Australian Government
Australian Customs and
Border Protection Service

INVESTIGATION INTO THE ALLEGED DUMPING AND SUBSIDISATION OF HOLLOW STRUCTURAL SECTIONS (HSS) EXPORTED FROM THE PEOPLE'S REPUBLIC OF CHINA

AND

THE ALLEGED DUMPING OF HSS EXPORTED FROM KOREA, MALAYSIA, TAIWAN AND THAILAND

HULUDAO CITY STEEL PIPE INDUSTRIAL CO. LTD

EXPORTER VISIT REPORT

MARCH 2012

THIS REPORT AND 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

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2 BACKGROUND

2.1 Introduction

OneSteel Australian Tube Mills Pty Ltd on behalf of the Australian industry manufacturing certain hollow structural sections (HSS) lodged an application requesting that the publication of a dumping duty notice in respect of HSS exported to Australia from China, Korea, Malaysia, Taiwan and Thailand and a countervailing duty notice in respect of HSS exported to Australia from China.

The investigation was initiated on 19 September 2011. Public notification of initiation of the investigation was made in *The Australian* newspaper on 19 September 2011. Australian Customs Dumping Notice (ACDN) No. 2011/43 provides further details of this investigation and is available at www.customs.gov.au.

This report concerns Huludao City Steel Pipe Industrial Co Ltd (HDP) – an exporter producer in China.

HDP completed the exporter questionnaire and provided all details on costs and prices warranting investigation – the prices related to detailed sales spreadsheets listing domestic and export sales. It also completed the questionnaire so far as market situation and subsidies was concerned.

The period for assessing dumping is 1 July 2010 to 30 June 2011.

2.2 Purpose of visit

The purpose of the visit was to verify information submitted by HDP.

A non-confidential version of the exporter questionnaire response was placed on the public record. The investigating team will use the verified information to make preliminary assessments of like goods, the exporter and the importer, export price, normal values, and dumping margins.

3 VISIT DETAILS

3.1 Information requested prior to visit

Prior to the visit we had asked HDP to revise its submission by combining direct and indirect sales to Australia into the one spreadsheet. They had had been listed in separate spreadsheets as direct and indirect exports.
Also, we asked HDP to add two additional columns of data in the domestic and in export sales spreadsheets in order to provide details line by line on wall thickness and weight category. The initial submission had not included this information.
HDP met all these information requests. The minor revision referred to below were made to the spreadhseets we had requested.

3.2 Meeting dates and attendees

The visit to HDP was between 22 to 24 February 2012. Following on site verification on those dates we had on subsequent occasions had contact with the company while in Huludao in order to obtain some additional information.

Present	**Huludao City Steel Pipe Industrial Co. Ltd.**
	Mr Feng Zhenwei, General Manager
	[redacted], Financial Manager
	[redacted] Production Manager
	[redacted] Accountant
	[redacted] Export Sales Person
	Consultant
	Mr Xiong Lan, B&H Associates
	Mr Peng Wang, B&H Associates
	Mr Ding Peng, B&H Associates
	Customs and Border Protection
	Mr Bill Walsh, Customs Manager
	Ms Stephanie Lee, Director

3.3 Meeting agenda

Prior to the verification meeting, we forwarded HDP a visit agenda (**Confidential Attachment GEN 1**). This agenda listed the important issues examination on cost and price matters and requested additional information from HDP.

3.4 Introduction

At the commencement of the meeting we explained the usual details of background and SEF reporting deadline and the right of interested parties to make submissions in response to this SEF within 20 days of its publication.

3.5 Co-operation

HDP co-operated with the verification of details contained in the exporter questionnaire response. All requests for further information were met promptly.

At the beginning of the verification meetings they provided some updated data where in it had identified some minor errors.

It provided these in a folder tilted "Minor Corrections". They are: a revision in the 'turnover' tab for a small adjustment to export sales quantity and value to Australia; a minor correction for some weight categories in the Australia sales spreadsheet and the addition of two invoices; an upwards revision to inland transport expenses by a small amount due to a calculation error through the incorrect inclusion of [redacted]; a CTMS adjustment – one being an adjustment to the materials cost line because scrap had not been accounted for; and the other a downward revision to the amount calculated for the steel grade adjustment. A more detailed description of these amendments is at **Confidential Attachment GEN1A.**

3.6 Visit report

HDP was informed about the requirement to produce a confidential report of our visit and the need to prepare a report for the public record.

4 COMPANY INFORMATION

4.1 Company ownership

HDP is a privately-own company founded in 1993. At Exhibit A-1 of its response to the exporter questionnaire, HDP shows the corporate structure (**Confidential Attachment GEN 2**).

HDP is a privately-owned company, its shares owned by [redacted] Chinese nationals. HDP wholly owns [redacted] subsidiaries:

[redacted]

The fourth subsidiary is located [redacted] and makes line pipe and OCTG –established in 2006. The seven individuals also wholly own another company - [redacted] - which itself wholly owns other companies none of which produce the GUC. HDP provided the long term investment ledger in relation to that company.

4.2 Functions

HDP manufactures and sells HSS. It also sells oil line pipe, casing pipe and OCTG (oil country tubular goods) pipe produced [redacted]

[redacted]

4.3 Relationship with customers and suppliers

All of HDP's steel purchases are from unrelated suppliers. This is examined in more detail in the costs section. As far as customers are concerned there is a small quantity of domestic sales to a subsidiary company [redacted] quantities are immaterial.

4.4 Production process

HDP provided a flowchart of the production process. See **Confidential Attachment GEN 3.**

First described is the 'slitting process'. The purchased steel strip or steel coil is in rolls and these are loaded onto a slitting machine, uncoiled, and then vertically slit to the desired width. Slit strip is re-coiled – there are scraps generated in this process.

In the 'welding phase' the slit material is loaded into the pipe welding line where a series of steps follow that include forming and welding, heat treatment, sizing and

strengthening, bevelling through to hydraulic testing and ultrasound inspection. In the 'finishing' phase the pipe is coated and packed.

There are 3 production lines. Details of each are in the following table:

Line Number	Pipe range produced (mm)	Known as	Date commissioned
[redacted]	[redacted]	[redacted]	[redacted]

HDP explained that [redacted]

The only pipe manufactured by HDP is [redacted]

HDP explained that the categorisation of pipe according to a weight category such as light (L); medium (M); and heavy (H) is required only in the British Standard (see below). We noted this was the case by referring to the Standard.

HDP explained that the process it followed of working out a weight categorisation required them to compare the wall thicknesses and outside diameter details according to the British Standard and this was a time consuming process.

4.5 Profit Reported

HDP's financial statement [redacted] (in the 'business' profits line and in the 'total' profit line in the financial statement). It [redacted] for the GUC for the POI – more information on profitability is at section 11 of the report where profit in normal values construction is examined.

