



Australian Government

**Australian Customs and
Border Protection Service**

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

AND

**INVESTIGATION INTO THE ALLEGED SUBSIDISATION OF
HOT ROLLED PLATE STEEL EXPORTED FROM
THE PEOPLE'S REPUBLIC OF CHINA**

EXPORTER VISIT REPORT

PT GUNAWAN DIANJAYA STEEL

<p>This report and the views or recommendations contained therein will be reviewed by the case management team and may not reflect the final position of Customs and Border Protection</p>

May 2013

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2 BACKGROUND

2.1 Background to the current investigation

On 21 December 2012, an application was lodged on behalf of BlueScope Steel Limited (BlueScope) requesting that the Minister for Home Affairs (the Minister) publish:

- a dumping duty notice notices in respect of hot rolled plate steel (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 on plate steel exported to Australia from China.

Refer to the full description of the goods in section 4 of this report.

BlueScope provided further information and data in support of its application, the last of which was received on 29 January 2013. As a result, the Australian Customs and Border Protection Service (Customs and Border Protection) restarted the 20 day period for considering the application. On 12 February 2013 the Chief Executive Officer of Customs and Border Protection decided not to reject the applications and initiated investigations into the alleged dumping and subsidisation of plate steel from the nominated countries. 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 provides further details of the investigations and is available on Customs and Border Protection's website at www.customs.gov.au.

BlueScope alleges that the Australian industry has suffered material injury caused by plate steel exported to Australia from the nominated countries at dumped and, in the case of China, subsidised prices. It claimed that material injury in respect of plate steel commenced to impact profit and profitability in 2009-10.

The application identified PT Gunawan Dianjaya Steel (Gunawan Dianjaya) as an exporter of plate steel from Indonesia. A search of Customs and Border Protection's import database also indicated that Gunawan Dianjaya exported plate steel from Indonesia to Australia during the investigation period (January to December 2012). Customs and Border Protection wrote to Gunawan Dianjaya advising it of the initiation of the investigation, requesting co-operation with the investigation and providing copies of an exporter questionnaire for it to complete. Gunawan Dianjaya completed the exporter questionnaire, providing details regarding the company, exports, domestic sales and cost to make and sell (CTMS) expenses for plate steel.

2.2 Purpose of visit

The purpose of the visit was to verify information submitted by Gunawan Dianjaya in its exporter questionnaire response. The exporter questionnaire response was supported by confidential appendices and attachments, including confidential spread sheets containing sales and costs data requested in the exporter questionnaire. A

non-confidential version of the exporter questionnaire response was placed on the public record. Customs and Border Protection used the verified information gathered at the visit to make preliminary assessments of:

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

2.3 Meeting and preliminary issues

We advised Gunawan Dianjaya of the following.

- The investigation period is 1 January to 31 December 2012.
- Customs and Border Protection will examine the Australian market from January 2008 for the purpose of analysing the condition of the Australian industry.
- A preliminary affirmative determination (PAD) may be made at any time after the 60th day following the initiation of the investigation, being 15 April 2013. Provisional measures may be imposed at the time of the PAD or at any time after the PAD has been made. Customs and Border Protection would not make such a determination until it was satisfied that there appears to be, or that it appears there will be, sufficient grounds for the publication of a dumping duty notice.
- As at the time of the meeting a PAD had not been made.
- In May 2013 the Minister granted an extension to the publication date for the statement of essential facts (SEF). The revised due date for the SEF is 1 August 2013.
- The SEF will set out the material findings of fact on which Customs and Border Protection intends to base its recommendations to the Minister. The SEF will invite interested parties to respond, within 20 days, to the issues raised.
- Submissions received in response to the SEF will be considered when compiling the report and recommendations to the Minister.
- Customs and Border Protection's report to the Minister is now due no later than 16 September 2013.
- The Minister's decision is due within 30 days from the date of receipt of the final report.

We advised Gunawan Dianjaya that following our visit we would prepare *For Official Use Only* and *Public Record* versions of our visit report. We advised that following our visit we would provide the company with a draft of our report to review its factual accuracy and to identify those parts of the report it considered confidential. We further advised that, following consultation about confidentiality, we would prepare a non-confidential version of the report for the public record.

2.4 Meeting dates and attendees

Verification meetings were held at the offices of Gunawan Dianjaya in Surabaya. Gunawan Dianjaya was represented by Staughton's Pty Ltd, an Australian based consultancy firm. All key company representatives involved in the visit had strong verbal English language comprehension, as well as Indonesian. As such official translation services were not required at any stage of the meeting.

The following people were present at various stages of the meeting:

Gunawan Dianjaya	
Gwie Gunato Gunawan	Director, Gunawan Dianjaya
I Gde Sunantara	Export/Import Manager
Drs. Rizal Arwin, MM	International Trade (Advisor)
Suwito Gonawan, M.Com	Ass to Export Import Director
Staughton's Pty Ltd	
David Birrell	Senior Advisor
Alan Sinclair	Senior Advisor
Australian Customs and Border Protection	
Chris Vincent	Manager, Operations 1
Edward Macgregor	Supervisor, Operations 1

3 COMPANY INFORMATION

3.1 Company background

3.1.1 General

Gunawan Dianjaya was established in 1989 by the Gunawan family as a privately owned company registered in Indonesia and commenced operation in 1991 in Surabaya. At the time of establishment, Gunawan Dianjaya was a subsidiary of the Gunawan Steel Group – a commercial entity comprised of three entities¹..

Following the Asian financial crisis in 1997, the Gunawan Steel Group was taken over by the Indonesian Bank Restructuring Agency (IBRA)². Two of the three entities within the Gunawan Steel group were later acquired from IBRA by other entities³.

Gunawan Dianjaya was publicly listed via Initial Public Offering (IPO) on the Indonesian Stock Exchange in 2009.

3.1.2 Current corporate structure

Since the 2009 IPO, Gunawan Dianjaya has been a public company registered in Indonesia and listed on the Indonesian Stock Exchange. The current shareholder structure of the company reflects that majority ownership is controlled by a foreign registered entity trading as Kellywood Holdings Limited⁴ (51.37%).

The residual primary share-ownership (5% or greater) vests with two separate corporate entities:

- Bavarian Venture Investment Limited (35.94%) and
- PT Jaya Pari Steel Tbk (Jaya Pari Steel) (8.29%)

We understand Bavarian Venture Investment Limited, like Kellywood Holdings, is a foreign owned and operated investment firm who acquired share holdings in Gunawan Dianjaya following the 2009 IPO. Jaya Pari Steel is an Indonesian publicly listed steel company founded in 1973. The company manufactures hot rolled coil and hot rolled steel plate.

Publicly available company information regarding the corporate management of Gunawan Dianjaya and Jaya Pari Steel indicates Gwie Gunawan (director of Gunawan Dianjaya) also holds a senior position within the management of Jaya Pari Steel and controls a share interest of 15.53% in the company. Notwithstanding the connections between the two companies by virtue of the Gunawan families involvement in the management and ownership of both entities, there is no evidence

¹ Gunawan Dian Steel Pipe, Gunawan Dianjaya and Gunawan Iron and Steel.

² Ownership of the company continued to vest with the Gunawan family

³ Gunawan Iron and Steel was acquired by Lion Group

⁴ External research suggests that this entity is an investment company registered in the Virgin Islands

to suggest that Jaya Pari Steel is a legal subsidiary of Gunawan Dianjaya or that there is any formal affiliation between the two entities.

Jaya Pari Steel publicly represents its relationship with Gunawan Dianjaya to be for the purposes of cooperative procurement of competitive steel slab.

3.2 Commercial operations

3.2.1 General

Gunawan Dianjaya is a manufacturer of plate steel. All plate steel produced by the company is produced using purchased steel slab which is hot-rolled to produce plate steel. As such, the company is commercially categorised as a 're-roller' producer of the plate steel. Gunawan Dianjaya's head office is located in Surabaya in Indonesia. The head office is responsible for the administration of one manufacturing facility located on site.

Gunawan Dianjaya produces steel plate products which it categorises in terms of intended end-use application:

- steel plates for structural use;
- steel plates for boilers and pressure vessels; and
- steel plates for ship building.

We understand that the utility of steel plate, in terms of its end-use application, is a product of its metallurgical and physical properties.

Gunawan Dianjaya advised that plate steel exported to Australia is produced in accordance with standards and grades which relevantly fall under the auspices of structural use category of goods. This is discussed in greater detail below.

3.2.2 Plate steel production

Gunawan Dianjaya produces all plate steel for sale in Indonesia and for export markets at its Surabaya facility. The Surabaya facility comprises a single 'four-high' rolling mill⁵ for the hot-rolling (re-rolling) of imported steel slab which is procured by Gunawan Dianjaya from third party suppliers⁶. Plate steel is produced to order according to customer specifications for end-utility and physical dimension.

