in the submission), Shang Chen broke out these details from their usual accounting records. To do so Shang Chen:

- calculated the production quantity of HRP;
- calculated the production quantity of HRS under investigation (4.75 – 12mm in thickness);
- calculated the production quantity of the HRP, and the HRS, separately for grades A1 and A2;
- calculated the unit cost of the slab for grades A1 and A2;

- calculated the total raw materials cost (i.e. of the slab) by multiplying the slab cost for grade A1 by the production quantity of the grade A1 and likewise for grade A2;
- made an adjustment to the basic raw materials cost to account for other costs associated with slab purchases and consumption;
- applied the unit labour costs; and
- applied the unit overhead costs;

resulting in the cost of manufacture (COM) for A1 and A2 HRP and HRS.

Having determined the COM, the cost data submitted then quantified selling, general and administrative expenses (SG&A).

In the verification meeting, Shang Chen also provided their underlying working calculations.

5.4 Verification Steps

In the submission Shang Chen provided quarterly costs '*SC-Exhibit G-3 Domestic CTMS*'; and '*SC-Exhibit G-4 1 Australian CTMS*' Behind these workbooks was a more detailed cost calculation sheet. This more detailed working was titled: '*Shang Chen-Exhibit G-4.2 COM Quarterly Calculations'*. This more detailed worksheet – referred to as 'Quarterly COM' – was used when working through the cost verification. The steps we followed are explained below.

5.4.1 Slab Purchases

Over the investigation period steel slab accounted for [redacted]% of the total manufacturing cost of the goods under consideration. Given the predominance of raw material in the COM, these purchases were the initial focus of verification.

In response to the questionnaire Shang Chen had provided at exhibit G-9 a table of all slab purchases throughout the investigation period. Total slab purchases were shown to be [redacted] MT; USD [redacted].

As this had only shown USD, and we wished to know the NTD amounts as well, Shang Chen gave a version of this worksheet showing more detail: as well as the grade details for the slab purchases it showed the NTD value – see *SC Raw Material Purchase (NTD & Grade).xls* – shown at **Confidential Attachment CTMS6A**.

Total slab purchases were:

Date	Total quantity (Tonne)	Total NTD
Jan-12	[redacted]	[redacted]
Feb-12	[redacted]	[redacted]
Mar-12	[redacted]	[redacted]
Apr-12	[redacted]	[redacted]
May-12	[redacted]	[redacted]
Jun-12	[redacted]	[redacted]
Jul-12	[redacted]	[redacted]
Aug-12	[redacted]	[redacted]
Sep-12	[redacted]	[redacted]
Oct-12	[redacted]	[redacted]
Nov-12	[redacted]	[redacted]
Dec-12	[redacted]	[redacted]
Total	[redacted]	[redacted]

Behind these figures is detail about the grade of steel (A1 or A2).

A1		
Date	Total quantity (Tonne)	Total NTD
Jan-12	[redacted]	[redacted]
Feb-12	[redacted]	[redacted]
Mar-12	[redacted]	[redacted]
Apr-12	[redacted]	[redacted]
May-12	[redacted]	[redacted]
Jun-12	[redacted]	[redacted]
Jul-12	[redacted]	[redacted]
Aug-12	[redacted]	[redacted]
Sep-12	[redacted]	[redacted]
Oct-12	[redacted]	[redacted]
Nov-12	[redacted]	[redacted]
Dec-12	[redacted]	[redacted]
Total	[redacted]	[redacted]

A2		
Date	Total quantity (Tonne)	Total NTD
Jan-12		
Feb-12		
Mar-12		
Apr-12		
May-12		
Jun-12	[redacted]	[redacted]
Jul-12		
Aug-12	[redacted]	[redacted]
Sep-12	[redacted]	[redacted]
Oct-12		
Nov-12		
Dec-12	[redacted]	[redacted]
Total	[redacted]	[redacted]

We checked the Q1 unit cost of slab as reported in the slab purchases listing against the unit cost of slab shown in the 'Quarterly COM' calculation.

5.4.2 Verification to invoices for slab

From a detailed listing of all slab purchases, set out in a spreadsheet at **Confidential Attachment CTMS6A** - '*SC Raw Material Purchase (NTD & Grade) .xls.* We selected a number of invoices within each quarter of the investigation period. We also asked for shipping details, delivery terms, and payment records. All details shown in the spreadsheet for the selected transactions were confirmed. **Confidential Attachment CTMS 7** refers**.**

We checked the *Raw materials inventory* and confirmed the quantities recorded for slab purchases matched the GL. We did this month by month over the investigation period. The difference in NTD amount is due to the fact the slab, when recorded in the inventory account, has added import costs. These added costs are explained in more detail below.

5.4.3 Slab A2 - cost to purchase in Q1

In the first quarter of the investigation period there had been no purchases of A2 grade slab.

Because the cost calculations required a break down by type of steel, Shang Chen applied the unit cost for A2 slab in the immediate preceding period prior to the investigation period.

We noted that this was the highest per unit cost of slab in any part of the investigation period.

We obtained a copy of the purchase contract, invoice and payment details for the particular grade. We were satisfied with the method followed. **Confidential Attachment CTMS 8** refers**.**

5.4.4 Production quantities

For accounting purposes, production is calculated as beginning inventory plus sales orders less ending inventory. A physical count occurs at the end of each quarter.

The production quantities for HRP shown in the *'Quarterly COM'* calculation were checked to the Unit Cost for Finished Goods. We noted that *Unit Costs for Finished Goods* is one of the key accounting modules maintained for the annual costs calculation. All of the five modules are subject to audit. We checked production quantity for HRP over the whole of the investigation period against this record. We were satisfied that the HRP production reported in 'Quarterly COM' calculations over the investigation period are correct.

We also checked the production of HRP and HRC to the inventory ledger for finished goods (which recorded along with the inventory changes the production and the sales).

We confirmed the end of quarter closing stock for HRC to the physical stock take report from the factory which itemised the stock of HRC by factory location**.** Confidential Attachment **CTMS 9** refers**.**

Only some portion of HRS is under examination. To work out this amount, because the accounting system does not separate the type of HRS, Shang Chen had obtained details from factory orders.