5 GOODS UNDER CONSIDERATION AND LIKE GOODS

The goods the subject of the application are:

> *Certain electric resistance welded pipe and tube made of carbon steel, comprising circular and non-circular hollow sections in galvanised and non-galvanised finishes. The goods are normally referred to as either CHS (circular hollow sections) or RHS (rectangular or square hollow sections). The goods are collectively referred to as HSS (hollow structural sections). Finish types for the goods include in-line galvanised (ILG), pre-galvanised, hot-dipped galvanised (HDG) and non-galvanised HSS.*
>
> *Sizes of the goods are, for circular products, those exceeding 21 mm up to and including 165.1 mm in outside diameter and, for oval, square and rectangular products those with a perimeter up to and including 1277.3mm. Categories of HSS excluded from the goods are conveyor tube; precision RHS with a nominal thickness of less than 1.6mm and air heater tubes to Australian Standard (AS) 2556.*

The application includes the following information to clarify the nature of the goods.

Finishes

All HSS regardless of finish is included in the application. Finish types for the goods include in-line galvanised (ILG), pre-galvanised, hot-dipped galvanised (HDG) and non-galvanised HSS. Non-galvanised HSS is typically of painted, black, lacquered or oiled finished coatings.

CHS with other than plain ends (such as threaded, swaged and shouldered) are also included in the application.

Standards

HSS is generally produced to either the British Standard BS 1387 or the Australian Standard AS 1163 or international equivalent standards (including ASTM/JIS and KS). HSS can also be categorised according to minimum yield strength. The most common classifications are 250 and 350 mega Pascals (MPa).

HSS may also be referred to as extra-light, light, medium or extra heavy according to its wall thickness.

Excluded goods

The following categories are excluded from the goods subject of the application:

- conveyor tube (made for high speed idler rolls on conveyor systems, with inner and outer fin protrusions removed by scarfing (not exceeding 0.1 mm on outer surface and 0.25 mm on inner surface), and out of round standards (i.e. ovality) which do not exceed 0.6 mm in order to maintain vibration free rotation and minimum wind noise during operation);
- precision RHS with a nominal thickness of less than 1.6mm (is not used in structural applications); and

- air heater tubes to AS 2556.

Tariff classification

At initiation, Customs and Border Protection understood the goods to be classified to the following tariff subheadings in Schedule 3 to the Customs Tariff Act 1995:

- 7306.30.00 (statistical codes 31, 32, 33, 34, 35, 36 and 37);
- 7306.61.00 (statistical codes 21, 22 and 23); and
- 7306.69.00 (statistical codes 26, 27 and 28).

Since initiation, the statistical codes related to these relevant subheadings have been altered, and the goods are now classified to the following tariff subheadings:

- 7306.30.00 (statistical codes 31, 32, 33, 34, 35, 36 and 37);
- 7306.61.00 (statistical codes 21, 22 and 25); and
- 7306.69.00 (statistical code 10).

The goods exported to Australia:

- from Korea and Taiwan are subject to a 5% rate of duty;
- from China and Malaysia are subject to a 4% rate of duty; and
- from Thailand using Thailand Free Trade Agreement rates are free from duty as of 1 January 2010.

There are numerous Tariff Concession Orders applicable to the relevant tariff subheadings.

Like goods

In the visit agenda we had asked HDP to provide '*a written statement, supported by evidence such as specification sheets or testing results; addressing the specification standard of the export sales versus domestic sales of the pipe under examination*'.

The purpose was to be satisfied that comparable sales existed in the domestic market. HDP provided a full package of information on the specification. HDP explained that circular pipe is made to the following specifications:

	GBT 3091	**BS 1387**	**AS 1074**
	Chinese	**Australian**	**Australian**
Yield strength	195-345	>195	>195
Tensile strength	315-470	320-460	320-460
Wall thickness tolerances	+-10%	L: -8% M & H: -10%	L: -8% M & H: -10%

Elongation on gauge length	>13% - 15%	>20%	>20%
L: Light **M: Medium** **H: Heavy**			

The detailed specifications for the three standards are at **Attachment GEN4**.

On the domestic market pipe meeting Chinese standard GBT 3091 are the most directly comparable goods. HDP explained it is an export oriented company producing goods to standard specifications and also on the domestic market it produces goods to an equivalent standard.

We asked about 'downgrade' pipe. HDP explained that this product is a normal consequence of the production process where a specification standard has to be met and quality control rejects some of the product. IT will be noted later in this report how we examined downgrade both in the costing system and in the total sales records where all such sales were identifiable. Sales of 'downgrade' pipe have also been examined in the 'completeness' test below

Downgrade pipe may have, for example, welded ends making up one length or fail standards for other reasons such as pressure testing. We satisfied ourselves that there were no downgrade sales within the domestic sales listing of the most comparable goods that was being examined for normal value purposes.

Customs and Border Protection has previously visited HDP and made findings concerning like goods. In this investigation we have examined the matter afresh and find that there are sales in the domestic market of like goods. We have not treated downgrade sales as a most comparable like good and such sales are not included in normal value calculations.

6 SALES TO AUSTRALIA

HDP provided details of sales to Australia – initially in two separate spreadsheets – one for direct export sales and the other for indirect export sales. Indirect export sales are sales via a trading house (Shanghai Min Metals), whereas direct sales are made to distributors for the Australian market.

Total invoiced sales in the POI were [redacted] MT with a value of [redacted] RMB.

GC pipe represented the biggest volume ([redacted]%) of the Australian sales followed by BC ([redacted]%).

AUSTRALIAN SALES POI						
Model/ grade/ type	%	Weight Category	Sum of Actual Weight (MT)	Quantity Invoiced (MT)	Sum of Net invoice value (RMB)	RMB/MT
BC		H	[redacted]	[redacted]	[redacted]	[redacted]
		L		[redacted]	[redacted]	[redacted]
		M		[redacted]	[redacted]	[redacted]
		XL		[redacted]	[redacted]	[redacted]
BC Total	[redacted]			[redacted]	[redacted]	[redacted]
BS		N/A		[redacted]	[redacted]	[redacted]
BS Total	[redacted]			[redacted]	[redacted]	[redacted]
GC		H		[redacted]	[redacted]	[redacted]
		L		[redacted]	[redacted]	[redacted]
		M		[redacted]	[redacted]	[redacted]
		XL		[redacted]	[redacted]	[redacted]
GC Total	[redacted]			[redacted]	[redacted]	[redacted]
GS		N/A		[redacted]	[redacted]	[redacted]
GS Total	[redacted]			[redacted]	[redacted]	[redacted]
Grand Total				[redacted]	[redacted]	[redacted]

6.1 Price and Sales Process

HDP explained that, for direct and indirect Australian sales, terms and conditions applicable to these sales would be reflected in written contracts. There are no price lists for these sales.