We understand that the specific utility of the finished plate steel product (and adherence to applicable international standards) is a function of two key aspects of the product:

- the metallurgical properties of the steel used in the production process; and
- the physical dimensions of the finished plate steel.

⁵ Gunawan Dianjaya explained that the reference 'four-high' refers to the four rollers that are used to roll the steel slab.

⁶ The procurement of raw materials is discussed in greater detail in the context of cost verification.

Properties of steel slab

We understand that the metallurgical properties and overall quality of steel are a direct product of the manufacturing process of ironmaking, steelmaking and casting which produces the primary raw material –steel slab. The production of steel slab (which can be further worked into a variety of finished goods such as coil, sheet and steel plate) involves distinct stages involving various metallurgical processes and reactions. Manipulation of specific variables during the production of steel, such as the relative concentration of specific elements, will have direct effects in terms of the metallurgical properties and qualities of the steel slab, which in turn determines the qualities of the finished product.

We understand that steel slab is designated by applicable international standards which, like the standards applied to plate steel, specify the recommended or guaranteed properties of the steel. Gunawan Dianjaya confirmed that the standard of slab used in production dictates the standard to which the finished product adheres.

Physical properties of steel plate

Physical characteristics of the plate steel are a function of the rolling process and are manipulated by Gunawan Dianjaya according to customer specifications. Gunawan Dianjaya advised that certain end-use market segments – such as consumers of ship-building and boiler-making plate will generally procure product with dimensions that are unique to the specific end-use application.

3.2.3 Summary of plate steel production process

Gunawan Dianjaya advised that the production process of plate steel requires a number of stages of production.

The main stages of production as described by Gunawan Dianjaya, and the raw material inputs, outputs and by-products of these stages are relevantly identical to the production process description posited by the applicant⁷.

- **Cutting:** Slabs are moved from inventory to the production line where they are cut to order according to specifications required by the customer.
- **Inspection:** Cut slabs are inspected for impurities and overall quality before production commences.
- **Re-heating:** Slabs are re-heated in a furnace to enable rolling. The temperature to which slabs are heated varies depending on the grade and size of the slab.

⁷ The principle distinction between the operations of Gunawan Dianjaya and the applicant is that Gunawan Dianjaya wholly purchases all raw material used in production, and is not itself a manufacturer of steel slab.

- **De-scaling:** Heated slabs are passed through a process of de-scaling, which removes surface impurities (referred to as 'scale').
- **Roughing and finishing:** Heated and de-scaled slabs are passed through a 'four high reversing' roughing and finishing mill to ensure slabs meet uniform surface standards and reduces the slab to rough plate form;
- **Hot levelling:** Plate is further flattened (according to required specification) through a series of rollers referred to as a 'hot leveller'.
- **Dividing and cooling:** Hot-levelled plate is passed through a dividing shear mechanism which cuts the plate into shorter lengths before being moved to cooling beds where it cools to ambient temperature by natural air.
- **Cutting:** Cooled steel plate is then cut to required sizes. The cutting mechanism used will depend on the thickness of the particular plate – plate with thickness in excess of 15 mm will require flame cutting⁸, whereas plates with a thickness of less than 15 mm are cut by mechanised shearing machines.
- **Stencilling, testing and storage:** Cut steel plate is stencilled (with paint) with production specifics, product branding and identification and a sample from the production run is tested to ensure mechanical quality before the plate is moved from production to storage on-site.

3.2.4 Waste products and non-GUC

Gunawan Dianjaya stated that the production process produces a number of waste products:

- scale;
- plate offcuts;
- waste slab; and
- ungraded plate (finished product which do not satisfy quality standards necessary to be graded to a specific standard).

Gunawan Dianjaya advised that they sell each of the above by-products to various customers in Indonesia. Additionally, Gunawan Dianjaya advised that it also sells a small quantity of steel slab to domestic customers in Indonesia. The identification of these products in the domestic sales data provided by Gunawan Dianjaya is discussed below.

3.2.5 Site visit

Gunawan Dianjaya's production facility is situated adjacent to the head office of the company. Customs and Border Protection undertook a visit of the facility and observed all stages of production process outlined above. Customs and Border Protection observed that Gunawan Dianjaya operates one rolling mill.

⁸ Slab is cut using oxy-acetylene or LPG torches.

3.2.6 Production capacities and actual rates of production

Gunawan Dianjaya confirmed that the total annual throughput capacity of steel slab at its Surabaya facility is [REDACTED] tonnes which in turn yields a potential annual production capacity of [REDACTED] tonnes of plate steel. Gunawan Dianjaya has advised that, during the investigation period, the facility achieved actual production of about [REDACTED] tonnes – about [REDACTED]% production capacity. Of the total volume of plate steel sold by Gunawan Dianjaya during the investigation period, about 70% was sold domestically, 5% was sold to Australia and 25% was sold to third country export markets.

3.3 Accounting

Gunawan Dianjaya indicated that it maintains its accounts and produce financial statements according to the Indonesian General Accounting Procedures. In accordance with common accounting practice in Indonesia, Gunawan Dianjaya use the calendar year as its financial year. Gunawan Dianjaya provided a complete listing of its management accounts (in Indonesian) as an attachment to its exporter questionnaire response.

As a publicly listed company, in accordance with Indonesian corporations law, Gunawan Dianjaya is required to have its accounts audited annually. Gunawan Dianjaya provided audited consolidated financial statements for financial years ending 31 December 2011 and 31 December 2012. The auditor's opinion was expressed in the following terms:

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of PT Gunawan Dianjaya Steel Tbk as of December 31, 2012, December 31, 2011, and January 1, 2011, and the results of its operations and its cash flows for the years ended December 31, 2012 and 2011, respectively, in conformity with Indonesian Financial Accounting Standards.

4	GOODS UNDER CONSIDERATION AND LIKE GOODS
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4.1 The goods

4.1.1 General description

The goods under consideration 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 mm, with a thickness equal to or greater than 4.75 mm, not further worked than hot rolled, not in coils, with or without patterns in relief.

Plate steel for the purposes of the investigation covers products referred to generically as 'hot rolled plate steel', 'plate steel', 'coil plate steel' or 'Q&T green feed'. Goods specifically excluded from the investigation are:

- 250 megapascal (MPa) yield strength grades of plate steel with a thickness greater than 150 mm;
- 350 megapascal (MPa) yield strength grades of plate steel with a thickness greater than 100 mm;
- Q&T green feed grades of plate steel with a thickness greater than 105 mm;
- heat treated Q&T grades of plate steel.

4.1.2 Standards

There are a number of international standards for steel plate that reflect the recommended or guaranteed properties of specific grades. Whilst there is a voluminous array of nomenclature for specific standards, depending on the relevant administrative body to which the standards apply, the designations of different standards, which relate to the same metallurgical and physical specifications of particular steel plate products are comparable. Further information is in Consideration Report No. 198. The information submitted in the application reconciles with Gunawan Dianjaya's submissions regarding like goods.

Gunawan Dianjaya advised that it produced plate steel during the investigation period in conformity to a variety of international standards. The goods produced and exported to Australia during the investigation period were produced in conformity to AS/NZS 3678 grades 250 and 350. The grade nomenclature refers to the relative yield strength of each plate steel product (250 MPa and 350 MPa respectively).

4.2 Tariff classification

The application states that plate steel is classified to the following tariff subheadings:

- 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.

The general rate of duty is currently 5% and the DCS duty rate is free. Imports from Indonesia are subject to the DCS duty rate.

As noted in the application, a number of tariff concession orders apply to plate steel.

4.3 Like Goods

4.3.1 Gunawan Dianjaya product designation

Gunawan Dianjaya manufactures and sells plate steel in compliance with a wide variety of different standards and in an even greater variety of physical dimensions (width, thickness and length). We note that, unlike exported products, plate steel sold into the Indonesian domestic market is designated by unique product codes applied internally by Gunawan Dianjaya. From the data supplied by Gunawan Dianjaya we confirmed that Gunawan Dianjaya produced and sold plate steel domestically in excess of 200 different product codes during the investigation period.

For the purposes of identifying like goods for comparison with exported grades, Gunawan Dianjaya has applied a methodology that is consistent with information in BlueScope's application. This is reflected in the table below.