The factory had itemised, from the order list, each thickness of HRS relevant to the investigation. We asked for a copy of that order list and noted it had identified line by line all relevant thicknesses of HRS. We checked the total amount for Q1 to the '*Quarterly COM*' calculation. **Confidential Attachment CTMS 10.**

The ratio of HRS production to total HRC production in Q1 was shown to be [redacted]% (there was a small change in Q1 for the HRS proportion to total HRC – it had been reported to be [redacted] in the submission – this was revised to [redacted] in the calculations used).

The proportion of HRS under investigation in total HRC is not significant – ranging from a low of [redacted]% of HRC production in Q1 to [redacted]% (which was for quarter 3).

The HRP and HRS production quantities had been split between A1 and A2 on the basis of the sales ratios. This is because the normal production records do not categorise production between grade of steel.

We next examined the ratios used to split HRP and HRS production between grades. The workbook '*SC Sales Qty.xls'* relates – see **Confidential Attachment CTMS10A.**

5.4.5 Ratios of sales quantities

We examined the details of all sales (domestic, Australia, and third countries), and the break down between product and grade. We confirmed that those ratios used in the 'Quarterly COM' calculations were correct.

As noted above, these ratios were used to allocate production quantities between the grades A1 and A2 for the purposes of this investigation. We accepted this methodology because it was the only reasonable basis as their normal production records do not go to that level of detail.

We confirmed that there is a close relationship between production and sales quantities. Shang Chen does not carry large inventories. We looked at the sales and production records for HRP, the main product under investigation, and confirmed that the volumes of sales and production are identical. The coil also showed a close relationship between production and sales on average.

Having determined the production quantities of HRP A1 and A2, the '*Quarterly COM*' calculation had calculated amounts for each of the following components of COM:

- raw materials (after adjustment);
- labour;
- manufacturing overheads; and
- total COM.

5.4.6 Raw materials adjustment

The raw materials adjustment is in relation to two items – import costs and yield.

The cost of slab calculated in the step above under '*Slab Purchases'*, is the basic cost of the slab delivered to port. There are other import costs to get the slab into the factory.

We had confirmed that the quantity and the purchase expense of the slab as shown in the GL for slab purchases matched the quantity and the expense amount recorded in the 'Inventory for Raw Material' - for each month of the investigation period.

The difference between the GL and the inventory purchase cost and the cost as recorded in the slab purchase listing in *SC Raw Material Purchase (NTD & Grade).xls* at **Confidential Attachment CTMS6A** arises because the latter does not include import costs from port to factory. This had to be accounted for in 'Quarterly COM' calculations.

In addition, there is a loss of slab in the production process which is accounted for in a yield ratio shown in the *Raw materials Ledger*. The (rounded) yield factors shown are:

- for coil - [redacted]
- for plate - [redacted]

The raw materials adjustment had been made in Q1 by adding [redacted]% to the basic raw materials cost of HRP and [redacted]% to the basic raw materials cost for HRS.

Shang Chen had calculated this by dividing the cost of slab as recorded in the *Unit Cost Ledger* by the cost of slab shown for basic slab cost in '*Quarterly COM'*. We confirmed the calculations.

We next examined whether the amount in *Unit Cost Ledger* used in this calculation had in fact accounted for yield.

We noted how the quantity out of the Inventory matched the quantity in the raw materials ledger for slab used; the unit cost of raw materials consumed reported in the raw material ledger reflected the (higher) input quantity; the unit cost of actual product produced reflected the (lower) output quantity (a quantity which had incorporated the yield ratio).

We observed how the *Unit Cost Ledger* carried in the product quantity and raw materials value of the finished goods data in the *Raw Materials Ledger*.

We were satisfied that the upward adjustment to raw materials, used in the 'Quarterly COM' cost calculation, correctly adjusted for import costs of the slab and the yield in the production process.

Shang Chen explained that the yield factor reflects the specifications of the mill. It is checked by the auditor annually. Shang Chen explained that the yields have not been revised since the HRC dumping investigation.

5.4.7 Labour costs and Manufacturing Overheads

The 'Quarterly COM' calculations applied the unit costs for labour and for overheads from the Unit Cost Ledger. We confirmed the calculations.

The labour cost is an actual expense booked in each month. It represents only [redacted]% of the COM of HRP.

Manufacturing overheads are more significant (at about [redacted]% of the COM) and we examined this item in the 'Quarterly COM' .

The sum of all manufacturing overheads in the *Unit Cost Ledger* was checked to be [redacted] NTD. We checked this was the same as the amount for ‘Total Manufacturing Overhead” shown in the Income Statement (made up of depreciation of [redacted] NTD and other overheads of [redacted] NTD).

We asked for the assets ledger and associated depreciation schedule listed therein – **Confidential Attachment CTMS 11** refers.

It lists all assets - machinery was the largest item. Also identified is the life of the asset, and the depreciation amount. The current depreciation for manufacturing and for general separately matched the amounts in the income statement.

We were satisfied by this process that all overheads had been properly brought into account in the '*Quarterly COM*' worksheet.

Fuel expenses and Utilities are a more significant part of overheads than depreciation. We examined these items:

Fuel: The largest component of overheads. We asked for the ledger showing all fuel expenses over the investigation period. It related largely to oil purchases. The total in the ledger matched the income statement. We selected sample invoices and confirmed details in the Ledger. **Confidential Attachment CTMS 12** refers**.**

Other utilities: The next most significant item in overheads is water, electricity, and gas. Like fuel we obtained the ledger and confirmed details to the income statement. We selected sample invoices and confirmed details in the ledger. **Confidential Attachment CTMS 13** refers**.**

5.4.8 Checking COM to the income statements part of verification

We examined the connection of the COM of the goods and the income statement. We verified slab purchases to the income statement for 'raw materials' purchases. We asked for the general ledger for all slab purchases – this is shown at **Confidential Attachment CTMS6**.

Shang Chen provided a more detailed income statement showing All Products; HRP steel (i.e. the goods under investigation). This detailed break-down of the income statement showed allocations to domestic; Australian; and third countries.

We checked all main aggregates shown for all products in "*WK Income Statement Turnover*" to the income statement. **Confidential Attachment CTMS 14** includes:

- the income statement as submitted for audit;
- the revised attachment A5 (Income Statement) of the exporter submission (and other revised attachments details of which have been identified elsewhere in this report);
- a hard copy of the detailed income statement – notes on that document were all part of the verification process.

