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Verification Visits to Thai HSS Exporters

1. Background

Customs and Border Protection has received exporter questionnaire responses from:

(i) Pacific Pipe Public Co. Ltd ("Pacific");
(ii) Saha Thai Steel Pipe Public Co., Ltd ("Saha"); and
(iii) Samchai Steel industries Public Company Limited ("Samchai").

On the basis of information contained in the exporter questionnaire responses from Pacific and Saha, Customs and Border Protection determined that exports of HSS to Australia from both companies were at preliminary margins of dumping considered "negligible"[1].

Exports of HSS by Samchai were at preliminary margins averaging 11.6 per cent. The volume of dumped exports by Samchai and other Thai exporters, however, were at volumes considered to be negligible (i.e. less than 3 per cent of total imports into Australia during the investigation period).

OneSteel Australian Tube Mills ("ATM") submits that following verification of actual domestic selling prices and costs of production for each of the three cooperating exporters (i.e. Pacific, Saha, and Samchai), Customs and Border Protection will assess margins of dumping above negligible levels.

On the basis that determined dumping margins are not negligible, a PAD imposing provisional measures is warranted.

In assessing whether Thai exports of HSS are at dumped prices, there are a number of factors for Customs and Border Protection to consider. These include:

a. The impact of the Government of Thailand's intervention in the steel industry to set ceiling prices for Hot Rolled Coil ("HRC") which is the key raw material in HSS manufacture, accounting for approximately 70-80 per cent of production costs;
b. The effect of the imposition of anti-dumping measures on imported HRC from 16 countries on Thai domestic HRC prices;
c. The HRC purchasing arrangements of Thai HSS producers, including the mix of imported HRC and domestically-sourced HRC consumed in HSS produced for export to Australia;
d. ATM's assertion that a particular market situation applies due to the influence of the Thai government's intervention to cap HRC selling prices (the prices being lower than they otherwise would be); and
e. Whether export prices for HSS to Australia are compared with domestic sale equivalents (i.e. domestic sales of HSS are generally not made to International Standard, whereas all export sales to Australia are required to comply with relevant Australian Standards).

2. Thai HRC Market

The Thai domestic steel market does not benefit from local production of steel slab or steel billet. HRC production is from imported slab or billet, or from recycled scrap metal. Thailand, therefore, does not possess a comparative advantage in steel production.

The Thai domestic HRC market comprises one large producer and a number of significantly smaller producers. It is claimed that the largest HRC producer, Sahaviriyha Steel Industry, essentially maintains a monopolistic position on the Thai domestic market.

[1] Refer PAD No.177, P.18.

2.1 Thai demand for HRC

The Thai domestic market relies on imported HRC to satisfy demand. In 2010, demand for HRC was approximately 5.5 million tonnes, with 3.5 million tonnes produced domestically. A further 2.2 million tonnes was imported.

The Thai government has imposed anti-dumping measures on HRC exporters in 16 countries, whilst at the same time maintaining a price "ceiling" for HRC sold on the Thai domestic market

Thai domestic HRC prices that are artificially low translate into artificially low HSS prices, due to the 70-80 per cent raw material cost represented by HRC in HSS manufacture.

2.2 Imported HRC

Customs and Border Protection has made an adjustment to Pacific's normal value to allow for the '*difference in production costs between export and domestic sales*'[2]. ATM understands that Pacific imports 5 per cent of its HRC requirements (i.e. approximately 10,000 tonnes), with the remainder sourced domestically. ATM also understands that Pacific exports approximately 50,000 tonnes of HSS annually.

ATM is advised that imported HRC that is subsequently further-worked and re-exported is exempted from any dumping duties that apply in Thailand. The imported HRC that is used for exported HSS is not subjected to measures and is understood to be priced below prevailing Thai HRC prices (hence the incentive to purchase for export).

It is evident that only a relatively minor proportion of Pacific's total HRC consumption is imported HRC (i.e. less than 20 per cent). Even after conceding that all of Pacific's imported HRC is converted to HSS and exported, the remaining approximate 80 per cent of HSS exported by Pacific is produced from locally-sourced HRC.