Exported model	Domestic model
AS/NZS 3678 grade 250	JIS G 3101 SS 400 IS G 3106 SM 400 ASTM A 36
AS/NZS 3678 grade 350	JIS G 3101 SS 490 JIS G 3106 SM 490 YA/YB ASTM A 572 grade 50

The domestic sales spreadsheet provided included all sales, including sales of slab, scale, waste and scrap. Gunawan Dianjaya provided a download of domestic sales that reconciled to the audited accounts. After excluding these items we identified a number of additional domestic product codes which are comparable to either grade 250 or 350. Domestic sales of grades 250 and 350 accounted for about 70% of domestic sales of plate steel. The balance was grades for boilers and pressure vessels, ship-building and grades described as commercial. Gunawan Dianjaya advised that commercial grades did not meet specifications required for other grades.

Gunawan Dianjaya advised it did not charge extra for thickness. We note that all exports to Australia and nearly all domestic sales (99.9%) were within the thickness range of 1.5 to 3.0 mm. During our verification of export and domestic sales there did not appear to be any indication of physical dimension of product affecting selling prices.

We consider that grades 250 and 350 sold domestically during the investigation period have characteristics closely resembling those of the goods exported to Australia.

5 VERIFICATION OF SALES TO FINANCIAL STATEMENTS

As part of its exporter questionnaire response, Gunawan Dianjaya provided a turnover spreadsheet reflecting the total turnover of plate steel during the investigation period. We were able to reconcile the total company turnover to the net sales value for 2012 in the audited financial statements (copies of these documents are at **confidential attachment REC 1**). Note 25 (a copy is at **confidential attachment REC 2**) of the financial statements identified:

- domestic sales of plate steel;
- export sales of plate steel;
- waste;
- slab; and
- sales returns.

The turnover spreadsheet identified sales of:

- domestic sales of steel plate;
- domestic sales of waste slab;
- domestic sales of slab;
- exports of plate steel to Australia; and
- exports of plate steel to other countries

Gunawan Dianjaya provided a monthly summary of sales by the categories in note 25 (**confidential attachment REC 3**) that identifies the quantity and value of sales for each category. The monthly summary identifies the value of export sales in both US dollars and Indonesian rupiah. We noted that all sales returns related to domestic sales and that the total sales value in the monthly summary reconciles to the turnover spreadsheet and the audited financial statements.

We sought to verify Australian and third country sales provided in the exporter questionnaire response to export sales in the audited financial statements. We noted that the Australian and third country sales data provided reflected invoiced sales value on a line by line basis expressed in invoiced currency (US dollars). Gunawan Dianjaya advised that all export sales are recorded in the company's accounts, and reflected in the financial statements and annual report, in Indonesian rupiah, using the published exchange rate of the Bank of Indonesia applicable at the date of customs clearance of the goods (which, for export sales, is listed as the date of sale). We reconciled the quantity and value (in US dollars) of Australian and third country sales to the monthly summary. The value of export sales in the Australian sales and third country sales spreadsheets (in US dollars) reconciles to the monthly summary.

Using data from the Australian sales and turnover spreadsheets, the average USD:IDR exchange rate for 2012 was [REDACTED]. The average rate from a foreign exchange website was 9,339. We are satisfied that Australian and third country sales provided in the exporter questionnaire response reconcile to export sales in the audited financial statements.

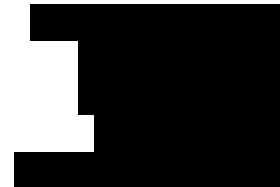
We then sought to reconcile domestic sales provided in the exporter questionnaire response to domestic sales in the audited financial statements. Domestic sales from note 25 are summarised below:

domestic sales of plate steel (less sales returns)	
waste	
slab	
total	



This compares with domestic sales from the domestic sales spreadsheet of IDR 1,230,517,779,060. Gunawan Dianjaya advised that the domestic sales spreadsheet included all domestic sales, including sales of scale and scrap. It advised that revenue from these sales is included in other income. Our reconciliation is summarised below:

domestic sales from spreadsheet	
sales of scale (from note 27)	
sales of slab (from note 27)	
slab used internally (from note 26)	
total	



A copy of note 26 is at confidential attachment REC 2 and a copy of note 27 is at **confidential attachment REC 4**.

Gunawan Dianjaya advised that slab used internally was plate used for maintenance. We are satisfied that domestic sales provided in the exporter questionnaire response reconcile to domestic sales in the audited financial statements. Gunawan Dianjaya provided a download of all domestic sales and we were able to reconcile domestic sales of plate steel to the audited financial statements.

We are satisfied that the sales data provided in the exporter questionnaire response is complete and accurate.

6 SALES TO AUSTRALIA

6.1 General

6.1.1 Export sales channels

During the investigation period Gunawan Dianjaya exported about [REDACTED] tonnes of plate steel to one Australian company, [REDACTED]. [REDACTED] is a subsidiary of [REDACTED], a privately owned company founded in [REDACTED] in [REDACTED]. [REDACTED] has a significant multinational operation network with affiliated subsidiaries in over 45 countries. Gunawan Dianjaya confirmed that all sales to [REDACTED] are directly exported by Gunawan Dianjaya – that is, no related or unrelated intermediary export agents or traders are involved in the transactions.

Gunawan Dianjaya indicated that [REDACTED] operate at the wholesale level of trade and acts as the intermediary purchasing agent for a wide network of Australian retailers and end-users. It advised that due to the relative irregularity of shipping schedules from Indonesia to Australia it is only financially viable to export large quantity shipments and, as such, it is not feasible for Gunawan Dianjaya to sell directly to Australian end-users. Gunawan Dianjaya advised that it has no contact with any of [REDACTED] downstream Australian customers or any other end-users in Australia. As such, the company has limited knowledge of the primary market sectors in Australia into which exported goods are sold. In general terms, Gunawan Dianjaya confirmed that 250 and 350 grade plate steel are generic structural grades and would typically be procured for general structural uses in the downstream market.

6.2 Export sales process

Gunawan Dianjaya advised that its export sales process is standardised for all exports made to [REDACTED]. We confirmed the following summary is representative of these processes.

- [REDACTED] independently negotiates and confirms order requirements from third party customers in Australia and contacts Gunawan Dianjaya with the specifics of the order requirement.
- Gunawan Dianjaya negotiates directly with [REDACTED] to establish formal supply contracts in relation to order requirements advised by [REDACTED].
- The contract functions as a head of agreement under which multiple consignments are shipped – as such the total volume of supply negotiated under formal sales contracts will be exported in composite shipments by Gunawan Dianjaya, to various Australian ports, over a specified period.
- Once negotiated and executed by the parties, the terms of the agreement crystallizes specific terms relating to;
 - the specifications of the goods (standard, grade and specifications);
 - the total quantity of supply under the agreement;
 - Individual quantity by product and total quantity per shipment;

- the unit price applied for each grade of good ordered (expressed in USD); and
- the period of shipment.
- Export sales terms are standardised as free-on-boat Jakarta port.
- Payment for the agreed price per contract is required by irrevocable letter of credit, payable at sight, for the full contract value, which is required be opened by [REDACTED] offering bank within five working days of the contract being executed by the parties.
- Products are manufactured to order depending on the product specifications ordered and the volumes required.
- Gunawan Dianjaya then arranges transportation from the warehouse in Surabaya to the port of export in Jakarta using trucks supplied by third-party freight providers.
- The goods are shipped 'bare and loose'.
- Beneficial legal ownership of the product passes from Gunawan Dianjaya to [REDACTED] once the goods cross the guardrail of the vessel of export at the port in Jakarta⁹.

6.3 Pricing

Price is set at the time the contract is established (subject to mutually agreed subsequent variation) as a unit price per tonne for each grade. This grade-based unit price is applied per consignment according to the total volume of each specific grade therein. Gunawan Dianjaya stated that it does not have a price list for export sales. Unit prices applied to the supply contracts are uniform for all consignments made under the applicable contract and are applied to each consignment according to grade, notwithstanding specific differences in physical dimensions of the grade ordered.

Grade-based unit price is negotiated taking into account a number of prevailing market conditions at the time of negotiation including commodity prices of the primary raw material (steel slab) and patterns of supply and demand for finished plate steel. Gunawan Dianjaya submit that there is a relatively significant cost variance between 250 and 350 grade slab which is reflected in a correlative difference in selling price between the two grades of plate steel. Based on the sales data provided we confirmed that, the weighted average selling price of grade 350 was [REDACTED] per tonne ([REDACTED]%) greater than the weighted average selling price of grade 250.

Gunawan Dianjaya stated in its response that it does not provide its Australian customers with discounts, rebates or allowances and that the price on the invoice is the price paid. We found no evidence to indicate that this was not the case.

⁹ We note that whilst [REDACTED] attains beneficial ownership at the point of FOB, Gunawan Dianjaya confirmed that [REDACTED] does not, at any time, retain physical custody of the goods. We understand that goods are shipped to the Australian port for delivery directly to [REDACTED] customers, pursuant to commercial terms of sale unknown to Gunawan Dianjaya.