The COM for the goods under examination had been calculated from the detailed cost calculations (a total of [redacted] NTD). Shang Chen had calculated the cost of goods sold (COGS) basis of this and reported it in the detailed income statement.

We are satisfied that Shang Chen had included all costs in COM – raw materials; labour, depreciation and other overheads.

5.4.9 SG&A Expenses

The detailed income statement had shown direct domestic selling expenses; direct export expenses; and indirect seeling expenses.

Direct selling expenses: matched the relevant line in the income statement. The direct domestic sales expenses associated with the goods had been identified in the domestic sales listing (see Chapter 6 for further discussion). This actual amount for inland freight etc. had been reported in the income statement for the goods under consideration under domestic selling expenses.

In the Income Statement, we identified two lines associated with direct export sales. These were commission expenses, and operating expenses (being loading fees, THC etc.). We asked for the ledger relating to 'operating expenses' – these were identified as export expenses in the title (amounting to [redacted] NTD). **Confidential Attachment CTMS 15** refers**.**

This had been allocated to goods under consideration on the basis of production quantity. The amount for Australians sales had been taken from the Australian sales

data at Exhibit B4 – the balance was to third countries. We agreed with these allocations.

Indirect selling expenses: the amount shown by Shang Chen was confirmed to be the total operating expenses in the income statement less the domestic related and export related expenses discussed immediately above. As a common expenses they had been allocated to domestic, Australia and third countries using sales quantities. We agreed with these allocations.

5.4.10 Financial Expenses

Foreign exchange: The CTMS calculation itemised an amount for financial expenses, being a negative. We identified the gain in exchange and loss in exchange items in the income statement. Shang Chen explained how these expense items accrue when they purchase and sell in USD. We obtained a ledger for exchange gains matching the income statement. **Confidential Attachment CTMS 16** refers**.** These items are associated with their usual steel activities. The amount had been allocated to domestic sales and Australian sales and third country sales on the basis of sales quantity. We considered the amount calculated in the CTMS to be accurate.

Interest income and expenses: We identified that the amounts shown matched the income statement and the allocations to be correct.

5.5 Amendments to the CTMS

5.5.1 Offset for income from scrap and head and tail

In examining the detailed income statement an item was 'other operating expenses'. These are expenses which are related to:

- HRC bought in and on-sold;
- merchandise inventory changes and transfers in (these are transfers in of scrap which had been shown separately in another line in the income statement as an offset to total manufacturing cost).

It was apparent that income from scrap had not been brought into the calculation of the CTMS in Shang Chen's submission.

Income from scrap is identified in the income statement ([redacted] NTD).

We obtained a relevant ledger (number 4106) behind that item and selected a sample of the vouchers pertaining to scrap sales.

Another item in the income statement relates to '*other income*' – an item in 'non-operating revenue' (other items shown are investment income, investment losses, and other losses – all of these are not related to the goods, only the 'other income' account was considered to be relevant to the goods).

Shang Chen explained this item largely relates to scrap. We obtained the relevant ledger. It identified income from scrap (which in this case was scrap from cleaning whereas the former was scrap produced in production). The amount associated with scrap from cleaning was separately identified.

Total scrap income from these two accounts was apportioned to the total production quantity.

We were satisfied with the offset (downwards) to CTMS for scrap of [redacted] NTD/MT. **Confidential Attachment CTMS 17** is the income from scrap ledger; and **Confidential Attachment CTMS 18** is the other scrap ledger.

Head and tail: like scrap, head and tail is a by-product which should be accounted for in the CTMS. Sales of 'head and tail' had been identified in the domestic sales – a value of [redacted] NTD. When allocated to total production of the goods under consideration we confirmed an adjustment (downwards) to cost to make of [redacted]NTD/MT. The allocation was to the goods under consideration as it only results from the production of plate steel.

5.5.2 Amendment for packing costs

As discussed in Section 4.5.2, the CTMS submitted had treated packing as the same between domestic and export.

Packing as one of the overheads was adjusted out of domestic CTMS (a small adjustment of [redacted] NTD/MT) and packing added to export CTMS (an amount of [redacted] NTD/MT added – after accounting for the same small adjustment described for domestic sales). **Confidential Attachment CTMS 19** contains the packing costs ledger for the investigation period; invoices for the packing components; two photographs of the goods as packed for export; and a worksheet for packing costs.

5.5.3 Amendment for the greater overhead cost to produce plate as compared to coil

We brought Shang Chen's attention to the previous HRC report, which had noted that higher overhead costs are associated with plate as compared to coil. Greater man hours are required to produce the plate compared to coil.

In the submission overhead and labour costs had been equally allocated between the two according to production.

Shang Chen agreed that there was a greater overhead and labour burden associated with plate, and undertook a revision. **Confidential Attachment CTMS 20** refers. Shang Chen determined that HRC is manufactured at [redacted] MT/hour and plate at [redacted] MT/hour. On the basis of this ratio the unit labour and overhead cost as previously calculated was uplifted by a series of factors determined for each quarter.

The upward amendment factors to unit labour and overhead costs for HRP were:

Quarter	Adjustment to HRP
Q1	[redacted]
Q2	[redacted]
Q3	[redacted]
Q4	[redacted]

We accepted the method of the amendment and that they are necessary to more reasonably account for overhead and labour costs for HRP production.

In this process Shang Chen included an amendment in their favour for overhead costs that are attributable to galvanising and subcontractor fees. This adjustment was made in the previous HRC investigation.

We obtained the ledger for outsourced HRC costs. We sampled a series of items and confirmed that in each case it was in relation to outsource tolling and other fees. We confirmed the amount allowed for a reduction to overheads when determining the adjustments to labour and overheads as shown above. This ledger is part of **Confidential Attachment CTMS 20**.

5.6 Cost to make and sell – summary

We are satisfied that the *adjusted* CTMS shown in:

- *SC-ME-X* revised *G-4.1 Australian CTMS 20130510.xls*
- *SC-ME-X* revised *G-3 Domestic CTMS 20130510.xls*

as provided by Shang Chen at verification is suitable for determining a constructed normal value, and assessing whether domestic sales were sold in the ordinary course of trade.

The CTMS data for the various models by product code and product name is at **Confidential Appendix 2**.

