

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 POSCO Exporter Visit Report

Background

I refer to the POSCO Exporter Visit Report (“the Report”) and Record of Meeting with POSCO (“Meeting Record”) recently placed on the electronic public file.

BlueScope Steel Limited (“BlueScope”) has a number of concerns and observations concerning the determination of POSCO’s dumping margin on plate steel exports to Australia. These matters are addressed herein.

Extent of verification visit

BlueScope notes that Customs and Border Protection “determined that a full verification visit to POSCO was not required for this investigation” as POSCO’s exporter questionnaire response was “complete and accurate” and due also to “the volume of hot rolled plate steel exported by POSCO to Australia relative to other exporters”. As a result, Customs and Border Protection conducted a one-day verification visit with POSCO.

Whereas Customs and Border Protection may have been satisfied with the completeness of the POSCO exporter questionnaire response, the extent of its accuracy could only be ascertained during a verification visit. It should be recalled that POSCO was found to have exported hot rolled coil (“HRC”) and galvanized coated steel to Australia with dumping margins of positive 6.0 per cent and positive 9.1 per cent respectively, both inquiries involving investigation periods that overlap with the investigation period of the hot rolled plate inquiry.

Due to the positive dumping margin findings on the HRC and galvanized steel exported to Australia, BlueScope is alarmed that Customs and Border Protection has not conducted a full and complete verification visit with POSCO. It is somewhat more surprising that the determined dumping margin in the current hot rolled plate steel investigation has established a preliminary dumping margin of *negative* 4.91 per cent.

The negative dumping margin for POSCO represents an approximate minimum 10 per cent turnaround on a raw material product that is used in the production of HRC and galvanized steel to which POSCO has been established as having exported at dumped prices.

It is BlueScope's view that the remarkable turnaround in margin assessment (on plate steel versus HRC and galvanized steel) should have alerted Customs and Border Protection to be concerned about the adequacy of a limited verification with POSCO.

POSCO's normal value assessment

Customs and Border Protection has prepared POSCO's Exporter Visit report on the basis of its verification visit with the company on 28 May 2013. Customs and Border Protection determined normal values for POSCO's export sales to Australia where there were arms length transactions in the ordinary course of trade, under s.269TAC(1) based upon POSCO's domestic selling prices.

Where there were no corresponding domestic sales, POSCO's normal values were determined under s.269TAC(2)(c) with a level of profit applied based upon an amount included in those sales determined as in the ordinary course of trade ("OCOT").

In conducting the OCOT test Customs and Border Protection compared POSCO's domestic selling prices to two customer groups that were considered to be at the same level of trade as POSCO's Australian export sales. The domestic sales were compared with POSCO's "fully absorbed CTMS" for the models identified. POSCO's CTM&S data was obtained as part of the truncated verification visit conducted on 28 May 2013.

BlueScope maintains strong reservations concerning the completeness of the verification of POSCO's fully absorbed CTMS the goods under consideration. It is noted that POSCO manufactures plate steel at its two integrated facilities in Pohang and Kwangyang. Both plants value-add for a broad range of products, for which slab is the raw material input. The allocation of costs for plate steel production is therefore a complex process, and cannot be undertaken in the absence of a full understanding of the staged process of manufacture of the goods in question.

It is evident from Customs and Border Protection's Meeting Record that it has verified the costs of the steel plate by product code as identified by POSCO. Section 4.5 of the Meeting Record identifies two selected models for verification of POSCO's CTMS. The breakdown of costs identifies raw materials, power, depreciation and variable scrap. However, hot rolled plate steel is manufactured from steel slab, and the Meeting Record does not indicate that Customs and Border Protection has verified the fully absorbed CTMS steel slab used in the manufacture of hot rolled plate steel.

This is an important cost step to interrogate as it is important to establish whether the transfer price for the steel slab for the fully-integrated POSCO was at full cost. The Meeting Record does not establish or evidence that this important verification step was undertaken. In the BlueScope Visit Report is clear that Customs and Border Protection verified the actual cost items for steel slab used in plate steel production (see reference to Page K at P. 34 of BlueScope Visit Report).

It is also noted in the PT Gunung Raja Paksi Exporter Visit Report that plate slab costs were verified by the Customs and Border Protection verification visit team. Whilst the Indonesian producer does import steel slab, the methodology does confirm that the cost of the steel slab is an integral cost stage of the steel plate manufacturing process. It is important that the steel slab is transferred to steel plate production at a fully-absorbed cost. For POSCO, it would appear that the cost of the steel slab transferred to plate steel production has not been verified, nor has it been tested as to whether the transfer price is at full cost recovery.

In relation to POSCO's selling, general and administration ("S,G&A") expenses it is noted that Customs and Border Protection accepted sales revenue as the denominator of POSCO's total S,G&A expenses. However, this methodology understates the correct allocation of S,G&A expenses as hot rolled plate steel sold to external customers is a less value-added product than many other further finished steel products manufactured by POSCO. A higher per unit allocation of S,G&A expenses is therefore required for the goods under consideration than for a further value-added product such as electrical steel.

Adjustment for domestic warranty costs

BlueScope does not consider that an adjustment for warranty costs on domestic sales can be justified for POSCO. BlueScope is of the view that the "warranty" claims are addressed within the steel industry via credits issued for product 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 warranty expenses that relate to domestic sales of plate steel only cannot be reasonably substantiated as relating specifically to plate steel sold domestically, and should be disallowed.

Conclusions

The determination of a negative 4.91 per cent dumping margin on plate steel exported to Australia by POSCO is inconsistent with earlier determinations of dumping by Customs and Border Protection on steel products (HRC and galvanized steel). The plate steel preliminary dumping margin determination represents a minimum approximate 11 per cent turnaround on the HRC finding and an approximate 14 per cent on galvanized steel, both of which involve slab steel is an intermediate production stage.

It should be recalled that the galvanized steel and plate steel investigation periods overlap by two quarters.

The significant shift from positive dumping margins on value-added steel products to a negative margin on an intermediate steel product should have alerted Customs and Border Protection to concerns arising from a limited verification of POSCO's data for plate steel exported to Australia.

The limited verification does not establish that steel slab was transferred into POSCO's plate steel production at full cost recovery. This is an integral step in the verification process for establishing whether the goods exported to Australia reflect all the fully-absorbed costs of production.

BlueScope does not consider that the adjustment of warranty costs can be substantiated. The warranty costs are more likely associated with the sale of further value-added products (including finished, not intermediate, goods). Additionally, the allocation of S,G&A expenses using sales value is likely to understate the true cost of this expense that should be attributed to plate steel manufacture.

BlueScope respectfully requests Customs and Border Protection to re-assess the determination of dumping margins for plate steel exported to Australia by POSCO. The preliminary dumping margin determined thus far is inconsistent with POSCO's dumping margins determined in the earlier HRC and galvanized steel investigations undertaken by Customs and Border Protection.

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

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Alan Gibbs', is positioned above the printed name.

Alan Gibbs
Development Manager – International Trade