6.4 Verification to source documents

Prior to the visit, we selected six export transactions from the Australian sales spreadsheet for verification. These transactions represented about 13% of the volume of exports to Australia during the investigation period. We requested that Gunawan Dianjaya provide the following commercial documents in relation to each selected transactions:

- copy of the relevant contract executed between Gunawan Dianjaya and [REDACTED];
- commercial invoice from Gunawan Dianjaya to [REDACTED] relating to the sampled sale including identification of relevant product serial numbers;
- documentation relating to inland transport (logistics) to wharf;
- handling and other FOB-related charges;
- bill of lading; and
- proof of payment.

These documents were provided and are at **confidential attachment EXP 1**.

We reconciled the sales volume and values of each selected transaction using the commercial invoices and packing lists provided during the verification visit to the export sales spreadsheet. There were no discrepancies identified in relation to sales volume or value.

Sales contracts between Gunawan Dianjaya and [REDACTED] established the relevant terms of identifying the terms and substantive details of goods to be supplied. As such, export sales are identifiable by invoice number and by contract number. For each sampled invoice we requested, and were provided with, the relevant head of agreement under which the consignment to [REDACTED] was executed. In each instance we were able to identify the invoice (by product specification, volume and value) within the shipments specified within the contract (identified by 'shipping marks'). We were also able to reconcile the invoice value of individual transactions reflected in the sales listings (by invoice number) to the line value reflected in commercial invoices provided by Gunawan Dianjaya to [REDACTED].

Under the terms of the contractual agreements, payment between [REDACTED] and Gunawan Dianjaya was made by irrevocable letter of credit, in US dollars. Each commercial invoice issued by Gunawan Dianjaya to [REDACTED] reflected the relevant identifying number of the letter of credit applicable to the relevant supply contract. During the verification visit Gunawan Dianjaya was able to provide sufficient supporting documentation of proof-of-payment, in relation to all selected shipments by providing the relevant credit advices provided by the offering bank to its receiving bank.

On this basis we are satisfied that the invoice price shown in the Australian sales spreadsheet is reflective of value of individual transactions, which comprise the total contract price paid by the relevant customer.

6.4.1 Export costs and charges

Ocean freight

The export sales spreadsheet provided by Gunawan Dianjaya reflects that all export sales to Australia during the investigation period were made on FOB terms. This was supported by contractual source documentation which clearly stated FOB terms for all sampled shipments. As such, no costs for ocean freight and marine insurance were included in the sales price invoiced to [REDACTED].

Inland freight

Gunawan Dianjaya advised that it utilises an unaffiliated logistics company to transport the goods from the Surabaya factory to the port of export in Jakarta. Freight charges are invoiced by the supplier requesting payment in relation to number of transport consignments. Transport is invoiced on the basis of unit charges (by kilogram) applied by the freight provider. Transport costs have been allocated in the sales spreadsheet using the applicable unit charge specified in the relevant transport invoice.

For each sales package Gunawan Dianjaya provided the invoice provided by the logistics company which covered the relevant consignment within which the goods were transported for export, the relevant delivery slips which comprise the invoice and proof of payment of the total transport invoice reflected in internal account fund movement confirmation.

Gunawan Dianjaya advised that the freight provider submits a delivery slip for each truck as confirmation of delivery, and that that transport consignments per truck can comprise a variety of different products which relate to different invoiced transactions. As such, it is not possible to correlate specific transport consignments to specific invoices. However, we confirmed that, for each invoice (and associated production order) Gunawan Dianjaya internally allocates an identifying Inter Office Memo (IOM) number which is used as an identifier in relation to associated export expenses relating to each invoice including inland transport and is recorded on delivery slips provided by the provider.

For each sampled sale, we were able to identify that the delivery slips provided related to the relevant sale using the IOM number as the key reference. We confirmed the total quantity of delivered goods reflected in the slips reconciled to the total quantity of plate steel for the sampled sale as reflected in the sales listing. On this basis we were satisfied that Gunawan Dianjaya had correctly identified the relevant transport payment which related to the exported consignment and had applied to appropriate unit charge in preparing the sales listing.

Handling and other

Handling charges reflecting port logistics from the point of arrival at the wharf to the point of FOB were provided by an unrelated third party and invoiced directly to Gunawan Dianjaya. We requested and were provided, source commercial invoices as part of the sample sales packages prepared by Gunawan Dianjaya. We were

able to reconcile the invoiced value of logistics services in relation to the relevant consignments covered by the invoice to the total cost amount allocated in the sales listing. Proof of payment of the invoiced value by Gunawan Dianjaya to the provider was also provided.

We noted that freight and handling charges were allocated per invoice. This information has been summarised to derive a total charge per invoice for each cost item, from which a weighted average unit price (based on the total volume for each invoice) has been determined. Customs and Border Protection has then allocated this unit price to composite products within the invoiced group on a line by line basis.

'Other costs' and 'other charges'

Gunawan Dianjaya advised that payments by letters of credit accrue charges associated with the transaction between the offering and receiving banks. Specifically, we confirmed that charges apply to the initial establishment and receipt of the letter of credit, and in relation to the actual movement of funds for payment. Gunawan Dianjaya advised that these costs were reflected in the sales listing per invoice as to 'other costs' and 'other charges' respectively.

For each sales sample we were able to identify the 'agent cost' charged by the receiving bank on the payment notification provided to Gunawan Dianjaya by its bank, and reconcile this amount with the 'other charges' allocated in the sales listing for the relevant invoice. Gunawan Dianjaya was also able to provide sufficient source documentation to substantiate the apportionment of 'other costs' associated with the establishment of letter of credit transactions at the visit for a selected order number.

Like transport and handling other costs and charges were both allocated in the Australian sales spreadsheet as total values applicable by invoice number. Customs and Border Protection applied the methodology described above to derive a weighted average unit price for each cost item for each invoice number, which was then allocated to determine a total cost on a line-by-line basis.

Packing

Gunawan Dianjaya advised that all steel plate products exported to Australia are physically marked with a product marking which identifies, inter alia;

- that the goods are manufactured by Gunawan Dianjaya;
- that the goods are manufactured in Indonesia;
- the physical specifications of the plate; and
- the applicable standard to which the plate accords.

Gunawan Dianjaya advised that, aside from physical marking (the cost of which is comprised in the cost to make the goods), the goods are packed for transport from Surabaya to Jakarta 'bare and loose'. Gunawan Dianjaya advised that packing costs comprise labour costs associated with loading and securing the plate onto the transport trucks.

Gunawan Dianjaya advised that packing is identical for domestic and exported goods and, as such, packing costs are identical for both domestic and export sales. As such, no adjustment for packing costs is claimed, or is warranted. We note that Gunawan Dianjaya has allocated packing costs in the domestic sales listing, but has incorrectly omitted allocation of such costs in the export sales listing. As no adjustment for packing is claimed, we were satisfied that the failure to allocate export packing cost was not material to the verification.

6.5 The exporter

For all export sales during the investigation period, we consider Gunawan Dianjaya to be the exporter of GUC because it:

- is the manufacturer of the goods;
- owned the goods at the time prior to export;
- is listed as the supplier on the bill of lading;
- invoices the importer for the goods directly;
- arranges and pays inland transport costs from the place of manufacture to port of export;
- arranges and pays for associated handling costs and other export expenses incurred in moving the goods to the FOB point at the port of export;
- 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 importer.

6.6 The importer

We noted that Gunawan Dianjaya's Australian customer, [REDACTED]:

- negotiates directly with Gunawan Dianjaya for the supply of goods and enters binding legal contracts pursuant to negotiated terms;
- is named as the consignee on the bill of lading; and
- become the beneficial legal owner of the goods once the goods have cleared FOB point in Jakarta

We consider that [REDACTED] are the beneficial owners of the goods at the time of importation and are therefore the importer of plate steel exported by Gunawan Dianjaya during the investigation period.

6.7 Arms' length

In determining export prices and normal values, the legislation requires that the relevant sales are arms' length transactions. Section 269TAA¹⁰ outlines the circumstances in which the price paid or payable shall not be treated as arms' length. These are where:

- there is any consideration payable for in respect of the goods other than 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
- in the opinion of the Minister, the buyer, or an associate of the buyer, will, 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.

6.7.1 Reciprocal supply relationship between importer and exporter

We note the raw material purchase data provided by Gunawan Dianjaya reflects that all steel slab purchased during the investigation period was supplied from unrelated third party manufacturers, facilitated by [REDACTED]. We queried whether the supply of raw material to the manufacturer by an entity for the purposes of manufacturing the finished good ultimately purchased from the manufacturer by that same entity would have an impact on the commercial terms of sale, including price, in relation to the supply of the raw material such that it could be seen to indicate that consideration is being paid by the buyer, other than price of the finished goods.

