

## HSS Exported from China – Verification Visits to China

### Introduction

ATM has reviewed the Chinese exporter questionnaire responses. Certain matters identified in the responses require address prior to Customs and Border Protection's verification visits with exporters. The following details matters for discussion.

### Relevant Issues:

1. Are exporter's domestic and export HSS sales for identical goods?
2. Domestic sales from inventory; export sales made to order;
3. Domestic sales claim to be based on actual weights, whereas export sales are claimed to be based on theoretical weight;
4. Grade differentials for coil used in exported goods;
5. Date of export;
6. Level of trade; and
7. Chinese HRC/narrow strip.

### Domestic v Export sales

Qingdao and Huludao indicate that HSS for domestic and export are identical goods. Kingland states that the costs for HSS sold domestically and for export are the same. The remaining exporter submissions (with exception of Hengshui Jinghua) are either an exporter or producer and do not indicate whether HSS in either market is identical.

Huludao indicates that it exported to Australia BS 1387 standard black and circular hollow sections, and ASTM 500 Grade B black square and rectangular hollow sections. It claims that it sells identical goods domestically.

ATM encourages C&BP to establish the category & grade of HSS is sold domestically by the exporters so that any weighted-average sales for normal value purposes include goods that are "like goods" only. [Concern re sales included in normal value calculations]. The identification of the categories & grades of HSS identified as domestic sales will be necessary to understand whether any specification adjustments are required to address differences between domestic sales of HSS and export sales of HSS:

- ATM anticipates an upward adjustment is required to take account of higher CTM&S for goods exported to Australia than what is sold domestically due to higher raw material feedcosts, yield performance, and compliance costs.
- See details on specification differences (attached).

### Date of Export

Exporter responses support ATM's view that the date of invoice is the appropriate date for comparison with normal values (refer export price negotiation process at Huludao response Section B-2).

### Level of Trade

C&BP is requested to exercise caution when categorising sales for normal value purposes. The level of trade of domestic sales varies across producers/exporters. Some domestic sales are for export (e.g. Kingland and Huludao to Shanghai MinMetals) and should be categorised as export sales (not domestic). Huludao has indicated that it has identified domestic sales for export – C&BP to validate these alleged export sales.

An end user is someone who physically uses the steel in an application e.g. building structure, fence, gate etc. An end user is not someone who simply stocks the product for re-sale (even if they cut it to length before re-sale) i.e. A reseller/stockist/distributor/hardware store

#### Hot rolled coil/narrow strip

ATM has compared Chinese coil prices with Japan domestic FOT prices. Japan is the largest regional producer of HRC in Asia (excluding China) by a factor of 2 (the next largest is Korea). Japan is a net exporter of HRC by a factor of 3.5 over the next largest supplier (i.e. Taiwan). These factors highlight Japan as a competitive supplier of HRC and an important benchmark.

#### Exporter Specific Matters

##### 1. Huludao

- Note that Huludao Bohai Oil Steel Pipe Co., Ltd toll manufactures steel pipe for Huludao, however, it is claimed that the goods are not the goods under consideration Huludao is producer and exporter – are any of the goods under consideration produced by affiliate?
- All Australian sales are to distributors;
- Payment is made to Huludao following receipt of goods and after receipt of shipping documents;
- For insurance purposes, ownership of goods is transferred at time of shipment;
- Sold BS 1387 black and galvanised circular hollow sections and ASTM 500 Grade B black square and rectangular pipes to Australia
  - o Huludao, however, claims domestic sales are identical to export sales,
  - o Are there no exports of painted RHS or RHS to AS1163?
- Has domestic sales to traders (e.g. Shanghai MM) and domestic sales to distributors and end-users;
- Larger customers (e.g. distributors) receive lower prices due to higher volumes;
- Prices influenced by cost of raw materials; [Entity] provide reference to this in Questionnaire response
- Huludao has included two domestic sales spreadsheets
  - o One for domestic sales that are subsequently exported, and
  - o A further for actual domestic sales;
- As domestic customers operate payment on running balance, payment amounts do not match invoice values on a transaction-by-transaction basis;
- Huludao pays inland freight on export goods.
- No difference in packing costs between domestic and exported goods – ATM understands xxxxxx export packaging costs – wrapping and other forms of additional protection;
- For export sales, invoiced quantities claim to be based on theoretical weights; for domestic sales, invoiced sales are claimed to be based on actual weights
  - o Solid evidence in support required [*description re demonstration*];
  - o C&BP needs to be satisfied that they have a demonstrated procedure [*evidencing claim*];
  - o If producer can't demonstrate, then C&BP must not accept this claim;
  - o Claiming a downward adjustment to normal value that appears to be based on the potential they **could** "roll light on export sales" is not reasonable;
  - o What would be basis for adjustment if it were to be applied – no evidence submitted;
  - o Local domestic sales are claimed to be alike and also made to BS 1387 – no adjustment should therefore be provided;
- Huludao claims at Section E-2 that "goods exported to Australia and that sold domestically are identical";
- Huludao produces pipe for domestic and export from steel coil/strips sourced entirely in China;