It is submitted that no adjustment to Pacific's normal value is required for claimed differences in production costs between domestic and export sales. All imported HRC is exempt from dumping duties and the balance of HRC consumed by Pacific is from local supply.

ATM requests that Customs and Border Protection carefully assesses the HRC consumption balance for each of the Thai HSS producers/exporters in assessing normal values.

3. Market Situation

3.1 Artificially low Thai HRC prices

It is ATM's assessment that the Thai government's role in the determination of ceiling prices for HRC suppresses HRC prices (thereby having a flow-on impact to Thai domestic HSS prices). The purpose of the legislated price ceiling is to ensure the international competitiveness of strategic Thai downstream industries, including HSS.

The impact of the policy decision to establish a price ceiling (and to penalise domestic HRC producers that price in excess of the ceiling) prevents the market determination of HRC prices in Thailand. The imposition of anti-dumping measures evidences that import prices for HRC into Thailand were dumped and injurious; the measures were intended to correct the pricing disparities. However, the government of Thailand's price ceiling does not allow for a market correction of domestic HRC pricing following the imposition of measures.

[2] PAD No. 177, P.18.

A comparison of Japan domestic monthly HRC prices (ex SBB, FOT) with the Thai ceiling price of 24 Baht per kg (level since 2 March 2009) across the investigation period July 2010 to June 2011 confirms that Thai HRC prices are suppressed. The average differential between the Thai 24.0 Baht per kg ceiling price and the Japan domestic monthly FOT price (in US Dollars converted to Baht) was 2.03 Baht per month. This represents an 8.46 per cent underselling of HRC prices in Thailand below the Japan monthly FOT price across the investigation period (See Attachment 1).

It should be noted that this comparison is with the ceiling price and it is likely that actual Thai HRC prices are below the ceiling price due to the penalties imposed by the Thai MOC if the ceiling is exceeded. The 8.46 per cent differential is therefore likely to be higher.

ATM submits that the government intervention contributes to artificially low HSS prices in Thailand.

The Thai government price ceiling on HRC has remained at the same level since March 2009, despite significant increases in global steel prices since that time. It is apparent that in the absence of the price ceiling, Thai domestic HRC prices would have increased along with global steel prices. The government-imposed ceiling has suppressed HRC prices (and consequently, domestic HSS prices) since March 2009 and that a market situation in respect of HSS in Thailand applies.

It is ATM's position that HSS normal values in Thailand should therefore be assessed on a constructed cost basis. That is, the production costs for each of the Thai co-operating exporters with a surrogated HRC price ex FOT domestic Japan[3], is the appropriate basis for normal values in Thailand. A reasonable level of profit should also be applied to the constructed cost methodology.

4. Like goods comparison

PAD No. 177 indicates that Customs and Border Protection has compared Pacific's quarterly weighted average export prices, by model, with quarterly weighted average domestic prices, by model.

ATM assumes that the comparison "by model" refers to HSS pipe being "black, painted, In-Line Galvanised ("ILG"), and Hot-Dipped Galvanised ("HDG").

The comparison undertaken by Customs and Border Protection, however, raises a significant concern about comparing "like with like". ATM understands that Thai HSS exports are made to comply with International Standards – AS1163, JIS G344, JIS G3466, etc. Thai domestic HSS supplies are not required to comply with the International Standards and hence sell for lower prices (as domestic sales of local production are not subjected to the same quality assurances as Thai-produced HSS destined for export) and account for as much as 95 per cent of Thai domestic sales.

A simple comparison of weighted average export prices with weighted average domestic sales, by model, therefore does not accurately represent a reasonable comparison. As a minimum, the Thai HSS normal values require a positive adjustment to take account of the costs associated with quality assurance testing and compliance with International Standards.