Gunawan Dianjaya submitted that there was a distinction between [REDACTED], who facilitated the supply of steel slab, and [REDACTED], to whom the plate steel was sold. This was supported by raw material purchase source documents collected for the purposes of cost verification. We are satisfied, on the basis of available evidence, that [REDACTED] and [REDACTED] are separate entities. As such we are satisfied that the raw material was facilitated from an entity whose commercial operations are distinctly separate from the Australian importer.

For completeness, however we examined the weighted average purchase price of steel slab provided to Gunawan Dianjaya by [REDACTED] during the investigation period delineated by month, and country of origin. We then compared these weighted averages to corresponding monthly weighted average purchase price of steel slab in relation to raw material procurements undertaken by an unrelated Indonesian exporter of plate steel who sourced steel slab from a variety of parties other than [REDACTED] during the investigation period.

¹⁰ All references in this report to sections of legislation, unless otherwise specified, are to the *Customs Act 1901*.

Across the months of the investigation period in which corresponding purchase data of steel slab from the same country of origin was available, we identified an inconsistent trend in price difference between steel slab provided by [REDACTED] and steel slab provided to other manufacturers by unrelated suppliers. On the available evidence, we cannot conclude that [REDACTED] price charged to Gunawan Dianjaya for steel slab from particular origins of manufacture was consistently, and significantly, higher or lower than the comparative price charged by other suppliers to the particular steel manufacturer in Indonesia used as the comparative benchmark.

For completeness we also compared average prices as a total weighted average of steel slab from all countries of origin across the months of the investigation period in which [REDACTED] provided steel slab to Gunawan Dianjaya. Again, the data does not display any consistent pattern of price difference, nor any significant variance in purchase price, either positively or negatively, between [REDACTED] prices and the comparative sales data.

6.7.2 Conclusion

On the basis of the above analysis, we found no evidence to suggest that the prices for the primary raw material negotiated between Gunawan Dianjaya and [REDACTED] were influenced by any relationship or arrangement, commercial or otherwise during the investigation period. On the available evidence, we are satisfied that the reciprocal supply relationship between the two parties does not appear to influence the purchase price of the primary raw material and, as such, there is no basis upon which to intimate that any consideration, compensation or other benefit passes between Gunawan Dianjaya and [REDACTED] in relation to the finished goods other than the price negotiated, reflected in executed sales contracts.

6.8 Export price preliminary assessment

In the case of all export sales to Australia by Gunawan Dianjaya, 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 arms' length transactions.

Therefore, we consider that the export price for direct export sales from Gunawan Dianjaya can be established under section 269TAB(1)(a) using the invoiced price less amounts for ocean freight and/or marine insurance as appropriate.

Export price calculations are included at **confidential appendix 1**.

7 COST TO MAKE & SELL

7.1 Introduction

Gunawan Dianjaya uses actual production costs in its accounting system as opposed to standard costs. It advised that it utilises a cost accounting system specifically created for the company's purposes. Gunawan Dianjaya advised that this system is not overly sophisticated.

Gunawan Dianjaya advised that all stages of the plate steel manufacturing process undertaken at the facility in Surabaya (from steel slab purchase through to delivery of finished plate) as a single cost centre.

7.2 Cost to make and sell

Gunawan Dianjaya provided CTMS spread sheets delineated as follows:

- total CTMS (plate steel, waste and steel slab);
- domestic CTMS (plate steel only);
- export CTMS;
- Australian CTMS; and
- waste slab CTMS.

Gunawan Dianjaya advised that it was company policy to value the cost of waste slab at [REDACTED] per kilogram. We accepted this valuation as an alternative valuation would have no material effect on the calculation of the CTMS.

The CTMS spreadsheet provided data relating to the major costs to make each product by quarter. The CTMS sheet listed the following data for each quarter of the investigation period:

- material cost – steel slab;
- direct labour;
- manufacturing overheads;
- other manufacturing costs;
- selling costs;
- administration costs;
- financial costs;
- delivery expenses;
- other costs; and
- total sales volume.

The total sum of the above costs was calculated for each quarter. The unit CTMS was calculated by dividing total costs by the sales volume. We pointed out that the unit CTMS was calculated by dividing production cost by sales volume. Gunawan Dianjaya agreed that this was incorrect but stated that this was the information requested in the exporter questionnaire response.

Gunawan Dianjaya provided a monthly statement of income identifying all revenues, costs, gross profit and production volumes for each month and quarter of the investigation period (**confidential attachment CTMS 1**). We recalculated the CTMS data by dividing production costs by production volumes and selling, general and administrative (SG&A) expenses by sales volumes. We used the total production costs in the original CTMS spreadsheets, deducted the cost of producing waste slab using the standard rate and calculated a unit cost of producing plate steel. We then transferred this unit cost of production to the export and domestic CTMS spreadsheets. Amended CTMS spreadsheets are at **confidential attachment CTMS 2**.

7.3 Cost of production

7.3.1 Reconciliation to financial statements

We asked Gunawan Dianjaya to demonstrate how the production costs reported in the CTMS spreadsheets reconciled to the financial statements. As a caveat to verification, Gunawan Dianjaya explained that, in accordance with Indonesian accounting standards, the audited financial statements for 2012 were presented on the basis of cost of goods sold (COGS), whereas CTMS data was presented on the basis of cost of production.

We reconciled the following costs (all products) in the CTMS spreadsheets to the monthly statement of income and to note 26 (COGS) to the audited financial statements:

- material costs - steel slab and other costs;
- direct labour; and
- manufacturing overheads.

The material costs represent the cost of raw material (steel slab) and other costs represent the cost of reproduction of waste plate to steel slab. The cost of goods manufactured in the CTMS spreadsheets reconciles to the COGS in the audited accounts after the following adjustments (refer to note 26):

- plus beginning inventory of finished plate and waste;
- less reproduction; less plate used for production;
- less ending inventory of finished plate and waste; and
- plus the cost steel slab sold.

We are satisfied that the cost of production reflected in the total CTMS spreadsheet reconciled to the monthly statement of income for 2012, which in turn reconciled with the audited accounts for the period.

We were also able to reconcile the quarterly unit cost of production in the plate steel CTMS spreadsheet to the average cost of production in the monthly statement of income for 2012. We are satisfied that the cost of production in the plate steel CTMS spreadsheet reconciles to the monthly statement of income.

7.3.2 Verification of cost of production

We asked Gunawan Dianjaya to demonstrate how the cost of production of plate steel was derived from its cost accounting system. Gunawan Dianjaya confirmed that the cost of production of plate steel was delineated by four cost items in descending order of significance relative to the total cost of production:

- material costs ;
- manufacturing overheads;
- direct labour; and
- other costs.

We confirmed that material costs – the purchase of steel slab – was the most significant cost item representing over 90% of the total cost of production.

Gunawan Dianjaya advised that the Surabaya facility is represented in its cost accounting system as a single cost centre that captures the total actual costs of production of all plate steel products. Gunawan Dianjaya confirmed that costs are not allocated or otherwise delineated by product code or grade.

Gunawan Dianjaya provided a production ledger monthly summary for 2012 (**confidential attachment CTMS 3**) and we calculated the quarterly totals of:

- production quantities; and
- production costs as itemised above.

We reconciled the total production volumes in the production ledger to the production quantity reflected in the CTMS spreadsheets for each quarter. We were also able to reconcile the quarterly production cost of each cost item to the total CTMS spreadsheet.

As a result of the above, we are satisfied that Gunawan Dianjaya's production and costing systems accurately capture the quantities and costs associated with the production of plate steel and that these are accurately reported in the CTMS spreadsheets provided with the exporter questionnaire response.

Steel slab

We selected the cost of steel slab as this is the most significant cost element in the production of plate steel. Gunawan Dianjaya sourced steel slab from three countries:

- [REDACTED] (30%);
- [REDACTED] (10%); and
- [REDACTED] (60%).

Gunawan Dianjaya provided a monthly summary of its steel slab raw material inventory ledger (**confidential attachment CTMS 4**). This ledger identified:

- steel slab purchases;

- steel slab ready for use;
- steel slab used in production;
- steel slab to sales;
- an audit correction; and
- ending inventory balance.

The audit adjustment was 67 kilograms at the weighted average December inventory value and we did not pursue further.

We verified that:

- the value of steel slab used in production in the inventory account matched the raw material used in the production ledger;
- steel slab used in production was the weighted average value of steel slab ready for use (opening inventory plus purchase); and
- steel slab sold was also values at the weighted average value of steel slab ready for uses.

