

4 July 2013

Ms Joanne Reid
Director, Operations 3
International Trade Remedies Branch
Australian Customs and Border Protection Service
Customs House
5 Constitution Avenue
CANBERRA ACT 2601

Dear Ms Reid

PUBLIC FILE

Re: Steel plate exported from China, Indonesia, Japan, Korea and Taiwan – BlueScope comments re Hyundai Exporter Visit Report

Summary

BlueScope requests Customs and Border Protection to re-assess normal values for plate steel exported to Australia by Hyundai Steel Company ("Hyundai") of Korea. Preliminary normal values determined for Hyundai are flawed and have incorrectly included a level of profit that is inadequate and not representative of investment in a capital-intensive industry.

It is further suggested that the claimed adjustments for advertising and warranty asserted to relate to domestic sales of plate steel only cannot be substantiated. Also, the negative adjustment for payment guarantee charge is not isolated to Hyundai's domestic sales of the goods under investigation only.

BlueScope would also like to highlight with Customs and Border Protection that its earlier investigations with Hyundai into exports of hot rolled coil ("HRC") exported during an investigation period that overlaps with the plate steel investigation, determined positive dumping margins. The positive dumping finding on HRC exported by Hyundai (2.6 per cent margin) to Australia surely questions the validity of a finding that preliminarily determines a negative margin of dumping for plate steel (minus 7.9 per cent) – noting specifically that plate steel and HRC are products from the same Hot Rolled Steel product family. The dumping margin findings represent a greater than 10 per cent turnaround on goods that are of the same product family and exported during a period where the investigation period overlaps.

Hyundai normal value

Preliminary basis for normal value

Customs and Border Protection has determined preliminary normal values for Hyundai under s.269TAC(2)(c) of the Customs Act using the company's costs of production plus amounts for selling and general administration, and an amount for profit.

Hyundai's preliminary normal value was assessed under s.269TAC(2)(c) as there was an insufficient level of domestic sales made in the ordinary course of trade. Sales to related parties were considered by Customs and Border Protection to have not been made in arms' length transactions.

BlueScope does not consider that Hyundai's normal values should have been determined under s.269TAC(2)(c). Hyundai's domestic sales were not in the ordinary course of trade and to determine normal values using Hyundai's costs plus a level of profit determined from the domestic sales that were in the ordinary course of trade (even though these domestic sales, in volume terms, were less than 5 per cent of the volume exported to Australia), is questionable.

In constructing a domestic selling price for Hyundai, Customs and Border Protection has utilised Hyundai's selling, general and administration expenses (S,G&A) derived directly from Hyundai's 2012 audited income statement. It is contended that the 2012 audited income statement is a high-level summary of costs and does not accurately reflect the actual S,G&A expenses incurred by Hyundai for its plate steel business. BlueScope is concerned that the allocation of the S,G&A expense to arrive at an amount for inclusion in Hyundai's constructed selling price normal value is understated, as the divisor used (sales value) favours the post-plate steel, higher sales value products manufactured by Hyundai, resulting in a lower value S,G&A expense for plate steel.

It is also of concern that the plate steel sales value should only reflect Hyundai's sales of plate steel to external parties, and not include transfer sales of plate steel.

Additionally, it is BlueScope's view that the level of profit applied to Hyundai's costs is likely to have been relatively minor and not sufficient to allow re-investment in a high capital-intensive industry like steel manufacture.

BlueScope contends that the determination of Hyundai's preliminary normal values using costs plus profit (under s.269TAC(2)(c)) **significantly understates** Hyundai's normal value for plate steel.

Alternative basis for normal value

It is submitted that Hyundai's normal value for plate steel should be determined under s.269TAC(2)(d) using Hyundai's export prices to a third country.

It is BlueScope's position that the determination of Hyundai's normal value under s.269TAC(2)(d) would result in a more representative normal value than has been assessed under s.269TAC(2)(c).