6 DOMESTIC SALES

6.1 General

Shang Chen advised that the Taiwanese plate steel market at the moment is 'very poor', and that it faces strong competition from China Steel Corporation and Chung Hung Steel Corporation (a subsidiary of China Steel Corporation).

Shang Chen explained that, in terms of quality, its plate steel is similar to that of other Taiwanese manufacturers, and does not consider this is a distinguishing difference between it and its domestic competitors.

Shang Chen advised that its domestic sales of plate steel are made to order, as are its export sales.

Shang Chen provided a domestic sales listing of all plate steel made during the investigation period (**Confidential Attachment DOM 1**).

This sales listing included details of:

- customer name;
- grade;
- thickness;
- PCN;
- order number;
- order confirmation date;
- invoice number;
- invoice date;
- delivery terms;
- payment terms;
- quantity;
- invoice value (NTD);
- inland transport costs;
- other costs (credit).

This was further identified in the sales listing as 'prime' or 'not prime' (head and tail or leeway) product.

We did not identify any lines within the sales listing that we did not consider to be like goods to the goods under consideration.

6.1.1 Domestic sales process

Shang Chen explained its domestic sales process as follows:

- customers will contact Shang Chen and ask for a price, which Shang Chen will provide (offer);
- if the offer is accepted by the customer, Shang Chen will draft a purchase order and send this to the customer (there may be some price negotiation between the first offer and that which is eventually accepted, though this is rare);
- once the order is confirmed, its details are entered into Shang Chen's system and production of the product commences;

- the order is manufactured by Shang Chen from slab kept in inventory, with shearing and pickling and oiling outsourced to external parties);
- the filled order is delivered to the domestic customer by a contracted transport company, or the goods are collected by the customer from Shang Chen's premises, depending on the terms of trade;
- at the time of despatch, an invoice is generated for the customer;
- the customer then pays the invoice according to agreed terms.

6.1.2 Domestic sales terms

Shang Chen's domestic sales are made at free-into-store (FIS) or ex-works terms of trade. Shang Chen identified these terms of trade in its sales listing.

Shang Chen submitted that all domestic customers have the same credit terms, whereby their invoiced amounts are payable on the 10th day of the month after delivery. This means credit terms can vary between 11 and 40 days.

Shang Chen advised that these accounts are either paid by telegraphic transfer (T/T), letter of credit, or in physical cash.

Shang Chen included a calculation for these credit terms as 'other costs' in its sales listing. Verification of this cost is within Chapter 8 of this report (as an adjustment was claimed for this cost).

6.2 Pricing

6.2.1 Pricing approach

As with export sales, Shang Chen advised that it sets its 'base' plate steel prices on a monthly basis, and that these are based on slab costs plus conversion costs and a margin. In addition they must take account of the price offered domestically by Shang Chen's main competitors.

Shang Chen communicates this monthly price internally but does not release periodic price lists.

As with export sales, Shang Chen advised that its base prices are set for certain grades of plate steel product. Shang Chen advised that, in the same manner as export sales, it maintains a domestic pricing extras sheet, detailing extra charges for non-standard gauges (thicknesses) and for non-base grades.

Shang Chen provided a copy of this extras listing for the investigation period, showing the extras in NTD/MT. This forms **Confidential Attachment DOM 2**.

We observed that this extras pricing list operates in the same way as the export extras pricing list, with similar extras to those on the export pricing extras list.

However, we noted there was no pricing extra included for the shearing of 4.75 – 12mm coils into sheet (HRS).

Shang Chen explained that this was because this type of product is not sold domestically. However, we observed that approximately [redacted]% of the total volume of plate steel recorded in the sales listing appeared to fall within this category (noting that both the numerator and denominator of this equation are quite small figures, as plate steel is only sold domestically in small volumes in any case). Regardless, it is

noted that quantification of this was not needed in calculating normal values for the purposes of this report.

The extras listing split thicknesses and grade extras into the same categories of the export price extras listings (i.e. 350 grade, 6-12mm thickness, and 15mm+ thickness each attract their own pricing extra).

6.2.2 Discounts, rebates and allowances

Shang Chen stated that it does not offer discounts, rebates or allowances to domestic customers, and that the price on the invoice is the price paid.

Shang Chen stated they offer credits if the product is found to be faulty, or falls below usual quality control standards, but no such credits were made in relation to domestic sales of plate steel during the investigation period.

We found no evidence of any domestic credit notes during the investigation period.

We did not find any evidence of rebates or discounts when examining the various accounts and ledgers of Shang Chen.

We are satisfied that there are no rebates given or discounts paid to Shang Chen's domestic customers.

6.3 Level of trade

Shang Chen submitted that its domestic sales of plate steel are to 'end users', and only one customer is considered at 'trader' or wholesaler. This was recorded in the domestic sales listing.

Shang Chen advised that its prices to all domestic customers do not vary depending on level of trade. We did not encounter any evidence during the verification to consider this to not be the case (in any case an adjustment for level of trade considerations was not claimed by Shang Chen).

6.4 Verification of sales data

6.4.1 All sales (domestic and export) to audited financial statements ('upwards' verification)

As discussed in Section 4.5, we sought to undertake verification of export and domestic sales data for completeness to Shang Chen's 2012 management accounts and audited financial statements.

Shang Chen's audited financial statements for 2012 were not available at the time of our verification, but a letter from Shang Chen's auditor (Confidential Attachment GEN 3) was provided to assure that no significant changes to the company's accounts have been made as a result of his audit.

Further, a successful verification of sales data had been undertaken by ASCBPS in August 2012 to Shang Chen's 2011 audited accounts data.

This provided us with the requisite confidence in Shang Chen's management accounts income statement. Consequently, we sought to conduct our verification of sales data to these management accounts.

As discussed previously, Shang Chen provided line-by-line detailed sales listings for the period 1 January 2012 – 31 December 2012 for:

- Australian exports of plate steel; and
- domestic sales of all plate steel.

In addition to these sales listings, Shang Chen provided a sales listing of all plate steel sales to third countries for the same period.

As discussed previously, these cover the whole of Shang Chen's 'plate' category of product, and part of its HRC category (sheet of 4.75mm or greater thickness).

Shang Chen provided a 'Turnover' summary spreadsheet showing the total volume and value of these three sales listings, the combined total of which was reported as being all sales of plate steel, and all company sales split by domestic, Australian and third country sales.