We sought to verify steel slab purchases in May and November. Gunawan Dianjaya provided supporting documents to verify all costs associated with steel slab purchases, including:

- survey charges;
- stevedoring fees;
- trucking charges;
- customs charges;
- insurance; and
- raw material purchases.

These documents are at **confidential attachments CTMS 5 and 6**. Supporting source documentation included commercial invoices, delivery slips and proof of payment.

To demonstrate the accuracy of the purchase amounts Gunawan Dianjaya provided the relevant purchase documents for the selected entry including invoice, bill of lading and certificate of analysis

Following review of the above documents we are satisfied that the quantity and value of steel slab reported in Gunawan Dianjaya's financial system is accurate.

Manufacturing overheads

As noted above raw material costs represented the significant majority of Gunawan Dianjaya's total cost to make plate steel during the investigation period. For completeness, during the visit we selected the next most significant cost item (manufacturing overheads) for verification. We verified the total value of manufacturing overheads reflected in the total CTMS spreadsheet manufacturing overheads in note 26 in the 2012 audited accounts.

Detailed manufacturing overheads are also identified in the monthly statement of income and includes items such as electricity, gas, maintenance, depreciation and indirect labour. We selected depreciation costs for closer verification and sighted source documentation in the form of internal ledgers and internal accounting slips. Note 3 to the financial statements states that that depreciation periods are calculated in accordance with local accounting requirements and appear reasonable for our purposes.

We are satisfied that the allocation of total manufacturing overheads is complete and accurate.

7.4 Selling, general and administration (SG&A) expenses

Gunawan Dianjaya categorised total SG&A expenses as follows:

- selling costs;
- administration costs;
- financial costs;
- delivery expenses; and
- other costs.

We reconciled SG&A expenses from the total CTMS expenses to the 2012 audited accounts. Selling expenses in the audited accounts include selling expenses and delivery charges and other income less other expenses equals other costs. The monthly statement of income identifies detailed SG&A expenses.

All SG&A expenses were allocated to plate steel and, except for delivery costs, all SG&A expenses were allocated equally to domestic and export sales using the average rate per sales tonne.

The monthly statement of income identifies total selling expenses, including delivery expenses. It separately identifies export and domestic delivery expenses. Gunawan Dianjaya allocated domestic and export selling expenses to the domestic and export CTMS spreadsheets respectively and all other selling expenses were allocated equally to domestic and export sales using the average rate per sales tonne.

We consider that the allocations by Gunawan Dianjaya are reasonable.

7.4.1 Cost to make and sell by grade

As noted above, Gunawan Dianjaya presented CTMS data on the basis of total production of all grades and physical dimensions on a quarterly basis during the investigation period. The exporter questionnaire requested separate costing for individual grades if there are meaningful differences in the costs of producing those different grades. Gunawan Dianjaya advised that there are no meaningful differences in costs between different grades and specifications of plate steel.

However, during the verification we noted, and Gunawan Dianjaya confirmed, that there is a different steel slab used to produce grade 250 and grade 350 plate steel. From the raw material purchase data provided, Customs and Border Protection

determined that the average cost differential between steel slab was roughly [REDACTED] per tonne. We converted this margin to Indonesian rupiah for each of the quarters of the investigation period (this compared with a [REDACTED] premium charged for exports of grade 350 plate steel).

We adjusted the verified quarterly and annual CTMS data by deducting half the margin in steel slab prices to estimate the CTMS grade 250 plate steel and added half the margin to estimate the CTMS grade 350 plate steel.

7.5 Cost to make and sell – summary

We are satisfied that sufficient information was available and verified to substantiate the CTMS plate steel by Gunawan Dianjaya. We consider the CTMS data is suitable for:

- assessing whether domestic sales were sold in the ordinary course of trade; and
- determining a constructed normal value where applicable.

The final CTMS worksheets are at **confidential appendix 2**.

8 DOMESTIC SALES

8.1 Market

As discussed previously, both grades of plate steel exported to Australia are generic structural grades. In comparison, Gunawan Dianjaya produces and sells plate steel into the Indonesian domestic market graded for structural use as well as boiler and pressure vessels and shipbuilding. We confirmed that plate steel produced in accordance with grades suited for boiler making and shipbuilding are significantly different to exported grades 350 and 250.

Gunawan Dianjaya advised that the Indonesian domestic market for structural grades equivalent to 250 and 350 grade plate steel, in comparison to the Australian export market, is more complex with respect to different market segments and levels of trade which in turn enables the company to adopt more nuanced corporate pricing strategies.

8.2 Preliminary issues

8.2.1 Clarification of date of sale

At the visit Gunawan Dianjaya advised that a clerical error in compiling the domestic sales data provided as part of the exporter questionnaire response resulted in an incorrect date format that caused some sales to reflect an incorrect date of sale. Gunawan Dianjaya provided a download of all domestic sales and we were able to amend the domestic sales spreadsheet to reflect the correct date of sale. We are satisfied that the amended listing reflects the correct date of sale for all domestic sales.

8.2.2 Reconciliation of domestic product codes

In its exporter questionnaire response Gunawan Dianjaya supplied a domestic sales spreadsheet that included line by line information relating to all sales made between Gunawan Dianjaya and its customers in Indonesia. As noted in section 5, we were able to reconcile domestic sales of plate steel and non-plate products (scale, scrap, waste and slab) to the audited financial statements.

We noted that whilst some product code nomenclature presented in the data reconciled with recognisable international standards and grades, a large proportion of sales of 'un-like' products are delineated with indecipherable product codes. We sought to confirm the methodology by which Gunawan Dianjaya delineated domestic sales by product code for the purposes of presenting the domestic sales data and to clarify whether any product codes related to sales of goods which were not structural grades of plate steel.

We worked through the domestic sales listing with Gunawan Dianjaya to clarify which domestic product codes correlated to the various grades of plate steel. Following this methodology we were able to identify all domestic sales as either:

- equivalent to grades 250 or 350;
- shipbuilding or boiler plate; or
- commercial grade - plate steel which did not confirm to relevant standards and was sold un-graded.

As noted in section 4, domestic sales of grades 250 and 350 accounted for about 70% of domestic sales of plate steel. We are satisfied that the identification of domestic products was reliable for the purposes of closer verification.

8.2.3 Level of trade

Gunawan Dianjaya advised that the pricing strategy in relation to the domestic market is significantly different to the strategy adopted in relation to its sales to [REDACTED]. Specifically, Gunawan Dianjaya advised that product pricing in the domestic market is influenced by two variables:

- the grade ordered; and
- size of the account of the domestic customer.

Gunawan Dianjaya sells plate steel to a variety of domestic customers summarily categorised as either stockists or end users. It submitted that it employs a specific pricing strategy whereby more favourable prices are offered to customers on the basis of the quantity ordered. Gunawan Dianjaya advised that sales of grade 250 plate steel were predominately to stockists, with whom it has pre-existing relationships of regular supply of larger quantities of product.

Gunawan Dianjaya submitted that such price dynamics do not exist in relation to its sales into the Australian market given that it sells product to one customer in Australia at the wholesale level of trade. It considers that wholesalers do not hold stock and purchase product on behalf of its customers, which include stockists. Gunawan Dianjaya stated that it does not sell to wholesalers in the domestic market. It claims that export sales of grade 250 plate steel should be compared with domestic sales to its four largest stockists:

- [REDACTED];
- [REDACTED];
- [REDACTED]; and
- [REDACTED].

We note that these customers accounted for almost 60% of domestic sales of grade 250 plate steel. We have used domestic sales of grade 250 plate steel to these customers to compare with export sales of grade 250 plate steel.

Gunawan Dianjaya stated that grade 350 plate steel was not a stocked item. The domestic sales data indicated that only 150 tonnes of 350 grade plate steel were sold to the above stockists. Gunawan Dianjaya submitted that domestic sales to one customer, described as a civil engineering construction company, were most suitable to compare to export sales. We noted that there were two other large domestic customers for grade 350 plate steel. Gunawan Dianjaya stated that one was a

bridge builder and another was a construction company. We asked Gunawan Dianjaya why sales to these customers should not be used to establish normal values. Gunawan Dianjaya subsequently advised that there is no difference between these customers and we have used weighted average selling prices to these three customers to establish normal values for grade 350 plate steel.

8.2.4 Price adjustment

Gunawan Dianjaya advised that domestic products equivalent to exported grade 350 are sold in the domestic market with a significant price premium relative to sales of product equivalent to grade 250. It advised that there is a price difference between grade 350 and grade 250 grade plate steel in both the Australian and domestic market. However, Gunawan Dianjaya submitted that a significant price premium is achievable in the domestic market in Indonesia due to the limited source of supply for products equivalent to export grade 350 in the Indonesian market.