- Claims that it generally sells from inventory for domestic sales, but Australian sales made to order, and has requested a downward adjustment to normal value for inventory carrying costs
  - o If domestic and export sales are identical, no adjustment should be made;
  - o If not identical, an upwards specification adjustment to normal value is required to allow for exported goods manufactured in accordance with BS 1387;
  - o C&BP needs to recognise significant inventory associated with export sales;
  - o C&BP also needs to be satisfied that it affected the price;
- Huludao + Kingland seeks adjustment for costs incurred domestically for advertising; Advertising expenses are not solely domestic expenses and include export advertising – reference web advertising.
- Export sales to third countries provided and claims that goods sold "within Asia, to Europe and the Caribbean" are "generally" made to BS 1387, and goods sold to USA are to ASTM A53, claiming to be a higher standard and not like goods
  - o What evidence supports ASTM A53 is of higher standard? Refer attached table that highlights similarities between ASTM A53 & AS 1074/BS1387.
  - o This actually supports need for upward adjustment to normal value for exports to Australia.
- In costings, Huludao has made adjustments to the cost of coil to allegedly allow for different grades used between domestic and export sales
- This would suggest domestic and export sales are not "identical";
- Nobody formally communicated National Steel Policy to Huludao – applicant continues to challenge this claim
- Prices of raw material (HRC/HRS) are comparable between suppliers. Huludao claims prices established under market forces. Key point is that C&BP should not find that they buy significantly cheaper than anyone else or vs a reported 'general' price
- Under Section I – Countervailing – claims no benefits received by Huludao
  - o Benefits may have been derived in earlier periods
  - o Benefits will largely take the form of a suppressed raw material and energy costs rather than necessarily direct financial support from Government.

## 2. Kingland

- Kingland owned 41 per cent by Kingland Group;
- Does not buy HRC from related parties;
- Kingland Pipelines is producer and exporter of goods;
- Kingland prepares for production on receipt of purchase order, only after delivery is commercial invoice sent to customers along with shipping documents;
- Incurred certain unspecified expenses associated with export transactions;
- Offsets yield loss with sale price of scrap/
- Exported black & galvanised circular pipe;
- Domestically sells to Shanghai MinMetals and domestic distributors and end-users.
- For sales to Australia, invoiced quantities are claim to be based on theoretical weights, whereas cost of production (and domestic sales) claim to be based on actual weights
  - o Claims normal value should be adjusted downwards as exported goods actual weight is less than theoretical weight due to tolerances permitted in BS 1387
  - o However, claims that there are no cost differences between domestic sales and export sales to Australia.
- HRC/strip sourced locally;
- Domestic sales supplied from inventory, whereas export sales are made to order;
- Confirms that raw material costs influence pricing;
- Claims no difference in packing costs between export & domestic – not ATM's view.
- Also has requested downward adjustment to allow for advertising related to domestic sales only. Research confirms that Kingland does produce brochures and advertising material for export markets. Kingland's advertising expenses to be apportioned between domestic and export.

- Claims that goods exported to USA are produced to ASTM A53 and claims not to be like goods to export sales to Australia
  - o On what basis and evidence provided does Kingland assert this – requires evidence;
- States that no-one formally communicated National Steel Policy to Kingland
- Countervailing:
  - o Kingland pays "enterprise" income tax rate of 12.5 percent (not general rate of 25 per cent – P.56);
  - o Stated that it did not import equipment or raw materials during period of investigation – *however, should be asked whether equipment imported duty free in earlier periods;*
  - o Kingland purchased HRS from SOEs.

### 3. Dalian Steelforce

- Owned by Steelforce China Pty Ltd;
- Located in Dalian Development Zone (previously Dalian Hi-Tech Zone) and claims no benefits derived due to location;
- 'Like Goods' – why has this section been made confidential?
- Recommends normal value be determined under s 269TAC(2)(c) – based on costs plus S,G&A and profit;
- Issue of 'downgrade' pipe – seeking an adjustment;
- Acknowledges yield loss from slitting – states that it is standard for producers; (ref, other exporter questionnaire response)
- Receives a preferential tax rate - 12.5 per cent in 2010 i.e. Preferential Tax Rate for Foreign Invested Enterprises;
- Has purchased HRS from SOEs – 78 per cent from AnSteel – an SOE;
- Dalian has advised of a benefit that it has previously received – *not specified in public file document;*
- Addendum shows that Dalian received a benefit that is a grant administered by Dalian Foreign Trade and Economic Cooperation Bureau.

#### Other considerations re Dalian Steelforce:

- *Arms Length Sales*
  - o ATM does not consider that C&BP can determine sales from Dalian Steelforce to Steelforce Trading as arms length,
  - o Both companies are subsidiaries of Steelforce Australia which in 2010 incurred a \$xxM loss on turnover of approximately A\$xxxM for 2010;
  - o The incurred losses have been generated from selling prices that do not recover costs (see below).
- *Competitiveness of Steelforce*
  - o ATM queries how Steelforce can compete effectively with a mill producing xx to xxkt pa with a nameplate capacity of xxxkt pa, a significant component of (ref; other costs) against Chinese mills selling hundreds of thousands of tonnes pa domestically and overseas?
- *Downstream sales at losses*
  - o [Example] ATM submits ACS should reconcile prices from Steelforce Trading to Steelforce Distribution at a point in time and prices from Dalian Steelforce to Steelforce at same point in time.

- Dalian Steelforce "Profit"
  - o Dalian Steelforce has suggested a normal value based upon costs under s.269TAC(2)(c);
  - o ATM submits that C&BP will have access to "other" Chinese HSS seller's domestic selling prices in China, upon which normal values for Dalian Steelforce can be used before considering reverting to Dalian Steelforce's costs;
  - o Dalian Steelforce is seeking a competitive advantage by seeking normal values be determined on costs – the losses of its parent company that are generated by Steelforce Trading are relevant for normal value purposes and should be taken into account.