The Turnover spreadsheet forms **Confidential Attachment DOM 3**.

Shang Chen also provided a copy of its management account income statement for the period. This forms **Confidential Attachment DOM 4** (this has already been discussed in Chapter 5, but is reproduced here for the purposes of the domestic sales verification).

We observed that the volume and value of each sales listing of plate steel reconciled to the turnover summary, and the value of the turnover statement reconciled to the 2012 income statement.

We explained to Shang Chen that we needed to be satisfied of the 'jump' between plate steel sales in the sales listing and the all company sales figure, to ensure that no sales of plate steel had been excluded from the sales listings, and that only sales of plate steel had been included in the listings.

We noted that this would need to be with reference to product thickness (i.e. to ensure that only 4.75mm+ steel in sheet form was included and none of that product had been excluded).

To assist in this process, Shang Chen provided a summary from its accounting system of all sales during 2012, categorised by product accounting code. This forms **Confidential Attachment DOM 5**.[3]

This sales listing was a high level sales summary, and did not provide detail of the sales to thickness level.

We observed that the total sales value in this listing reconciled exactly to the company's 2012 income statement.

Shang Chen explained that it categorises these products under the following product accounting codes:

[3] Shang Chen's 2012 income statement has already been discussed in relation to the verification of CTMS in Chapter 5, but has been reproduced as Confidential Attachment DOM 5 for the purposes of this sales verification.

- 4001 and 4005 for HRC (noting that 4005 HRC relates to a small quantity of high-quality HRC sold in the first two months of 2012 that has since been phased out); and
- 4004 for plate.

Part one – verification of 15mm+ 'plate'

We summed the 4004 (plate) volume and value in the all company sales listing (Confidential Attachment DOM 5) and were able to reconcile the totals of these directly to the total of product between 15mm – 32mm thick in the sales listings. We were therefore satisfied that our sales listings are complete and relevant listings for all 4004-coded product (i.e. plate steel of a thickness of greater than 15mm).

We noted that this plate accounted for [redacted]% of the value of the sales in the three sales listings (combined).

Part two – verification of 4.75mm – 12mm 'HRS' or 'sheet'

We sought to verify the remaining sales, which were of plate steel between 4.75mm and 12mm in thickness.

As discussed throughout this report, this category of product is a sub-set of Shang Chen's 'HRC' product category, represented by product accounting codes 4001 and 4005.

Noting that export sales invoices are not entered into Shang Chen's accounting system at a detailed product level (and hence do not include details of thickness), Shang Chen explained that it was not able to provide a break-down of its 4001 and 4005 sales by thickness that could be filtered to remove product below 4.75mm thickness to allow reconciliation.

We explored the possibility of performing this task only for domestic sales, but in doing so discovered that multiple lines of domestic sales within Shang Chen's accounting system are missing thickness information as well.

Shang Chen explained that the best way to arrive at a level of about the completeness and relevance of the remaining data would be to sample invoices not included in the listing to ensure that they did not contain any sales of the goods.

We selected four domestic and four export sales of this kind. Shang Chen provided commercial invoices and other supporting documents for each of these transactions, which demonstrated that each was for HRC of less than 4.75mm thickness, or of HRC greater than 4.75mm but not sheared into sheets.

These documents form **Confidential Attachment DOM 6**.

We also note that within our selected export and domestic sales (discussed below and at Section 4.5.2) there were multiple examples of invoices that contained both products considered to meet the goods description and those that did not, and in each instance only those products that met the goods parameters were found to have been included in our sales listings.

We therefore consider it reasonable to determine that the Australian, domestic and third country sales listings are complete and relevant listings of all sales of plate steel during the investigation period.

It is noted that ACBPS was able to successfully verify sales of HRC to Shang Chen's accounts in its 2012 verification of that product, as the sales listings provided had included line-by-line sales details of all goods within the 4001 and 4005 product categories (manually populated for that investigation's period of investigation), not only those below 4.75mm in thickness, due to Shang Chen initially considering that all of its 4001 and 405 product was subject to the HRC investigation when drafting its questionnaire response (in fact the HRC investigation was limited to product below 4.75mm in thickness).

6.4.2 Verification of domestic sales data to source documents

Prior to the visit, we selected nine domestic invoices from the sales listing provided in Shang Chen's response to the exporter questionnaire, and advised Shang Chen that we required source documents in relation to each of those transactions.

The details of these selected sales are in the below table.

Selected sale number	Invoice number
1	[redacted]
2	[redacted]
3	[redacted]
4	[redacted]
5	[redacted]
6	[redacted]
7	[redacted]
8	[redacted]
9	[redacted]

At the visit, Shang Chen provided copies of the relevant:

- commercial invoices
- sales contracts
- evidence of payment (letters of credit, copies of cheques, and printouts showing the amount credited to Shang Chen's account);
- inland freight invoice and payment; and
- mill certificate

in relation to each selected sale.

These documents form **Confidential Attachment DOM 7**.

General data

We verified the listed:

- customer name;
- volume;

- invoice value (NTD);
- grade and thickness (and hence PCN);
- prime/not prime status;
- invoice date; and
- delivery terms

to the provided invoices, sales contracts, and mill certificates (as applicable).

Credit terms

In the domestic sales listing, Shang Chen included an amount for 'other costs', which it described was in fact the cost of credit to its domestic customers.

As discussed in Section 6.1.2, all of Shang Chen's domestic customers have the same terms – payment by the 10th day of the month following invoice.

Consequently, Shang Chen submitted that the cost of its domestic credit should be calculated as:

- an average credit period of [redacted] days;
- at an interest rate of [redacted]% for short term loans (the average from Shang Chen's accounts).

We consider that the length of credit days should be more accurately calculated as ((365 days / 12 months) / 2) + 10 days = [redacted] days.

This is consistent with the approach in the HRC investigation.

We have made this minor amendment in the domestic sales calculations.

During our verification, we observed that, in some cases, Shang Chen's domestic customers were making these payments close to or on this due date. We observed that on multiple occasions, these payments were made late and hence Shang Chen had effectively provided a greater credit period than the standard to these customers.