5. Date of export, date of sale comparison

It has previously been submitted by representatives of HSS exporters that for fair comparison purposes Customs and Border Protection contrast the export price at date of contract with a domestic selling price coinciding as close as possible to the date of contract. ATM strongly disagrees with this approach. HRC pricing over recent years has proven to be volatile. The date of contract for export volumes can often precede the export date by periods exceeding 6 to 8 weeks (and, in some instances, greater periods). ATM has previously provided Customs and Border Protection with submissions on this issue. Please refer to Correspondence 2009/14 (attached). ATM's position has not altered.

[3] Japan is recognised as a large market producer of HRC and is also a significant supplier of HRC to Thailand, accounting for approximately 70 per cent of Thai HRC imports in 2010.

The date of contract is an inappropriate comparison point as the agreed price at date of contract is based upon a future HRC price, whereas a domestic sale on date of contract is based on HRC purchased at a different price some 8 weeks prior. The domestic and export prices at date of contract are not representative of a fair comparison.

ATM requests that Customs and Border Protection observe the reasonableness of comparing domestic and export prices at date of export.

6. Level of trade

As indicated above, weighted average comparisons of domestic and export prices, by model, have been used by Customs and Border Protection for Thai HSS exporters. ATM understands, however, that Pacific sells approximately 60 to 65 per cent of its sales on the domestic market through traders, with the remainder sold as direct sales to customers.

Pacific's export sales to Australia are via traders that also on-sell into the Australian market.

ATM requests Customs and Border Protection to carefully examine whether sales volumes in each of the domestic and export markets are a significant factor enabling "fair comparison" comparison for dumping margin assessment.

7. Exports by Saha

Customs and Border Protection would be aware that pipe and tube (also known as HSS) exported by Saha of Thailand has previously been the subject of measures in Australia (HDG), Canada, EU and USA (all circular welded pipe).

Attachment 1

	Japan HRC Price FOT US$/MT	Thai Govt Ceiling Price Baht/kg	ROE Mid-month Rate USD:Baht	Japan FOT Price in Baht/kg	Difference (d)-(e)
Jul-10	743	24.0	32.248	23.04	0.96
Aug-10	725	24.0	31.909	22.72	1.28
Sep-10	758	24.0	30.748	24.65	-0.65
Oct-10	782	24.0	29.774	26.26	-2.26
Nov-10	716	24.0	29.843	23.99	0.01
Dec-10	707	24.0	30.016	23.55	0.45
Jan-11	811	24.0	30.509	26.58	-2.58
Feb-11	835	24.0	30.749	27.16	-3.16
Mar-11	881	24.0	30.355	29.02	-5.02
Apr-11	864	24.0	30.102	28.70	-4.70
May-11	888	24.0	30.332	29.28	-5.28
Jun-11	833	24.0	30.414	27.39	-3.39
			Sub-Total		-24.35
			Monthly AV		-2.02933

Notes:

1. Japan FOT prices ex SBB.

Verification Visits to Taiwanese HSS Exporters

1. Background

Exporter Questionnaire responses have been received from:

(i) Shin Yang Steel Co., Ltd ("Shin Yang"); and
(ii) Ta Fong Steel Co., Ltd ("Ta Fong").

Customs and Border Protection assessed preliminary dumping margins for Shin Yang, Ta Fong, and all other Taiwanese HSS exporters on the basis of information sourced from the Shin Yang questionnaire response. Margins were assessed by comparing quarterly weighted export prices with Shin Yang's quarterly weighted domestic selling prices. No adjustments were made.

Preliminary dumping margins determined were 15.7 per cent.

2. Taiwanese Market Overview

The Taiwanese markets for Hot Rolled Coil ("HRC") and HSS are open and transparent. Raw material prices are not adversely affected by government policies or taxes on exports. It would appear that HRC and HSS prices in Taiwan are determined on a competitive basis.

3. HRC in Taiwan

Major HRC producers in Taiwan are China Steel Corp (CSC) and the E United Group. E United Group is a related entity of Yieh Phui Enterprises. Customs and Border Protection will need to examine the impact of HRC purchases between related companies E united Group and Shin Yang – both related parties of E United Group. The E United Group/Yieh Phui/Shin Yang entities are all affiliates of an integrated HRC/HSS supply chain.