Gunawan Dianjaya submits that the same degree of price premium is not achievable in the Australian market due to the availability of 350 graded product. On the basis of the domestic sales data provided, domestic product equivalent to grade 350 was sold during the investigation period at a premium of about [REDACTED] per kilogram ([REDACTED] per tonne) above product equivalent to grade 250. For export sales the premium was [REDACTED] per tonne. Gunawan Dianjaya submitted that this price differential should be an adjustment under s. 269TAC(8)(c).

We have compared domestic sales to the most comparable customer to [REDACTED] and do not consider that a further adjustment is warranted.

8.2.5 Credit terms

Gunawan Dianjaya advised that all domestic sales are made on a delivered basis with payment terms of 30 to 60 days. The domestic sales data provided did not identify credit terms on a line by line basis or by customer. Gunawan Dianjaya calculated turnover ratios for comparable customers using the value of sales and debtors value at December 2011 and 2012. It used the average Bank Indonesia commercial lending rate for the investigation period.

We verified the calculations of credit terms and consider that the approach is reasonable.

8.2.6 Submission

Gunawan Dianjaya made a submission discussing these preliminary issues is at **confidential attachment DOM 1**.

8.3 Ordering

Gunawan Dianjaya described its domestic sales process as follows.

- All orders are placed with Gunawan Dianjaya by customers in Indonesia either directly or through an agent, specifying the specification – standard, grade and physical dimensions - quantities required and order period.
- Price is negotiated on a per order basis between Gunawan Dianjaya and the customer, taking into account the prevailing market circumstances with respect to the particular grade ordered and volume of the order.
- Pursuant to the negotiated terms, a formal sales contract is executed by the parties. In some cases ■% down payment required as a pre-condition for production to commence.
- An Inter-Office Memorandum (IOM) is prepared which provides, inter alia, production instructions for the order.
- The production order is manufactured to order and packed, bare and loose, for delivery to the customer's warehouse.
- Freight from the warehouse at Surabaya to the customer is provided by unrelated third party providers.
- Gunawan Dianjaya invoices the customer following delivering - payment from the customer is required within 30 to 60 days from the date of invoice.

Gunawan Dianjaya does not have price lists or standard pricing agreements in place with any of its domestic customers. Price is negotiated on a per order basis. As discussed above, price negotiation takes into account the product grade ordered and the volume of the order or the size of the account of the particular customer. Gunawan Dianjaya advised that, like export sales pricing, domestic market prices are influenced by market intelligence regarding the prevailing obtainable price of steel plate which is in turn influenced by raw material prices and demand/supply dynamics.

Gunawan Dianjaya confirmed that it does not provide rebates, discounts or any practice of allowances or incentives to domestic customers. As a caveat to the above, we note that Gunawan Dianjaya does apply a refund policy in the domestic market in relation to goods returned by domestic customers, pursuant to which credited amounts are allocated to the account of the relevant customer. We note, however, that no such refund credits were allocated during the investigation.

8.4 Verification to source documents

Gunawan Dianjaya supplied a complete listing of its domestic sales which reflected line by line information relating to sales made between Gunawan Dianjaya and its customers in Indonesia. The spreadsheet includes information relating, inter alia, to:

- customer;
- product code
- specification (actual thickness, width, and length) ;
- order number, invoice number, date of invoice and date of sale;
- payment terms and delivery terms;
- sales quantity (in units – designated in kilograms);
- gross and net invoice values (expressed in Indonesian RP);and
- various domestic charges and costs (IDR)

The sales listing reflects line-by-line data relating to over 13,000 transactions, which comprise sales of a total cohort of over 290 product codes representing a total volume of [REDACTED] tonnes. As discussed previously, at the visit we consulted with Gunawan Dianjaya in order to identify the category of goods to which each domestic product code related.

Prior to the visit, we requested that Gunawan Dianjaya provide supporting documents relating to 13 selected domestic sales transactions. We requested, and Gunawan Dianjaya provided, the following documents for each of the selected transactions:

- sales agreement/product order between Gunawan Dianjaya and the relevant customer;
- commercial invoice from Gunawan Dianjaya to the domestic customer;
- source details of associated domestic costs and charges; and
- proof of payment made by domestic customer to Gunawan Dianjaya.

These documents are at **confidential attachment DOM 2**.

From the selected sales transactions we verified details from the domestic sales spreadsheet to the commercial documents provided. We were able to confirm that the sales volume and value entered into the spreadsheet for all selected sales reflected the volume and value in the source documents.

Two selected invoices were allocated with product codes that did not fall within the like goods code matrix provided by Gunawan Dianjaya. Following confirmation of the product code nomenclature used in the domestic sales listing provided, we were able to identify these selected transactions as sales of slab waste and scale, respectively.

We confirmed that Gunawan Dianjaya typically requires complete payment of total invoice value 30 to 60 days after the date of issue of the commercial invoice to its domestic customers. In some instances, Gunawan Dianjaya requires initial down payment to secure production (around [REDACTED]% of invoice value), and payment of residual invoice value 30 to 60 days after the date of invoice.

As part of the sales documentation Gunawan Dianjaya provided monthly transaction statements from the internal sales database for the relevant customer from which we were able to identify the relevant sale by invoice number. Proof of payment of the monthly total reflected in the internal account by the relevant customer was provided. We are satisfied that the invoice price shown in the domestic sales spreadsheet was the accurately reflected composite price paid by domestic customers and that payments were made pursuant to the terms of sale.

8.4.1 Domestic costs and charges

Inland transport

Gunawan Dianjaya advised that, like transport for exported consignments, goods are packed bare and loose and transported to the customer on free into store terms, although some transactions are purchased ex-works. It confirmed that, whilst

domestic consignments can be traced by delivery number, payment for delivery is provided on the basis of rolling accounts maintained with a variety of freight providers. As such, domestic inland freight charges cannot be determined as actual costs per transaction. Freight costs have been allocated using a weighted average unit charge (per kilogram) calculated by dividing the total cost of inland transport paid to domestic freight providers by the total quantity of plate delivered.

To substantiate the bases for this methodology, Gunawan Dianjaya provided a download from its internal transport ledger, reflecting rolling debit and credits from freight providers used for the transport of domestic consignments during the investigation period. Sample invoices were provided for selected lines of the ledger to support the validity of the data.

We confirmed that the determined unit transport charge has been allocated consistently to all applicable delivered sales reflected in the domestic sales listing. We noted that the methodology used by Gunawan Dianjaya captured charges paid in relation to all domestic customers, including customers in Jakarta and Surabaya (for which freight costs are considerably lower).

Technical support (plate testing)

Gunawan Dianjaya advised that testing of plate samples (to ensure relevant technical quality standards are achieved) is applied to all plate manufactured at the Surabaya facility, irrespective of standard, grade or customer. Like domestic transport, plate testing has been determined as a weighted average unit charge determined by dividing the total cost of testing incurred during investigation by the total quantity of plate sold into the domestic market. Source documentation was provided comprising an listing of the internal account relating to the plate testing facility which reflected the running cost of testing batches during the investigation period.

We noted that the cost of testing cannot be delineated by grade or by market, and that the cost of testing had been allocated to domestic sales only. This issue is discussed in greater detail in the context of adjustments.

Domestic commissions

Gunawan Dianjaya explained that it operates a commission system related to third party intermediaries in the domestic market that arrange for supply between Gunawan Dianjaya and certain domestic customers. Domestic commission was allocated, where applicable, as unit price (per kilogram) determined on the basis of the total commission paid to domestic agents during the investigation period, divided by the total sales quantity into the domestic market. Source documentation was provided to support the determined unit commission charge. We confirmed that this rate had been consistently applied to the applicable sales in the sales data.

Bank charges

Gunawan Dianjaya advised that bank charges related to charges incurred in relation to the movement of funds into the company's bank. We confirmed that such charges relate only to domestic sales given that all export sales are made pursuant to letter of

credit transactions which incur separate and distinct charges. Like other domestic charges, bank charges were allocated to domestic sales as a weighted average unit charge determined by dividing the total value of bank charges incurred during the investigation period by the total quantity of plate sold into the domestic market. Source documentation, comprising a download of Gunawan Dianjaya's internal bank charge account and associated sample documents, was provided which supported the determination of a unit charge. We confirmed that this unit charge was applied consistently to domestic transactions in the sales listing.