Evidence of payment

We asked Shang Chen to demonstrate that the invoiced amount shown to customers was paid by each customer for the selected transactions, noting that the supplied letters of credit and cheques were often for well above the invoiced amount.

Shang Chen provided copies (in Confidential Attachment DOM 7) of each customer's monthly accounts, and demonstrated that the payment evidence provided was for multiple sales invoices throughout the month.

This evidence demonstrated that in most cases during the relevant investigation period, customers were paying the exact monthly total for their accounts (rather than rounded lump sum payments against their outstanding account balances as was the case with the HRC investigation).

Inland transportation

Shang Chen's domestic sales of plate steel were a mixture of ex-works and delivered terms.

Shang Chen included data of its inland transport costs in the domestic sales listing for sales that were made on delivered terms.

Shang Chen provided invoices of inland transport for each selected shipment where this cost was applicable, as well as evidence of payment for this transport.

We were able to match the actual invoiced amount for inland transport for each selected shipment to the inland freight invoices, and observed that these amounts were correctly apportioned across the applicable shipment by volume.

We observed that two lines of the sales data was missing information for inland transport. Shang Chen advised this was likely due to manual error.

6.4.3 Conclusion – domestic sales data

After our examination and verification of Shang Chen's revised domestic sales data (with amendments discussed above), we consider that the domestic sales data provided by Shang Chen is reasonably complete, relevant and accurate.

6.5 Arm's length

We note that all domestic sales of plate steel during the investigation period made by Shang Chen were to unrelated parties.

After examining sales information provided by Shang Chen, the sales documentation in respect of the randomly selected domestic sales, and other material during our visit, we found no evidence to suggest that:

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

Based on the evidence available we are satisfied that domestic sales of plate steel by Shang Chen were at arms' length.

6.6 Approach to normal values – quarterly data

The exporter questionnaire in its cost section requests that exporters provide:

> *..cost data for each quarter over the investigation period. If your company calculates costs monthly, provide monthly costs.*

As discussed in Chapter 5, Shang Chen provided quarterly costs, noting the company does not undertake monthly costing exercises.

As noted within ACBPS's Dumping and Subsidy Manual (the Manual), ACBPS normally undertakes calculations to determine whether goods have been dumped or not using a weighted average approach.[4]

Generally, this will an approach of comparing quarterly weighted average normal values with corresponding quarterly weighted average export prices.

However, the Manual notes that there may be cases where ACBPS will undertake this analysis using monthly weighted averages. An example of such circumstances is given in the manual as being where there are erratic movements in costs.

In relation to the investigation into HRC, as 'erratic' fluctuations in monthly CTMS occurred during the investigation period, it was considered:

> *more reasonable to determine normal values on a monthly basis for comparison with export prices to determine whether Shang Chen's sales of the goods were dumped.*[5]

To consider this matter in relation to plate steel, we requested that Shang Chen provide us with monthly calculations of its COM plate steel during the verification visit.

Shang Chen provided this calculation at the whole of product level (i.e. not split into HRS/HRP and A1 or A2). This forms **Confidential Attachment DOM 8**.

The fluctuations in these costs are summarised in the below table.

	Variance from previous month - total CTM	Variance from previous month - raw materials
Jan-12	BASE MONTH	BASE MONTH
Feb-12	[redacted]	[redacted]
Mar-12	[redacted]	[redacted]
Apr-12	[redacted]	[redacted]
May-12	[redacted]	[redacted]
Jun-12	[redacted]	[redacted]
Jul-12	[redacted]	[redacted]
Aug-12	[redacted]	[redacted]
Sep-12	[redacted]	[redacted]
Oct-12	[redacted]	[redacted]
Nov-12	[redacted]	[redacted]
Dec-12	[redacted]	[redacted]

It is noted that the fluctuations above appear to be significantly driven by the general trend of falling raw material prices during the investigation period.

[4] The Manual, Chapter 20.

[5] ACBPS, Shang Chen HRC exporter verification report, September 2012.

When the data in the table above is examined with the notion of quarterly comparisons in mind, we consider it reasonable to conduct dumping analysis on a quarterly basis, and it is not necessary to revert to monthly analysis as was the case in the previous HRC investigation.

6.7 Ordinary course of trade and sufficiency of sales

6.7.1 Ordinary course of trade (OCOT)

We sought to identify which domestic sales of like goods were made in OCOT for use in normal values under s.269TAC(1) of the Act.

In order to test the profitability of Shang Chen's domestic sales, we compared the unit (per tonne) net sale price of each individual domestic sale of plate steel to its comparable quarterly unit CTMS, in the following way:

CTMS model grouping	Domestic sale PCN
HRSA1	A1B1
HRSA2	A1B2
HRPA1	A1B3
HRPA2	A2B3
X	X

In these groupings, 'X' relates to non-prime product.

Due to the structure of the groupings, this took into account:

- thickness;
- grade; and
- standard.

We note that the above characteristics are considered to be those that impact Shang Chen's price of plate steel (though we are unable to quantify the effect of standard - we are aware the AS1594 - the HRS models above - are generally considered to attract a slight premium).

For those transactions calculated as being sold at a loss, we tested whether the sales were recoverable, by comparing the unit net sales price with the investigation period weighted average unit CTMS for the applicable grouping.

We found that non-recoverable sales represented greater than 20% of the volume for two domestic products (A2B3 and 'X' (the non-prime product group)).

Consequently, we regard the non-recoverable sales of these products as not being made in OCOT. As such, the non-recoverable sales have not been used in calculating normal values for products (where applicable).

For those product groups where recoverable sales were less than 20% of the volume all sales within that combination were considered as being made in OCOT and were used in calculating normal values for those products (where applicable).

We note that we do not consider non prime product (category 'X') to be reasonably comparable to any exported product and have excluded it from our dumping analysis.

6.7.2 Sufficiency of sales

After performing the OCOT test, we then sought to determine whether there were sufficient domestic sales in OCOT for all exported products by PCN in the investigation period in order to calculate normal values under s.269TAC(1) for each.

We found that there were sufficient domestic sales in OCOT of three product groups that were the same PCN as exports to Australia (out of the six export PCNs).

We consider it reasonable to arrive at normal values for these combinations under s.269TAC(1) (with adjustments for fair comparison – see Chapter 8 of this report).