In December 2010, the Taiwanese domestic price for HRC peaked at US$1.34 per kg. When contrasted with the Japan's domestic price for HRC in December 2010 (US$707/MT[1]), the Taiwanese price was at a significant premium. It is understood that rising prices for raw materials used in HRC production were responsible for price increases in 2010. These price pressures continued in 2011.

4. HSS exporters to Australia

4.1 Shin Yang

Shin Yang is a 100 per cent owned subsidiary of Taiwan's largest steel pipe manufacturer, Yieh Phei Enterprises. The Yieh Phui group produces a range of products from hot dipped galvanised steel to pre-painted steel sheets, pipes, steel structures, and crane equipment. It is understood that Yieh Phui sources its HRC domestically (for quality assurance reasons).

Yieh Phui's steel pipe division has 9 pipe forming machines In May 2011, Yieh Phui's Shin Yang operation was provided with a manufacturing compliance certification.

It is understood that Yieh Phui sells its products on a 60:40 domestic:export basis. Domestic sales are direct to market and not generally via traders or distributors. In 2010, Australia accounted for approximately 30 per cent of Yieh Phui's total export volume, with in excess of 90 per cent being circular welded pipe.

HSS manufactured by Shin Yang and the Yieh Phui group complies with Australian, British and Japanese Standards and is of high quality.

[1] Ex SBB.

Customs and Border Protection visited Yieh Phui in 2006 as part of Investigation No.116. Normal values for Yieh Phui were determined under s.269TAC(1) of the Customs Act based on profitable domestic sales across the investigation period. As unprofitable sales accounted for more than 20 per cent of Yieh Phui's total domestic sales, the unprofitable sales were excluded from the s.269TAC(1) normal values.

Certain adjustments to Yieh Phui's normal values were made to account for domestic credit (negative), export inland freight (positive) and handling and other charges (positive).

Key issues in a verification visit with Shin Yang will include whether Shin Yang purchases any HRC (galvanised or otherwise) from Yieh Phui at market rates, whether domestic sales by Shin Yang are to unrelated parties, and whether Yieh Phui levies any management and/or corporate fees to Shin Yang. It is also important that any downgrade (or second-grade) pipe is excluded from domestic sales included in normal value calculations.

4.2 Ta Fong

Ta Fong was established in 1966. The company purchases HRC domestically in Taiwan. It is understood that Ta Fong sells approximately 85 per cent of its production on the Taiwanese domestic market, and exports the remaining 15 per cent. Australia is a major export destination.

Ta Fong was also visited by Customs and Border Protection in 2006. The investigation team could not be satisfied that Ta Fong's selling prices and costs were reliable and hence normal values for Ta Fong were based upon another Taiwanese seller's domestic sales (i.e. Yieh Phui).

ATM highlights with Customs and Border Protection that Ta Fong must provide adequate information for substantiation purposes for normal values to be based upon Ta Fong data.

5. Measures by other administrations

ATM understands that the US and EU administrations have previously applied anti-dumping measures on Taiwanese exports of steel pipe and tube. The US applied measures on imported light-walled rectangular pipe and tube, and circular welded pipe and tube from Taiwan in August 2006. The EU applied measures on iron and steel tube in September 2006.

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17 April 2009

Mr Michael Kenna
A/g Director Operations 1
Trade Measures Branch
Australian Customs and Border Protection Service
Customs House
5 Constitution Avenue
CANBERRA ACT 2601

Public File Copy

Dear Mr Kenna

Industry Correspondence 2009/14 – Alpine Pipe Manufacturing Sdn Bhd Exporter Visit Report and MegaSteel Sdn Bhd Email (undated)

I refer to the exporter visit report for Alpine Pipe Manufacturing Sdn Bhd ("Alpine") and the response from MegaSteel Sdn Bhd ("MegaSteel") to inquiries by Australian Customs and Border Protection Service ("Customs") recently placed on the Public File.