The sales process for direct and indirect Australian sales are as follows:

- Buyers would enquire about the sales;
- General Manager would offer the price by telephone of email;
- There may be negotiation between parties;
- When agreement is reached, parties would sign a contract;
- Production of goods would be arranged in accordance with the orders;
- Delivery of goods would be arranged;
- Invoices would be issued (VAT Invoices would be issued to indirect Australian sales customers);
- It normally takes [redacted] for delivery of goods;
- The goods would be packed into bundles;

[redacted]

HDP explained that, in negotiating the price for each sale, the General Manager had regard to the cost of steel as the raw material price for steel is volatile.

HDP explained that prices are invoiced in amounts per metric tonne.

The Inco terms for direct Australian sales are [redacted] and indirect Australian sales are [redacted]

For indirect Australian sales, [redacted]

The direct Australian sales are normally paid [redacted]

The indirect Australian sales are paid by running accounts. As the customer for indirect Australian sales, [redacted]

HDP is not related any of the customers for indirect and direct Australian sales.

6.2 Indirect and Direct Australian Sales - Verification to Source Documents

The export sales spreadsheets provided by HDP included line by line information relating to:

- Customer;
- Level of trade;
- Product specifications;
- Theoretical Wall thickness;
- Actual Wall thickness;
- Weight category;
- Invoice dates and number;
- Date of sale;

- Order number;
- Shipping and payment terms;
- Sales quantity;
- Actual weights;
- Revenue;
- Exchange rate;
- Currency used;
- Inland transport;
- Handling and other charges; and
- VAT costs.

Prior to the visit we requested that HDP provide supporting documents for five selected shipments for indirect Australian sales and three direct Australian sales.

HDP provided the following documents for each of the direct Australian sale shipments during the verification visit:

- Sales contract;
- Commercial Invoice;
- Packing list;
- Bill of lading;
- Shipment out ticket; and
- Proof of payment.

HDP provided the following documents for each of the indirect Australian sale during the verification visit;

- Sales contract;
- Invoice;
- Shipment Out ticket;
- Payment with Account Receivable.

We also requested HDP to provide additional 18 sales documents for direct and indirect Australian sales to show that the unit price of HSS set out in the invoice and paid by the customers corresponds with the price set out in the contracts.

HDP provided the following documents for each of the additional 18 indirect and direct export sales:

- Sales contracts;
- Purchase orders;
- Invoices.

Based on the documents provided, we are satisfied that the unit price of the HSS sold listed in the Australian sales spreadsheet correspond with the unit price specified in the sales contracts and invoices.

HDP also provided a conversion chart for conversion of imperial measurement to metric measurement as some of the HSS were specified in imperial measurement in

the sales contracts. These measurements were converted to metric measurements for the invoices. The conversion chart is marked as **Confidential Attachment EXP1**.

The direct export sales documents are at **Confidential Attachment EXP2.**
Indirect export sale documents are at **Confidential Attachment EXP3.**

6.3 Taxation

The direct exports carry VAT. For the three tariff classifications of the GUC the VAT rate is 17% and the VAT rebate has been 9% as from June 2009. Details are provided in the attachments listed in the Adjustments section below.

6.4 Actual vs. theoretical weight

HDP stated that exports of the GUC are sold based on theoretical weight rather than actual weight (based on a standard per length of pipe), whereas domestically sold goods are sold by the actual weight of pipe.

HDP submits that it is the global industry practice of HSS to use theoretical weight for export sales. HDP explained this is due to the fact that, for the GUC as well as other pipes, there is a range of outside diameter tolerance that can extend to +10% or -5%.

The export sales contract specifies that the invoice will be issued on theoretical weight basis. We inquired when the goods are weighed and HDP advised that the actual weight of each export shipment is determined prior to dispatch, and that it keeps records on the actual weight and variance between actual and theoretical weight. They showed where the weigh bridge was in the production process. Where goods are the same a truck load is weighed, and in some cases individual bundles are weighed.

The weight of HSS specified in the contract is normally different to both the actual and theoretical weight specified in the shipment out ticket and invoice. For instance, the contract may specify 50 MT of HSS. The actual weight of the HSS specified in the shipment out ticket is 48.334 MT and the theoretical weight of the HSS specified on the shipment out ticket is 50.306 MT. The invoice specifies 50.296 MT for the same good.

HDP explained that the difference was caused by the difference between the actual and theoretical weight and also rounding up in respect of the theoretical weight when the invoice was issued. We are satisfied that the difference between the actual and theoretical weights and the different ways of rounding up are negligible and we are satisfied that the export sales are priced on a theoretical; weight.

The formula for theoretical weight is:
(OD – thickness) x thickness x length x 0.02466/1000 (based on mm).

6.5 Date of Sale

HDP submits that the date of contract should be treated as the date of sale for direct and indirect Australian sales because the contract determines the price of goods and terms and conditions of the sale.

In addition to the five indirect Australian sales and 3 direct Australian sales we selected prior to the visit, we further requested 18 additional Australian sales (direct and indirect) in order to examine the issue.

We found that:

- Contract price for the goods agreed by the parties to the sale is specified in the sales contracts;
- Unit price of the goods stated in the Purchase Orders (for indirect Australian sales) reflects the price stated in the contracts;
- Invoices issued for both direct and indirect Australian sales reflect the contract price;
- The goods were delivered in accordance with the terms and conditions stated in the contracts e.g. [redacted];
- Models of goods sold fall within the terms and conditions of the sales contracts;
- Payment terms for the goods accord with the payment terms stated in the sales contracts, e.g. payment of deposit and cash payment etc.

Export invoices reflected the contracts entered into in every instance examined. The exported goods are produced to a production schedule – the contract is entered into to and because of production lead times it may be [redacted] until production occurs, a commercial invoice is then raised and the goods are packed for delivery to port. Shipment from [redacted] occurs soon after.

HDP claimed that the date of contract as the date of sale for the indirect and direct Australian sales should be the date of sale because this is the date the sale was concluded by the parties and the terms and conditions of the sale were agreed by the parties on that day.

HDP submits that the date of invoice should be treated as the date of sale for domestic sales as that is the date the sale takes place. Domestic sales are invoiced at the date the order is assembled and sent to the customer. HDP said that the US ITA had used contract date as the date of sale.

The argument for using contract date may be summarised in the following way::

- when export contracts are entered into the General Manager has regard to the cost of steel at the time as it is volatile. So, he must make some estimates of the likely HRS cost movements between contract date and the future date when production will occur
- But, in the case of domestic sales, the goods are sold from stock and prices reflect the then current average cost of HRS.

In other words, the argument for comparing a contract date to an invoice date is essentially one where the export sale prices have been set having regard to likely cost movements but for the domestic sales the prices reflect the prevailing actual costs. The claim rests on a assumption that different costs are incorporated in the two sales prices being compared – and this is said not to allow a fair comparison.