After performing the above OCOT and sufficiency test using exact matches of domestic to export PCN, we sought to identify whether there were sufficient domestic sales of other PCNs that would be suitable for comparing the remaining three export sales combinations, to determine normal value under s.269TAC(1) for those goods.

We note that Shang Chen provided us with guidance as to what it considered to be appropriate domestic PCNs to compare with exports of a different PCN in Confidential Attachment GEN 6.

These are summarised in the below table.

Export model (PCN)	Substitute model (PCN) suggested by Shang Chen	Difference(s)
A1B2	A1B3	Thickness - substitute is 15mm+, actual export model is 6-12mm Standard - substitute is AS3678, actual model is AS1594
A2B1	A2B3	Thickness - substitute is 15mm+, actual export model is 4.75 - 6mm Standard - substitute is AS3678, actual model is AS1594
A2B2	A2B3	Thickness - substitute is 15mm+, actual export model is 6-12mm Standard - substitute is AS3678, actual model is AS1594

Each of these suggestions resulted in a finding of sufficient sales of the alternative PCN domestic product for comparison with export sales. However, we note that each of the above suggested domestic substitutes is of a product that is of different standard to the export sale.

As discussed above, it is considered that standard is likely to have some (albeit small) impact on price, which is not quantifiable in the pricing extras sheets provided by Shang Chen or through any other method known to us.

Consequently, we thought it more reasonable to consider the below PCN comparisons instead.

Export model (PCN)	PCN identified by ACBPS	Difference(s)
A1B2	A1B1	Thickness - substitute is 4.75-6mm, actual export model is 6-12mm STANDARD IS THE SAME
A2B1	A1B1	Grade - substitute model is grade 250 but export model is grade 350 STANDARD IS THE SAME
A2B2	A1B2	Grade - substitute model is grade 250 but export model is grade 350 STANDARD IS THE SAME

We consider it reasonable to arrive at normal values for these combinations under s.269TAC(1) (with adjustments for fair comparison – see Chapter 8 of this report).

7 THIRD COUNTRY SALES

In its exporter questionnaire response, Shang Chen provided a listing of its HRC export sales to third countries.

The appropriateness and reasonableness of using these sales as a basis for normal value was considered during the verification visit.

Firstly, it was observed that Shang Chen did not make sales of plate steel to any third country in volumes considered to be reasonably similar to its Australia sales. In all cases but one, the sales volumes were [redacted]% or lower of the Australian sales volume.

In the case of the remaining country (the United States), the volume of sales of plate steel was significantly greater than to Australia ([redacted]% of the Australian sales volume). In general, this is considered to not be a similar enough volume to consider these sales appropriate for determining normal value.

In any case, these sales were further analysed to examine their appropriateness, and it was determined that the product mix of these sales (by PCN) was significantly different to Australian sales, such that sufficient sales volume of multiple Australian PCNs were not present in this data in any case. Where exact PCN matches were present between Australian and United States sales data, the United States sales volumes were greatly above those to Australia (in some cases in excess of [redacted]%). It is therefore considered that these sales are not appropriate for comparison with Australian sales for the purposes of determining normal value.

In addition, we noted that Shang Chen has submitted that sales to different export markets take into account different considerations, including the characteristics of each market, and this would lead to price differentials between these markets. We consider this to be a further reason to determine that third country sales are not an appropriate method of determining normal value in this case,

It is further noted that we have determined that we are able to determine normal value for all Australian PCNs by using the s.269TAC(1) domestic sales-based approach in any case.

Consequently, we decided that detailed verification of the third country sales data was not warranted.

8 ADJUSTMENTS

The purpose of adjustments is to ensure a fair comparison at the same point as the export sales price.

The export sale price used in our analysis is at the FOB level for sales from Shang Chen to Australian importers.

During the verification, multiple adjustments were identified. Each of these items is discussed separately within this Chapter.

8.1 Credit terms

Shang Chen submitted that its credit terms differ between domestic and export sales, and that an adjustment should be made to account for these differences.

8.1.1 Domestic credit

As discussed in Chapter 6 of this report, Shang Chen advised that its domestic credit terms for all customers are that the payment is due on the 10th day of the month following delivery of the goods.

We observed that some customers were paying on or near this 10th day as required, while some were making payments that were significantly later. In any case, it is considered that the established credit terms of payment on or by the 10th day of the month subsequent to invoice are the established terms, and that these terms would be taken into account in setting domestic prices.

We have not encountered evidence to suggest that the actual payment days (likely to be longer than the calculated average of [redacted] days) should be used in the calculation of a credit terms adjustment.

The calculation and verification of credit terms is discussed at Section 6.4.2 of this report.

We consider this adjustment to be reasonable and warranted and have made a downwards adjustment to normal value for these terms.

8.1.2 Export credit

As discussed in Chapter 4 of this report, Shang Chen's export (Australian) customers both pay Shang Chen by letter of credit at sight of documents.

We consider these sales attract no credit terms and have not included any adjustment for this as a result.

8.2 Inland freight

Shang Chen submitted that an adjustment is warranted for differences in land freight between its domestic and export sales.

As discussed in Section 4.5.2, Shang Chen submitted line-by-line data in its export sales listing, identifying the actual inland freight costs for exports to Australia. We were able to successfully verify this data to source documents.

Similarly for domestic sales, Shang Chen submitted line-by-line data in its domestic sales listing, identifying the actual inland freight costs for domestic sales of plate steel. We were able to successfully verify this data to source documents.

We consider this adjustment to be reasonable and warranted and have made this adjustment in our calculations.

8.3 Packaging

As discussed throughout this report, the packaging of plate steel for export differs significantly from that for domestic sales (which has no packaging).

Shang Chen has quantified, and we have verified, a unit (NTD/MT) amount for this export packaging (see Section 4.5.2).

We consider it reasonable to account for such an adjustment, and an upwards adjustment to normal value has been undertaken as a result.

8.4 Export fees and charges

As discussed and verified in Section 4.5.2, Shang Chen's export sales of plate steel attracted the following export fees and charges:

- handling and other charges;
- harbour service fees; and
- THC and CFS.

We consider that it is reasonable to make an upwards adjustment to normal value to account for these charges excluding CFS charges, which we have already removed from export prices for the concerned shipments (only containerised shipment attracted this fee and we have calculated export prices at break bulk level by removing the $US[redacted]/MT charge associated with containerisation, as reported by Shang Chen in their export pricing extras sheet).