The Australian Industry would like to comment on both documents

Alpine Pipe Manufacturing Sdn Bhd

Date of Export

Customs has completed a verification of Alpine's exports to Australia and determined that during the period October 2007 to December 2008, Alpine exported HSS to Australia with a weighted average dumping margin of 0.6 per cent. In arriving at the weighted average dumping margins, Customs has accepted assertions made by [*entity*], that the comparison point for examining dumping is between domestic selling prices and apparent export prices as at date of order confirmation (for those export sales).

This methodology – which is a significant departure from Customs' practice of comparing export prices and normal values at date of export – along with certain adjustments made to Alpine's weighted average normal value, has resulted in the negligible dumping margin determination that Australian Industry believes misrepresents the true level of dumping.

The Australian industry provided comments to Customs concerning the date of comparison (refer Industry Correspondence 2009/03). The applicant industry received no further feedback from Customs that a decision had been made to reject Customs' practice. Nor had the applicant industry been notified that Customs had accepted the suggestion [*entity*] to replace export price at date of export in preference for an export price which is allegedly determined at export order confirmation date. This change in Customs' practice (and policy) has significant ramifications [*comment re likely* *future practice*] export price is determined at date of confirmation of order – a date which often precedes the actual date of export by some many weeks (if not months).

A comparison of export prices determined at confirmation order date with normal values at that time – particularly in a market with rapidly increasing prices and costs as was evident with HSS pricing throughout late 2007 and most of 2008 – will [*claim*] to a conclusion of negligible or no dumping margins.

Customs' published report for Alpine's Australian importer, Croft Steel Pty Ltd (Croft"), confirms an average of "120 days between the date an order is confirmed to the supplier and the date on the customer invoice". In 2008 there were two significant price increases for hot rolled coil ("HRC") which resulted in subsequent increases in HSS selling prices. A comparison of export prices with normal values at date of export over the two quarters of increasing costs and selling prices would have furnished above negligible dumping margins. However, Customs' departure from its practice of comparing normal values with an export price determined at date of invoice (i.e. date of export) has resulted in dumping margin calculations lower than they otherwise should be. Customs has established a precedent [*comment re likely future practice*].

The Australian industry strongly urges Customs to reconsider the basis for export price determination. Customs has erred in accepting the confirmation date as the date of export as the actual export does not occur until approximately 120 days post confirmation date. A confirmation of order date is not the date of export (even in circumstances where the export price itself remains unchanged).

Normal value adjustments

Customs has granted Alpine a number of adjustments under s.269TAC(8) to permit comparison of weighted average export prices and weighted average normal values. These adjustments include:

- Level of trade;
- Domestic sales commissions;
- Domestic warehousing expense;
- Domestic inventory carrying cost;
- Physical differences (for pipe made from imported pre-galvanized HRC);
- Export credit insurance;
- Export inland freight;
- Export sales commissions;
- Export warehousing expense;
- Export inventory carrying cost; and export credit.

Level of Trade

The applicant industry addressed concerns relating to adjustments for level of trade and physical differences in earlier communications (refer Industry Correspondence 2009/02). Customs, however, has granted Alpine a level of trade adjustment on the basis of its assertion that all sales to Australia are via a distributor, whereas all domestic sales are to "a number of levels of trade" including "hardware" and "trading services". It is further noted that Alpine had some "related party" domestic sales – sales [*comment re level of sale*].

In agreeing to an adjustment to normal value for level of trade differences between export and domestic sales, Customs has erred by not excluding domestic related party sales or domestic sales to [*level of sale*]from Alpine's domestic sales upon which the normal value has been determined.

To include any domestic related party sales or domestic sales to [level of sale] and providing a level of trade adjustment amounts to a double downward adjustment.