Normal value under s.269TAC(2)(d)

Customs and Border Protection examined Hyundai's export sales to Japan and Canada for consideration of normal values under s.269TAC(2)(d). Hyundai's plate export sales to Japan appear to have been considered by Customs and Border Protection but were subsequently deemed unsuitable. In respect of export sales to Canada, it appears that Hyundai's exports were to the West Coast of Canada whereas Canada's steel mills are located on the East Coast. It is not clear from the Hyundai public file report why Hyundai's sales are unsuitable and on what basis Customs and Border Protection has rejected these sales to the West Coast of Canada as a basis for normal value assessment.

It does not appear that Customs and Border Protection has rigorously tested Hyundai's claims concerning plate steel export prices to Japan and Canada. Rather, it would appear that Hyundai's explanation has been accepted as the basis for not verifying the export sales for normal value purposes. Hyundai's export sales to Australia are generally of 250 and some 350 grade plate steel. Hyundai's export prices to Canada and Japan could be adjusted (if required) to make them

comparable for the purposes of normal value, however, Customs and Border Protection has not considered this possibility.

BlueScope does not consider that Customs and Border Protection has sufficiently assessed Hyundai's export sales to Canada and Japan for the purposes of determining normal values for Hyundai under s.269TAC(2)(d).

Adjustments under s.269TAC(9)

BlueScope rejects the assertions of Hyundai that expenses for advertising are solely incurred on domestic sales. The advertising expenses represent corporate style promotions and do not specifically relate to domestic sales of plate steel. Rather, it is BlueScope's view that the advertising expenses relate to corporate, group-wide advertising and not specifically plate steel.

In respect of the claimed adjustment for warranty expenses, BlueScope submits that the "warranty" claims are addressed within the steel industry via credits issued for products defects, goods incorrectly supplied and/or invoiced, damaged in transit and the like. Warranty claims may apply to further value-added steel products (e.g. coated steel products) and would apply to both export and domestic product as they are not necessarily product specific in nature.

It is recommended that the adjustments for advertising and warranty expenses that it is asserted relate to domestic sales of plate steel only cannot be reasonably substantiated as relating specifically to plate steel sold domestically, and must therefore be disallowed.

Similarly, BlueScope does not consider that payment guarantee expenses are solely designated as domestic expenses. It is BlueScope's position that the premium payable to the bank for the guarantee would also be applicable on export sales (considered to carry a higher risk). An adjustment for payment guarantee expenses should not be permitted to Hyundai's normal value.

Hyundai's Selling, General and Administration expenses

Customs and Border Protection's verification of Hyundai's selling, general and administration expenses appear to have been verified at a high level (i.e. Hyundai's 2012 Income Statement). BlueScope has examined Hyundai's publicly available financial statements for 2012 and considers that there is a high risk of understating the correct S,G&A amount to be applied to Hyundai's constructed selling price using high-level allocations for S,G&A. For this reason, it is recommended that specific S,G&A information relating to Hyundai's external sales of plate steel should have been used.

Conclusions on Hyundai normal value

BlueScope does not consider that Hyundai's normal value should have been assessed by Customs and Border Protection using Hyundai's production costs plus amounts for S,G&A and profit as this understates the correct normal value for Hyundai's plate steel exported to Australia.

It is BlueScope's contention that Hyundai's normal value could be determined by the Minister under s.269TAC(2)(d) using Hyundai's export prices for plate steel to Canada and/or Japan. The responses of Hyundai that Customs and Border Protection has relied upon to discount export sales to third countries as an appropriate basis for normal value determination has not been sufficiently investigated by Customs and Border Protection, with the explanations provided as rendering the export sales "unsuitable" insufficient for the Minister to reasonably consider.

Further, BlueScope rejects the adjustments made to Hyundai's normal value for advertising and warranty as these expenses are incurred equally on export sales as domestic sales. Similarly, an adjustment for a payment guarantee charge on domestic sales would also be applicable to higher risk export sales, and should have been disallowed.

BlueScope requests Customs and Border Protection to re-consider Hyundai's normal value for plate steel exported to Australia taking full account of the matters raised in this submission.

Please do not hesitate to contact me on (02) 4275 3859 if you have any questions.

Yours sincerely



Alan Gibbs
Development Manager – International Trade