We found that there are no matching purchase contracts of the steel input material HRS (whether coil or strip) to meet that future production schedule for export sale. What happens is that the HRS continues to be purchased and added to stock and stock values on a moving weighed monthly basis – and at time of production for that contracted export sale the HRS is taken out of the HRS warehouse and consumed for that planned production. The contract had merely reflected some estimation of what the future price of HRS might be, it did not rest on a 'locked in' HRS price near the time of the contract.

Under these circumstances:

- an export contract entered into in say June 2010 may have a different HRS cost structured into the price than a domestic sale invoiced in June 2010
- when the export goods are produced say 3 months in September 2010 later it is uncertain whether the cost of HRS used in export production is significantly different from the cost of HRS used in domestic production in September
- the extent to which the HRS cost may differ between export and domestic production could be affected by several factors including for example the domestic and export production schedules and the lead times for purchasing HRS.

The difference between contract date on export sales and in invoice date on domestic sales do not necessarily account for such cost difference.

Because of these reasons we have not accepted the claim that the contract date for export sale has to be used to allow fair comparison. We have used the invoice dates as the date of sale.

We note that at the last verification of HDP the invoice date was used as the date of sale for export and domestic sales. An exporter should not be permitted, in our view, to make selective use of such claims when it considers there is some advantage in doing so.

6.6 Importer – preliminary assessment

In **direct sales** to Australia, having regard to the definition of importer in Section 269T(1), we consider that HDP's direct Australian customers are the beneficial owners of the goods at the time of their arrival in Australia and, as such, are the importer of the goods. We note that the Australian customers such as [redacted] was named as the consignee on the bill of lading, are invoiced by HDP and provide payment to HDP for the purchase of the goods.

For **indirect sales** to Australia, we do not have all the facts in relation to the export transactions between Shanghai Minmetals and its Australian customers of the GUC. Consequently, we are unable to accurately assess who the importer was in those transactions.

6.7 Exporter – preliminary assessment

In the case of **direct sales** to Australia to [redacted], we consider HDP to be the exporter as HDP:

- is the manufacturer of the goods;
- appears as the Shipper on the Bill of Lading;
- invoices [redacted] for the goods directly;
- arranges and pays [redacted] in China;
- 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; and
- sent the goods for export to Australia and was aware of the ultimate purchaser's identity.

For **indirect sales** to Australia, whilst we do not have all the facts and circumstances of indirect export sales made through Chinese traders, the evidence is that HDP is properly considered as the exporter in these sales as HDP was the owner of the goods in the country of export (China) who sent the goods for export at the instructions of Shanghai Minmetals.

The Chinese traders in these transactions act as intermediaries in the export sale, acting as selling agents to facilitate price, quantity, pipe specification and discharge port negotiations.

That payment is made to the trader in these transactions, would not, in our view, preclude us from a finding that HDP is the exporter in these indirect sales to Australia, albeit that the goods have not been purchased by the importer from the exporter (excluding determination of an export price under the provisions of either Section 269TAB(1)(a) or (b)).

6.8 Arms length

In relation to HDP's direct and in direct sales to Australia, we found no evidence that:

- 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, 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 HDP's direct export transactions to be arms length in terms of Section 269TAA of the Act.

6.9 Export price – preliminary assessment

A summary of export prices has been shown in the table above and more detailed tables are available within the spreadsheets.

7 DOMESTIC SALES

DOMESTIC SALES		POI		
Model	Weight Category	Actual Quantity (MT)	Net invoice value	Unit Price RMB/MT
BC	H	[redacted]	[redacted]	[redacted]
	L	[redacted]	[redacted]	[redacted]
	M	[redacted]	[redacted]	[redacted]
	XL	[redacted]	[redacted]	[redacted]
BC Total		[redacted]	[redacted]	[redacted]
BS	N/A	[redacted]	[redacted]	[redacted]
BS Total		[redacted]	[redacted]	[redacted]
GC	H	[redacted]	[redacted]	[redacted]
GC Total		[redacted]	[redacted]	[redacted]
Grand Total		[redacted]	[redacted]	[redacted]

7.1 Price and Sales Process

HDP sells to distributors and end-users on the domestic market.

For domestic sales, there are no price lists or contracts for these sales. Prices are negotiated having regard to market conditions, the activities of its competitors and the current cost of raw materials.

There are many competitors in China for the domestic sales. HDP is not related to any of the customers for domestic sales except for a small quantity that had been sold to one of its subsidiary companies.

The sales for the domestic sales are evidenced by VAT invoices.

[redacted]

The terms of payment for domestic sales are normally [redacted] No discount or rebates have been given for these domestic sales.

The sales process for domestic sales is:

- The customers would ring HDP to place an order;
- HDP will check inventory;
- If no goods held on inventory, HDP will manufacture according to order;
- HDP will ship the goods;

- Invoices will be issued;
- Payments are made by customers.

HDP will issue a certificate for the goods but no warranty will be provided for the goods.

7.2 Weighing of the goods for domestic sales

HDP said that for goods that were sold on cash on delivery terms, the goods would be weighed upon packing. The invoices for the goods would be issued after weighing and packing. If the customers purchased different models of HSS that are priced differently, the different goods would be separately by using a weighing bridge.

7.3 Extended period of data collection for domestic sales and costs

Because HDP had claimed that it wanted the date of export contract to be used as the date of sale (to be compared to a domestic sale invoiced in the same month as the export contract) we explained that additional data would be required in line with the exporter questionnaire.

At verification HDP provided extended domestic sales back to late 2009. Also, details of costs were provided month by month back to that earlier period. This information has been analysed for the usual tests such as OCOT and sufficient in the event it is decided that there claim would be accepted. HDP put considerable effort in providing this extended data as a consequence of its date of sale claim.

7.4 Domestic Sales - Verification to Source Documents

The domestic sales spreadsheet provided by HDP included line by line information relating to:

- Customer;
- Level of trade;
- Product specifications;
- Wall thickness;
- Weight Category;
- Invoice dates and number;
- Date of sale;
- Delivery and payment terms;
- Sales quantity;
- Gross and net revenue; and
- Inland transport.

Prior to the visit, we requested HDP to provide supporting documents for 9 selected domestic sales. HDP provided the following documents for each of these sales transactions during the verification visit:

- Invoice;
- Shipment Out Ticket; and
- Evidence of payment.

These documents are at **Confidential AttachmentDOM1**.

We verified the volume and value of sales for the selected domestic sales in the domestic sales spreadsheet. We are satisfied that the domestic sales data provided by HDP is complete and relevant.

7.5 Arms Length Transactions

HDP advised that it generally does not make sales of HSS to related parties, except for in limited circumstances for their own consumption.

HDP also advised that no rebates, discounts or commissions applied to its actual domestic sales made during the investigation period.