8.5 Arms' length

Gunawan Dianjaya submitted as part of its response to the exporter questionnaire that it directly sells plate steel to stockists, end-users and retailers in Indonesia. It advised however that it is not related in any way to any of its customers. Notwithstanding price differences as discussed above, we found no evidence that would suggest that Gunawan Dianjaya's stockist customers received more favourable sales terms relative to other domestic customers. Further there is no evidence that would suggest that, in relation to sales between Gunawan Dianjaya and any of its domestic customers;

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

We consider Gunawan Dianjaya's domestic sales of the plate steel to be made in arms' length transactions.

8.6 Ordinary course of trade

Customs and Border Protection will exclude domestic sales of products in circumstances in which the total volume of unprofitable sales is found to be in excess of 20%, and deemed to be unrecoverable within a reasonable period of time¹¹. From the domestic sales data provided, we compared the total invoice price paid for each domestic sale of the product codes identified to be equivalent to either grade 250 or grade 350 with the fully absorbed domestic cost to make and sell plate steel for the corresponding grade in the corresponding sales quarter. This enabled a proportion of profit (or lack thereof) to be derived on a transaction by transaction basis and determined the total quantity of unprofitable sales by product model.

¹¹ Customs and Border Protection's view is that a reasonable period of time for the purposes of testing recoverability of unprofitable sales is twelve months.

To test the recoverability of unprofitable sales, we compared total invoice price paid for each domestic sale of the product codes identified to be equivalent to either grade 250 or grade 350 with the fully absorbed domestic cost to make and sell plate steel for the corresponding grade with the fully absorbed weighted average domestic CTMS of the relevant grade of plate steel for the investigation period.

For domestic sales of grade 250 by the selected stockists, more than 20% were unprofitable. All unprofitable sales have been excluded in establishing normal values. For domestic sales of grade 350 by the selected customers, less than 20% were unprofitable. All sales have been included in establishing normal values.

8.7 Volume and suitability of sales

Domestic sales cannot be used to establish normal values if the volume of domestic sales of like goods in ordinary course of trade is less than 5% of the volume of comparable like goods exported to Australia. We confirmed that of the product codes identified to be equivalent to either grade 250 or grade 350, domestically sold product codes passed the volume of sales test.

8.8 Sales by other sellers

There are other sellers of plate steel in Indonesia. Customs and Border Protection is visiting two other Indonesian producers of plate steel.

8.9 Domestic sales – summary

We found a sufficient volume of sales of comparable grades in the domestic market for plate steel that were arm's length transactions and sold at prices that were in the ordinary course of trade. The price paid for the goods in those domestic sales was established satisfactorily. Based on the information provided by Gunawan Dianjaya, and the verification processes conducted on site, we consider that prices paid in respect of domestic sales are suitable for assessing normal value under s. 269TAC(1). A summary of domestic sales suitable for establishing normal values is at **confidential appendix 3**.

9 THIRD COUNTRY SALES

We identified that export sales by Gunawan Dianjaya to third country markets accounted for approximately 26% of the total volume of turnover of the plate steel during the investigation period. We have further identified that this total volume of third country sales comprises sales to a total of eight countries. The smallest third country market was [REDACTED] and the volume of exports to Australia was 22% of the volume of exports to [REDACTED]. We do not consider that third country sales are suitable for establishing normal values.

10 ADJUSTMENTS

Gunawan Dianjaya claimed that a number of adjustments should be made to the sales data provided for the purposes of fair comparison between domestic and export sales. Additionally, during the course of verification, Customs and Border Protection identified a number of possible issues which warrant adjustments to be made.

We made negative adjustments to domestic selling prices under s. 269TAC(8) for:

- domestic inland freight;
- domestic commissions;
- domestic bank charges; and
- domestic credit terms.

We made positive adjustments to domestic selling prices under s. 269TAC(8) for:

- export inland freight;
- export handling, loading and ancillary costs; and
- bank charges.

Gunawan Dianjaya report packing and testing costs in its domestic sales spreadsheet, but not its export sales spreadsheet. Packing for both domestic and export sales is “bare and loose” and product for both domestic and export sales is subject to testing. We have not made adjustments for packing and testing costs.

10.1 Adjustments in respect of domestic sales

10.1.1 Domestic inland freight

As noted in section 8.4.1, Gunawan Dianjaya calculated an average unit freight cost for domestic sales. We verified these costs for the selected domestic samples. Gunawan Dianjaya advised that it was not able to identify freight costs for individual sales. We made a negative adjustment using this average unit freight cost.

10.1.2 Domestic commissions

As noted in section 8.4.1, we verified the basis of the commission system operated by Gunawan Dianjaya and the method by which it was allocated to certain domestic sales during the investigation period. We have made a negative adjustment for domestic commissions.

10.1.3 Domestic bank charges

As noted in section 8.4.1, we verified that Gunawan Dianjaya incurs bank charges in respect of domestic sales. We have made a negative adjustment for domestic bank charges.

10.1.4 Domestic credit terms

Gunawan Dianjaya did not originally claim an adjustment for domestic credit terms, but advised that domestic customers receive credit terms with payment normally required within 30 to 60 days. As noted in section 8.2.5, Gunawan Dianjaya made a subsequent submission on this issue and proposed a method for calculating credit terms. We verified that domestic customers receive credit terms and consider that an adjustment is warranted. We have accepted the methodology proposed by Gunawan Dianjaya and note that the calculated credit terms are only for domestic customers used to establish normal values. We have made a negative adjustment for domestic credit terms.

10.2 Adjustments in respect of export sales

10.2.1 Export inland freight, handling charges and other costs

We verified these costs for the selected export sales samples. We have made positive adjustments for export inland freight, handling charges and other costs (bank charges associated with the letters of credit).

10.2.2 Export credit terms

Payment for export sales is by letter of credit at sight. We have not made an adjustment for export credit terms.

10.3 Other adjustments

10.3.1 Level of trade adjustment

As noted in section 8.2.3, Gunawan Dianjaya sells to two tiers of customer in the domestic market, stockists and end-users. The company's only customer in the Australian market operates at the wholesale level of trade. Gunawan Dianjaya advised that level of trade is generally delineated by quantity of supply which, in turn, influences the negotiated selling price offered to the customer by Gunawan Dianjaya.

Rather than make a level of trade adjustment, we have established normal values using domestic sales and to the most comparable domestic customers.

10.3.2 Domestic product premium adjustment

As noted in section 8.2.4, Gunawan Dianjaya advised that, due to the unique dynamics of supply and demand in relation to the grade 350 equivalent domestic market, a significant price premium is achievable on domestic sales for grade 350 equivalents which is not possible in the Australian market. Gunawan Dianjaya submitted that, for the purposes of reasonable comparison with export selling prices, domestic sales of grade 350 equivalent products should be adjusted downwards to remove this domestic price premium.

We have compared domestic sales to the most comparable customer to [REDACTED] and do not consider that a further adjustment is warranted.

11 NORMAL VALUE

As previously explained both grades of plate steel manufactured in accordance with AS/NZ 3678 exported to Australia were capable of direct correlation to specific standards and grades sold in the domestic market that are relevantly identical and directly comparable.

We consider that information gathered and detailed in this report and its attachments can be relied upon to establish normal values and be compared to the product codes exported to Australia during the investigation period under s. 269TAC(1).

Normal value calculations are at **confidential appendix 4**.

12 DUMPING MARGIN – PRELIMINARY ASSESSMENT

In calculating the dumping margin we compared each export transaction with the corresponding quarterly normal value for the corresponding model of plate steel. The weighted average product dumping margin is 11.3%. A summary of dumping margin calculations is at **confidential appendix 4**.

13	LIST OF APPENDICES AND ATTACHMENTS
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Confidential appendix 1	Export price calculations
Confidential appendix 2	Ordinary course of trade calculations and Sufficiency test
Confidential appendix 3	CTMS worksheets
Confidential appendix 4	Normal value calculations
Confidential appendix 5	Dumping margins calculations
Confidential attachment REC 1	Audited 2012 financial statements
Confidential attachment REC 2	Notes to 2012 financial statements (25 and 26)
Confidential attachment REC 3	Monthly sales summary
Confidential attachment REC 4	Notes to 2012 financial statements (27)
Confidential attachment EXP 1	Sample export sales packages
Confidential attachment CTMS 1	2012 monthly statement of income
Confidential attachment CTMS 2	Amended CTMS spreadsheets
Confidential attachment CTMS 3	2012 production ledger
Confidential attachment CTMS 4	Slab steel raw material inventory ledger
Confidential attachment CTMS 5	Slab steel purchase packages – May 2012
Confidential attachment CTMS 6	Slab steel purchase packages – November 2012
Confidential attachment DOM 1	Gunawan Dianjaya submission
Confidential attachment DOM 2	Sample domestic sales packages