It is noted that Customs' has based the level of trade adjustment upon Alpine's "cost based level of trade adjustment using the difference in domestic and export personnel, administrative and selling expenses" Alpine's Visit Report does not indicate why Customs' has not considered a level of trade adjustment based upon [*market selling price differentials*]. It would seem not unreasonable for Customs to have made a market-based "price" adjustment before considering a "cost-based" price adjustment, as is consistent with Customs' policy enunciated in the Customs Dumping Manual

The applicant industry included analyst reports relating to Alpine's parent company Hiap Teck in its application. The analyst reports indicated that export sales of HSS (*aka* pipe and tube) represented a significant proportion of total pipe and tube sales (i.e. 50 per cent) including destinations "Singapore, Australia and the Middle East". On this basis, it would seem extraordinary for selling costs to be allocated disproportionately to export sales at the expense of domestic sales. The allocation of these "costs" has impacted the cost-based "level of trade" adjustment to Alpine's normal value, and reduced the normal value below the level that it should otherwise be.

The incorrect allocation of selling expenses between export and domestic sales could also impact adjustment values for domestic and export sales commissions granted.

<u>Physical differences</u>

Customs has made an adjustment for Alpine's purchases of pre-galvanised HRC used in the manufacture of hot dipped galvanized ("HDG") HSS. The upward adjustment (based upon SBB pricing) over the period October 2007 to December 2008 averages approximately USSxxxx/MT.

It is anticipated that Customs' adjustment to Alpine's CTM&S for black pipe to account for the pre-galvanized HRC is at this approximate level.

<u>Depreciation</u>

The Alpine Visit Report indicates that most of the depreciation expenses identified by Alpine relate to depreciation for a "recently installed mill". It is not clear from the report that Customs has determined the correct level of depreciation for <u>all</u> of Alpine's mills manufacturing the goods under consideration (GUC").

Customs is requested to confirm that all depreciation expenses for the GUC have been included.

<u>Yield Loss</u>

The Australian Industry is concerned that Customs has treated the sales of scrap and downgrade product differently at Alpine to that of Australian Industry. With respect to Australian Industry, Customs [*treatment of downgrade and scrap HRC]*.

In contrast for Alpine, Customs has taken the sales value of the scrap and downgraded pipe, deducting it from the HRC purchase price – thereby reducing the value of the HRC (on a per tonne rate) used to produce a finished pipe tonne. The effect is to artificially lower the cost of the steel on a per tonne rate.

Australian Industry requests that Customs revisit its calculation of HRC cost for Alpine (*approach for Australian industry and exporters for treatment of downgrade and scrap HRC should be similar*).

Alpine Visit Report – Conclusion

Customs is requested to re-examine the key items impacting Alpine's dumping margin calculations as detailed above. It is the applicants industry's view that a fair comparison of actual export prices (at date of invoice) with appropriately adjusted normal values will demonstrate the existence of dumping margins of greater than 2 per cent.

Megasteel Communication

The Australian industry has viewed the email from Megasteel in response to Customs email dated 23 March 2009. Contrary to information published by financial analysts, Megsateel customers and the Malaysian Iron and Steel Industries Federation, Megasteel states that domestic HRC prices in Malaysia are not higher than international prices and were in fact "close to or lower than those in the USA, EU, some Middle East countries, Japan and Indonesia to name a few"

Please find attached a further Analyst Report which contradicts Megasteel's assertion (Malaysian Equity Research).

Megasteel also states that its approval is not required for Approved Permits to be granted to import HRC. This claim is also addressed in the attached Report

Megasteel has indicated that it is not necessary for Customs to conduct a verification visit to confirm HRC pricing. The Australian industry is concerned that Customs appears to have accepted Megasteel's assertions with little regard to independent reports sourced from Malaysia. The applicant industry also queries why the statements made by Melawar in its initial Questionnaire response concerning the payment of rebates by Megasteel for export sales appear to have been withdrawn from the Public File version of its amended Questionnaire response.

It would appear that there is a significant amount of information in the public domain which challenges the statements of Megasteel. It would therefore seem appropriate for Customs to conduct a full verification visit with Megasteel to fully understand the company's HRC pricing for downstream HSS customers.

The Australian industry welcomes any questions Customs may have in respect of this submission.

Yours sincerely

John O'Connor

John O'Connor
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Mr Stephen Porter
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