For sales to both related and unrelated parties, we found no evidence that:

- 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, 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 are therefore satisfied that HDP's domestic sales of like goods were arms length transactions in terms of Section 269TAA of the Act.

7.6 Volume and Suitability of Sales

Customs and Border Protection examines the ratio of ordinary course of trade (OCOT) sales to the export volume, overall and by model. Where less than 5% prices may be unsuitable for a normal value.

Total domestic sales in OCOT in the POI were more than 5%.

[redacted] - there were sufficient sales in the OCOT.

For the remaining models -

[redacted]. As a consequence we have had to construct normal values using CTMS for these models. Also we had to construct for some BC models where sales were not in proximity. This is examined again later.

7.7 Ordinary Course of Trade

Sales of goods at a loss occurring in substantial quantities and which do not provide for the recovery of costs within a reasonable period, are regarded as being not in the ordinary course of trade. Substantial quantities occur when greater than 20% of the total volume sold in the exporting country.

Quarterly or monthly costs for the ordinary course of trade test?

HDP provided quarterly cost in its initial EQR and this is in line with how it is usually provided. At verification we obtained the working calculations and this permitted the CTMS to be known monthly.

Where costs are varying reasonably significantly, or as in this case show some increase over time, it is desirable, in our view, to use the monthly CTMS for the OCOT tests because this permits the costs to more closely match same period process. The OCOT outcomes are shown below.

[redacted]ave not been used in normal value calculations. But the remaining sales have been used.

DOMESTIC SALES

Model	Weight Category	OCOT Sales Volume	Total Quantity (MT)	% in OCOT	Australia Sales MT	Sufficiency Test
BC	**H**			31.8%		1445.0%
	L			55.1%		37.8%
	M			29.9%		9.9%
	XL			0.0%		0.0%
BC Total				31.4%		35.4%
BS	N/A			0.0%		1.8%
GC	H			98.3%		17.6%
	L					
	M					
	XL					
GC Total				98.3%		0.9%
GS	N/A					
Grand Total				32.6%		8.2%

7.8 Domestic Sales – Summary

We found a sufficient volume of sales in the domestic market that were arms length and sold at prices in the ordinary course of trade. The price paid has been confirmed. The information provided by HDP and verified at the visit we recommend that certain models sales prices are suitable for assessing normal value under s.269TAC(1). These models are identified in bold in the table above. For all other

models there are insufficient suitable domestic sales and normal values have been calculated using the verified costs to make and sell.

8 VERIFICATION OF SALES DATA TO AUDITED ACCOUNTS (COMPLETENESS TEST)

This section concerns the completeness of the domestic and export sales listings provided by HDP.

HDP provided in the turnover statement quantity and value details for domestic sales, export sales, export deemed domestic sales, investment, and other operation income.

This was provided for the audited financial period 2010 – and split between the two 6 month periods. We checked the total turnover to the audited financial statement. We also checked the 6 monthly data to the relevant Sales Revenue (Main Operations Income) ledgers for these periods.

Data was also provided for the POI – for the same income fields data was provided for the two six monthly periods of the POI. We checked the 6 monthly data to the relevant Sales Revenue (Main Operations Income) ledgers for these periods. The documents relating to this checking process are at **Confidential AttachmentDOM2A**.

8.1 Domestic Sales

HDP provided a listing of sales of *Total Domestic Sales* of all goods (of which the pipe under consideration was only a part) sold on the domestic market. The total value of these sales matched the sales income ledgers. The listing identified:

- customer name
- GUC or not
- BC or GC
- Domestic or Export
- SMM GUC Sales – Australia or not
- OD
- Product Name
- Product
- Galvanized or not
- Invoice Number
- Invoice Date
- Quantity
- Invoice Value

The product name listed in the sales data was only one guide to determining if it was GUC. "Welded Circular Pipe" was one commonly occurring pipe name. This could describe GUC or line pipe OCTG as well. To get the classification to GUC HDP had also line by line examined its records including invoices/shipment out tickets. The OD also served to identify non GUC product.

We examined a number of listings against records for both GUC and non GUC lines. In each instance the descriptions and quantities in this total sales listing matched the invoice details. We also selected some invoices for downgrade/scrap and these

also matched the total sales listing. Some of these invoices are at **Confidential Attachment DOM2.**

HDP had clearly input a significant effort into ensuring such total sales data accurately identified GUC and other product. The data identified was classified between direct domestic sales (which are the only actual domestic sales for normal value purposes) and those sales to a trading house – this was possible on customer name as only one trader is involved in indirect export sales. (Elsewhere in this report it has been explained that such indirect export sales are classified in the accounts as a 'domestic' – they have also been described as 'deemed' domestic sales).

When filtered on domestic sales we observed that the subtotal was [redacted], which is the same as the total domestic sales shown in the submission.

MT	ALL GOODS	GUC
Domestic Sales	[redacted]	[redacted]
Deemed' Domestic Sales (i.e. indirect exports)	[redacted]	[redacted]
TOTAL	[redacted]	[redacted]

The total all good listing also identified sales of scrap and downgrade. Following is a summation of sales by product type:

TOTAL ALL GOODS	MT
downgrade pipe	[redacted]
galvanized circular pipe	[redacted]
oil pipe	[redacted]
steel scrap	[redacted]
Welded circular pipe	[redacted]
Welded square pipe	[redacted]
Grand Total	[redacted]

We were satisfied that from this process of identification of actual domestic sales of [redacted] that it related to like goods under consideration and that there were no sales of downgrade pipe included.

8.2 Export Sales

As in the case of the domestic sales HDP provided a listing of sales of *Total Export Sales* of all goods (of which the pipe under consideration was only a part) sold on the export markets. The total value of these sales matched to the sales income ledgers.

The listing identified:

- customer name

- Destination
- Goods
- Galvanised or not
- VAT rebate
- GUC or not
- Quantity
- USD & RMB
- Ocean Freight
- Insurance
- Net USD and RMB

VAT rate was an identifier in locating GUC as OCTG pipe and line pipe show a rebate rate of 13% whereas the pipe under consideration has a rebate rate of 9%. Under China's VAT law the VAT has to be reported on a transaction basis therefore there was a rebate rate shown for every line.

In customer name there were 2 Chinese characters that showed the country, thus identifying the country shown in the "Destination' column. Australia was identified, the applicable VAT rate checked, and as a next step the 'Goods' column which identified OD allowed the GUC to be identified. Goods outside the range were identified as a 'blank' and those inside as "yes'. We confirmed the amount to the Australian sales spreadsheet (for direct sales) after adjusting for 2 invoices that were shown to be 168mm size.

8.3 Conclusion

We are satisfied that there is a complete listing of domestic sales of like goods and of the export sales to Australia.

9 COST TO MAKE & SELL

9.1 Introduction

HDP provided CTMS for each quarter of the POI. A unit CTMS was shown for each quarter for 2 types of models: BC/BS and GC/GS.