8.5 Commission

As discussed and verified in Section 4.5.2, Shang Chen's export sales of plate steel attract sales commissions.

No such commission is applicable to domestic sales.

We consider an upwards adjustment to normal value is warranted and reasonable for these commissions, and this has been included in our calculations.

8.6 Bank charges

As discussed and verified in Section 4.5.2, Shang Chen's export sales of plate steel are subject to certain bank charges.

We consider an upwards adjustment to normal value is warranted and reasonable for these charges, and this has been included in our calculations.

8.7 Trade promotion charge

As discussed and verified in Section 4.5.2, Shang Chen's export sales of plate steel attract a 'trade promotion charge' of [redacted]% of the FOB invoice value of the goods.

We consider an upwards adjustment to normal value is warranted and reasonable for this trade promotion charge, and this has been included in our calculations.

8.8 Physical characteristics – substitute PCNs

As discussed previously, we considered that sufficient volumes of domestic OCOT sales of HRC were made by Shang Chen during the investigation period to allow for s.269TAC(1) normal values to be established for three export PCNs using exact model match normal values.

However, sufficient domestic OCOT sales were not made of three product PCNs to allow direct match s.269TAC(1) normal values to be calculated using these PCNs' domestic selling prices.

However, we consider it reasonable to use for normal values the domestic OCOT sales prices of sufficiently like PCN products with sufficient sales volumes in OCOT, and adjust these for physical differences between the export PCN and the domestic substitute, as outlined in the second table in Section 6.7.2. These differences relate to product grade and thickness.

We have arrived at unit (NTD/MT) cost add-ons for grade and thickness where appropriate, with direct reference to Shang Chen's domestic pricing extras list (Confidential Attachment DOM 2).

8.9 Sales at different times

We observed that, when arriving at monthly normal values for exact match and substitute PCNs (see above) for comparison with products exported to Australia (by PCN), Shang Chen did not make domestic sales of various applicable PCNs domestically in certain quarters, while it did make export sales to Australia of that particular product in that quarter.

To allow for a quarterly normal value for this specific export PCN to be established, we considered it reasonable to make an adjustment to the comparable normal value of the most recent previous or subsequent quarter to account for the difference in timing between sales, based on the cost difference between these months, adjusted by the gross margin of the company derived from its 2012 income statement.

9 NORMAL VALUE

We found sufficient volumes of domestic sales of plate steel by Shang Chen that were arm's length transactions and at prices that were in OCOT for three of the six models exported to Australia.

For the remaining three models, we found sufficient volumes of domestic sales in OCOT for a reasonably similar model (using the PCN identifier) and made reasonable adjustments to the normal values for physical and timing differences.

Based on the information provided by Shang Chen and the verification conducted on site we are satisfied that prices paid in respect of these domestic sales are suitable for assessing normal values under s. 269TAC(1) of the Act for all export sales of plate steel to Australia during the investigation period, as adjusted in accordance with s.269TAC(8) of the Act.

Using the data verified, we consider adjustments are warranted for the items discussed in Chapter 8 of this report.

We calculated weighted average quarterly normal values separately for each applicable PCN.

Detailed normal value calculations, and summary normal values, are contained in **Confidential Appendix 4**.

This appendix includes calculations of all adjustment except physical differences and sales at different times.

10 DUMPING MARGIN – PRELIMINARY ASSESSMENT

We compared the quarterly weighted average of export prices for each quarter over the whole of the investigation period, with the corresponding quarterly weighted average normal values, over the whole of that period, in accordance with s.269TACB(2)(a) of the Act.

The weighted average dumping margin for plate steel exported to Australia by Shang Chen in the investigation period was negative 3.05%.

Details of the Shang Chen dumping margin calculations are at **Confidential Appendix 5**. This appendix includes adjustments to normal values for physical differences and sales at different times.

APPENDICES AND ATTACHMENTS

Confidential Appendices

Appendix 1	Shang Chen export price calculations
Appendix 2	Revised Shang Chen CTMS calculations
Appendix 3	Profitability and ordinary course of trade assessment
Appendix 4	Shang Chen normal values
Appendix 5	Shang Chen preliminary dumping calculations

Confidential Attachments

General

GEN 1	Agenda
GEN 2	Shareholders listing
GEN 3	Letter from company's auditor
GEN 4	Company group chart
GEN 5	Product characteristics and specifications brochure

Export sales to Australia

EXP 1	Revised sales listing
EXP 2	Export extras pricing list
EXP 3	Export sales documentation
EXP 4	Bank charges working spreadsheet.
EXP 5	Packaging cost calculations and supporting documents.
EXP 6	Export plate steel packing calculations and supporting documents.
EXP 7	Letter of credit documents – showing contract details paid for by each letter of credit.

Costs

CTMS 1	Raw materials ledger
CTMS 2	Unit costs of finished goods ledger
CTMS 3	Raw materials inventory ledger
CTMS 4	Finished goods inventory ledger
CTMS 5	Cost calculation summary
CTMS 6	Slab purchases ledger
CTMS 6A	SC Raw Material Purchase (NTD & Grade).xls
CTMS 7	Slab – selected purchases
CTMS 8	Slab purchases – pre investigation period
CTMS 9	Production
CTMS 10	HRS production quantity
CTMS10A	SC sales quantity.*xls*
CTMS 11	Assets ledger – depreciation
CTMS 12	Fuel expenses ledger
CTMS 13	Other utilities expenses ledger
CTMS 14	Income statement
CTMS 15	Export operating expenses
CTMS 16	Foreign exchange ledger
CTMS 17	Scrap income ledger

CTMS 18	Other scrap income ledger
CTMS 19	Packing expenses ledger
CTMS 20	Labour, overheads adjustment, and outsourced expenses ledger

Domestic sales

DOM 1	Domestic sales listing of all products within its 'HR' sales category
DOM 2	Domestic price extras listing
DOM 3	Turnover spreadsheet
DOM 4	Shang Chen 2012 income statement.
DOM 5	Shang Chen 2012 sales summary by product accounting code
DOM 6	Invoices and source documents to demonstrate completeness and relevance of sales listing.
DOM 7	Selected domestic sales source documents
DOM 8	Monthly CTMS calculations (product level)