At verification we asked HDP to provide the costs of production worksheets for each month underlying its quarterly calculations. The monthly COP shown when accumulated matched the quarterly calculations as shown in the submission.

HDP does not record in its accounting system a different cost for each thickness specification. The HRS purchase invoices show the same or similar price level for different thickness within the same grade. Also, we observed in the cost of production worksheet (and as explained further below) that different thicknesses have the same unit cost allocated.

9.2 Accounting

HDP used a locally developed commercial accounting software system known as 'User's Friend'. HDP maintains one cost centre for the registered entity HDP. It explained this is a common practice in China.

Their accounting period is the calendar year. The reporting requirements are that every month HDP is required to lodge their income statement and balance sheet with the Tax Bureau. The financial statements are audited annually – the audit occurring about March and April of each year. The auditor is [redacted]. The auditors report pointed to its audit responsibilities and standards and it did not qualify the financial statements in any way, observing they have 'fairly reflected in all material respects you company's financial situation' for 2009 and 2010 audited reports which were attached to the submission. The audited reports are at **confidential attachment CTMS1**. HDP stated that its accounting is in accordance with the generally accepted accounting principles in China.

The accounting flow chart is at **confidential attachment CTMS2**. It describes the ledgers starting at the HRS purchase and the linkages through to the COGS (for black pipe and galvanised pipe) and the income statement.

9.3 Production volumes

HDP operates 3 production lines making steel pipe. Each line produces a defined range of pipe:

[redacted]

In the production report

[redacted] The CTMS provided in the original submission showed production by quarter for the 2 main models identified above.

We asked for the monthly production report for each month of the POI. This report identified materials consumed; the OD specification and production details for each workshop. The production details identified the volume of production that met the quality requirements; the imperfect pipe requiring further processing; downgrade pipe; and scrap ends. **Confidential attachment CTMS3** refers.

We confirmed the amounts that had been shown for production volume in the questionnaire CTMS equated with the detailed monthly production records.

We noted that HDP has 3 kinds of pipes identified in the production volume report and in its cost accounting records - qualified pipe; imperfect pipe; and downgrade pipe.

- Qualified pipes are the production that meet the required standards and are ready for sale

- Imperfect pipes are pipe produced having minor repairable defects such as the weld not being properly cleaned or imperfect painting. These pipes are said to meet the standards and can be made ready for sale after minor repair

- Downgrade pipe do not meet the standards. Even after having some repairs. The main defects are defects in the welded seam; or fail preassure tests. Such pipes are sold to certain construction applications such as fencing and scaffolding in the domestic market.

Downgrade pipe is fully costed and is treated in HDP's costing system as a 'co-product' i.e. a joint product. Scrap also is fully costed.

9.4 Steel purchases

In the detailed monthly production record we observed that the largest OD produced in the POI was 193.7 in production line 2. HDP explained that the width of the input material is determined by the formula OD* 22/7. For the GUC the largest OD is 165.1 which means that the maximum width of material used is 518.4mm.

HDP explained that 'narrow strip' is cheaper than 'steel coil' as it includes recycled materials. Also coil, being wider, can require additional slitting. It is for this reason HDP said that the vast majority of its production of the GUC is from 'narrow strip'. HDP said it may cut coil for GUC production on some occasions.

HDP explained that:
- 'narrow strip' may be up to no more than 1m
- 'coil' is above 1m with the most popular coil width being 1.25m
- where square pipe has the dimensions 250*250 coil must be used.

HDP explained that there is no economic incentive to use HRC in the production of the pipe under consideration. This pipe has a maximum

outside diameter of 165.1mm for circular pipe or perimeters 200*200mm of square pipes and these characteristics all fall within the uses performed by using the cheaper 'narrow strip'.

The table below shows raw material purchases - identifying HRC and narrow strip and GUC or line pipe/OCTG – for the POI.

Steel Purchases POI

For Product	Material type	QTY (MT)	Value (excl. VAT & freight on materials purchases)	RMB/MT
GUC	HRC	[redacted]	[redacted]	[redacted]
	narrow strip	[redacted]	[redacted]	[redacted]
GUC Total		[redacted]	[redacted]	[redacted]
Line Pipe/OCTG	HRC	[redacted]	[redacted]	[redacted]
	narrow strip	[redacted]	[redacted]	[redacted]
Line Pipe/OCTG Total		[redacted]	[redacted]	[redacted]
Grand Total		[redacted]	[redacted]	[redacted]

The initial exporter questionnaire asked exporters to identify all purchases in the POI identifying material type, quantity and value and whether the supplier was an SOE or not.

As part of our verification HDP had added 2 additional columns to its earlier response to the questionnaire. One column identified the steel grade purchased (in all 16 grades were listed) and the other column identified GUC or Line Pipe/OCTG. The allocation to GUC or Line Pipe/OCTG was made according to the specification requirements of the steel grade. Line pipe and OCTG generally use higher specifications of steel. These higher specifications cost more and are not used in producing the goods under investigation. As noted elsewhere in this report HDP provided full details of the specifications of the GUC pipe sold in the export and domestic markets.

The 'HRS Purchases spreadsheet' identified the grades of steel used in production of the goods, having regard to the grade of steel that has a potential for use in the production of the pipe the subject of this investigation.

HDP explained that because of the price advantages of 'narrow strip' over coil it would generally use 'narrow strip' in the production of the GUC where possible. This price advantage arises in two ways: first there is a lower purchase price for narrow strip compared to HRC; second using narrow strip entails lower production costs because less slitting is required.

The detailed listing of all HRS purchases (for itself and for steel used by Bahai Oil Pipe Co for line pipe and OCTG as HDP does all of the purchasing for the group) in the POI was checked to the HRS materials ledger for selected months and found to match.

9.5 Cost verification

Verification of costs to make and sell followed the ledgers that have been listed in the accounting process referred to at **Confidential Attachment CTMS4**. This process sees verification to source documents and to COGS in the finished goods ledger and the audited financial statement. The verification described below will be titled according to the accounting flowchart. The December quarter 2010 was selected.

HRS Steel Purchase

The HRS Material Ledger was provided showing the purchases of all steel consumed in production. It identified purchase voucher number; description summary; price, quantity and value debit and credit entries; and the balance (quantity and value).

Four sample invoices appearing in the ledger were checked to the original documents: being the purchase voucher (which number appears in the materials ledger); the accompanying invoice; and the 'materials in ticket'. The unit prices and the quantities and values in these source documents matched exactly with the relevant lines in the materials ledger. See **Confidential Attachment CTMS5**.

In addition. HDP had provided a detailed listing of all grades of steel purchased and the application of that grade to GUC or other products namely line pipe and OCTG.

Slit production and valuation

Records HRS consumption for slitting. The warehouse-out report to the financial department recorded the withdrawal from warehouse for slitting production and this matched the corresponding entry in the HRS materials ledger. Also shown in the ledger were withdrawals of material for use in tolling companies Suizhong (for GUC and line pipe) and Bohai (for line pipe and OCTG).

The HRS materials ledger shows a moving monthly average cost of material. We observed that the transfer out for slitting production was booked at that same moving average amount. We noted that the scrap steel voucher (which reported scrap steel output at the slitting production stage) also showed that scrap is valued at the same moving average cost. See **Confidential Attachment CTMS6**.

Slit steel production cost

Records slit steel costs. The cost of HRS withdrawn for slitting production was carried into a slit steel production cost calculation. We asked about the treatment of scrap HDP showed how the scrap production (as valued at the moving average cost of steel) was deducted from the total cost of HRS, yielding an actual cost of steel used.

We noted how this actual cost of steel (after scrap had been accounted for) was carried into the slit steel production cost calculation voucher. Other actual expenses added were for electricity, labour in the slitting workshop, welfare, overheads, and social insurance. Of these expenses electricity was the highest.

We observed that total expenses when added to the cost of steel (after allowance for scrap) was entered into the slit steel ledger at the total cost as so calculated after addition of all the expenses. As in the case of the HRS materials ledger the slit steel ledger recorded withdrawals for production – in this case for pipe production. This ledger recorded a moving monthly balance for slit steel. We observed that the withdrawal from the ledger for pipe production was recorded at the average as calculated in the ledger. See **Confidential Attachment CTMS7**.

Black Pipe COP - Treatment of Downgrade Pipe In Costs

Records welded pipe production costs. Slit steel consumption for welded pipe production is recorded as noted in the above ledger. Scrap is also generated ay the welded pipe production stage – usually steel ends. We checked the valuation of scrap and noted that scrap quantity and value is recorded in a voucher with the unit price assigned to the scrap amount was the weighted average price calculated in the Slit steel ledger.

The total cost accounting voucher recorded materials and all other costs. We checked that the materials cost for pipe production was equal to the slit steel consumption amount less the value of scrap. Other costs as before were added to the direct materials cost. Overheads had now become the largest cost item followed by electricity. The total direct materials cost and the total expenses are carried into a worksheet titled "cost of production worksheet'.

We checked that the total amounts in this worksheet equated with the amounts shown in the previous vouchers. This worksheet allocates the total steel cost and total expenses to each type of steel grade (such as 88.5; 90; 140; 159 etc). The allocation is according to production quantity.

The monthly production report was provided to check the amounts used in the cost of production worksheet. We checked that they reconciled. The monthly production report contains 3 columns showing production of '*qualified*' goods; '*recoverable*' goods; and '*downgrade*' goods – for each workshop. The COP report allocated steel cost and expenses steel grade for each of these 3 categories according to quantity. The result of this calculation is that the unit cost is uniform across models.

We inquired what was the purpose of allocating in this fashion when a uniform unit cost is generated for each model. HDP explained that the only purpose of this automatically generated calculation is to show a unit cost for each steel grade which is useful in their inventory management.

The accounting records normally maintained by HDP show that downgrade is given the same unit cost as the steel pipe (i.e the same cost as the 'qualified' pipe). HDP treats downgrade product as a joint product. **Confidential Attachment CTMS8** refers.

The Total CTM checked to the amount shown in the submission.

Galvanized Pipe COP

Costs as recorded above carry into the Finished Goods Ledger. We observed that ledger also recorded withdrawals for further production or for sale. The ledger, like other ledgers, recorded a weighted average cost.

For galvanized pipe further production is undertaken by [redacted]. The Galavanizing Outsource Ledger Expense Ledger was checked to the summary of costs (recorded in the 'Galvanizing Material Sent Back' summary). The summaries when totalled for the period confirmed the amounts (for quantity, black pipe cost and galvanizing expenses shown) submitted at the verification visit and, for the quarter, to the amounts shown in the exporter questionnaire response. **Confidential Attachment CTMS9** refers.

We noted that for GC, unlike BC, the accounting system recorded costs for each OD size. This contrasts to the uniform treatment for BC. Galvanized cost consists of two parts - the BC costs, which is the major cost, and the galvanizing cost. We used an average cost of GC per MT because the major part of the cost of GC is the black pipe and we have explained that how the accounting system gives BC pipe a uniform cost treatment per MT. Also, we noted that galvanizing costs are purchased on a per metric tonne basis. It is not meaningful, in our view, to measure GC costs any differently to BC.

Confirmation of cost records to COGS and the audited financial statement

We confirmed how costs recorded in the 'COGS Calculation Summary' was used and the corresponding entries in the COGS Ledger.

We noted how COGS is based on actual weights, not theoretical.

The total of main operating costs from this ledger when added to the 'Other Business COGS Ledger' equalled the amount shown in the Management Income Statement – and for year to date it matched the total COGS in the audited financial statement. **Confidential Attachment CTMS10** refers.

Electricity

In comparison to the cost of steel in the production of pipe electricity is not a significant expense. Nevertheless, we asked asked HDP about the costs of electricity and whether they received any benefits in the rate charged.

HDP provided the cost of production ledger and the electricity accounting voucher for the period we were examining. It showed electricity for slit production and electricity for BC production. The payment invoice was provided for the total amount shown for electricity, and the invoice identified the unit price paid per kwh.

HDP provided a website address for electricity prices applying in Liaoning Province. This site identified a range of prices according to user. We identified the rate applying to large industrial users. This was the highest rate shown. HDP was paying no less than that highest rate. HDP is not receiving and benefit compared to the commercial rates that are charged to any other large industrial user. There is no

evidence of any preferential rate applying to HDP's pipe production. **Confidential Attachment CTMS11** refers.

Black Square (BS) Costs

As noted HDP only produce BC pipe. Galvanized pipe is made by tollers; and this is also the case for BS as well. There are [redacted]

The BS Warehouse in Summary was prepared using the Finished Goods General Ledger for Rectangular Pipe. This reports costs on a full cost recovery basis, and provided details month by month over the POI.

HDP make direct purchases of BS from other suppliers and they also have BS produced under a tolling arrangement with other pipe producers. The 3 BS tolling companies are shown above. There are 5 suppliers of BS: [redacted]

We checked the amounts in the summary table to the Finished Goods Ledger and they agreed. We also examined selected invoices for both purchases in and for tolling and they supported the information provided.

In their submission HDP showed the CTM for BS as equal to the CTM for BC.

We examined the cost data that is available for BS, namely:

- BC costs
- Direct purchase costs
- Tolling costs

We used the full cost of toll producing GS as it directly related to the costs of producing that model. This cost is higher than the direct purchase costs and only marginally lower than the BC CTM. See **Confidential Attachment CTMS12.**

9.6 Adjustment to the Cost to Make for Steel Cost

HDP requested an adjustment of [redacted] RMB/MT 00 per tonne to the cost to make to account for lower steel input costs than were recorded in its cost accounting system. This is a revision to an earlier (higher) estimate in its original questionnaire response.

The claim rests on the fact that HDP purchases all of the HRC and narrow strip used in its production and also in the production of line pipe and OCTG by its related company Bohai. All of these purchases appear in the HRS Material Ledger and are part of the average cost of steel as calculated in the accounting system.

Because higher grades of steel are used in the production of line pipe and OCTG, using this average cost results in an inflated cost of steel for the goods under investigation.

It has been explained above that HDP generally uses narrow strip in the production of the goods. See section 9.4 which discusses this matter in some more detail.

The allocation of steel grade to 'GUC' achieves a conservative measure of the cost of steel used in production (because it had included HRC having a potential for use). Had it been based on the cost of narrow strip only a higher difference would exist between cost of steel for GUC and total steel costs.

We examined the total steel purchases and the allocations in the manner described and are satisfied that when working out the cost of the goods a downwards adjustment to the average steel cost is warranted. This difference is conservatively estimated [redacted] This has been carried into the CTM calculations as a downward adjustment.

In addition to the steel purchases ledger we examined a range of invoices. Steel grades Q195, Q215; Q235 are most commonly used HDP said in pipe production. Line pipe and OCTG use S245; S290; S360; H40; X42; J55; SPHE; and at the lower end Q345 and some overlap at Q235. The invoices for these various grades of steel supported the data about disparities in price for different grades of steel. These invoices are at **Confidential Attachment CTMS13.**

Were the steel adjustment calculated using narrow strips only the adjustment is higher at [redacted] from the table above). In actuality the difference would lie somewhere between [redacted] RMB/MT and [redacted] RMB/MT. However as we are uncertain of the actual proportion of usage of narrow strip and HRC in producing GUC we have used the conservative difference that has been calculated.

9.7 Weight categories

In the visit agenda we had asked HDP if costs could be prepared at weight category level. HDP advised that its costing records are not prepared at that level. Its normal cost system records costs at model level ie BC, BS, GC, GS. These are the records normally kept by the exporter.

9.8 Selling, general and administration expenses

HDP provided the general ledgers for selling, finance and administration expenses.

We checked the totals for Selling Expenses; for Administration Expenses; and for Financial Expenses to the relevant ledgers, for the POI. We noted that the cost of paint used in BC production is recorded within one of the selling expense items named "Accessory consumed'.

We had also verified the total sales value of the two main product groups black pipe and galvanized pipe. We checked the calculations and confirmed the amount shown

for SG&A expenses of [redacted] for black pipe and [redacted] for galvanized pipe.

The cost of inland freight is not included in these amounts, and we have verified that separately. Nor is the cost of port handling included in these amounts as it has been treated as a separate expense (see the discussion below in Adjustments). **Confidential Attachment CTMS14 refers.**

9.9 Cost to make and sell – summary

The cost to make and sell has been verified and the CTMS so calculated is suitable for determining a constructed normal value; and assessing whether domestic sales were sold in the ordinary course of trade.

The CTMS by model is summarised at **Confidential Appendix 1**.

10 ADJUSTMENT FOR COMPARISONS

10.1 Port handling

This is an expense that arises in relation to those exports to Australia that do not go via a trader i.e. it is only incurred in direct exports to Australia. Port handling expenses are a discrete item in Selling Expenses. We verified the amount having regard to the ledger entry and total export sales to be [redacted]
Port expenses have been used as an upward adjustment to NV for comparison to export prices sold directly to Australia.

10.2 Advertising expenses

HDP requested a downwards adjustment to NV for advertising expenses incurred in domestic sales. We confirmed the amount to the ledger and that in per unit terms it amounted to [redacted] RMB/MT for domestic sales.

We examined the ledger that details the advertising expenses and noted the items – business cards, exhibitions; delivery to exhibitions.

We are not satisfied that the type of advertising is sufficiently linked to sales of the goods to be said to have been likely to influence the price. We did not make this adjustment.

10.3 Actual and theoretical weight

The recording of theoretical weight has been explained in the export sales section above. We are satisfied it has determined the price of the export sales. On the other hand, the domestic sales are invoiced on the actual weight. We also saw in the cost verification that the CTM and the COGS are calculated on an actual weight basis.

As export sales are invoiced on theoretical weight, in order to achieve fair comparison an adjustment is required to place them on the same basis as export sales. We have accepted this claim is valid, as has been the case in previous reports on HDP.

We have made this downwards adjustment by observing the difference between actual and theoretical sales in the export sales spreadsheet. The actual weight of sales is [redacted] mt and the theoretical weight is [redacted] MT. The difference amounts to [redacted] and we have adjusted normal values downwards accordingly.

The standards at **Attachment GEN4**, in BS 1387, specify that the tolerance could be -8% for light pipes and -10% for medium and heavy pipes. The comparison table earlier in this report shows the standards. The calculated adjustment of [redacted] is compatible with these standards.

10.4 Credit

Export customers make prepayment or letter of credit at sight of documents – they are tantamount to cash terms. There is a range of credit terms on the domestic

market and on average they are [redacted] days. Applying the average interest rate over the POI which we checked to The People's Bank of China published rates over the POI. A relatively small downwards adjustment results.

10.5 Inventory carrying cost

The export ales section above described that there is a considerable lead time between the contract and delivery of the goods – [redacted]

This lag eventuates because HDP has to arrange production to order for Australian export sales since it normally involves diversified specifications, pipe markings, and particular lengths. Stocks are in relation to domestic sales where once an order is taken invoice and delivery occur soon after.

We checked the finished goods inventories to the Finished Goods Ledger, and the inventory adjustment has been calculated to be [redacted] - this will be a downward adjustment.

10.6 VAT

Domestic sales reported no VAT tax as being included. Export sales made directly to distributors carry an 8% residual VAT. For these sales the normal value has to be adjusted upwards by 8%.

We checked the VAT rates applicable to the relevant tariff classifications, and the VAT rebate and confirmed that the residual VAT in such sales is 8%. This amount has been added to the FOB price as estimated as this is the level the VAT applies.

For indirect export sales there is no VAT in the export price and no adjustment is required when calculating a normal value for these sales.

The adjustment calculations for the above items are at **Confidential Attachment ADJ**.

11 NORMAL VALUE

The outcome of the OCOT and sufficiency tests – see s 7.7 above – is set out in the table below.

Model	Weight Category	NV Method Recommended
BC	*H*	*s269TAC(1) - sales in OCOT and in sufficient quantity*
	L	*s269TAC(1) - sales in OCOT and in sufficient quantity*
	M	*s269TAC(1) - sales in OCOT and in sufficient quantity*
	XL	s269TAC(2)(c) - Constructed NV
BS	N/A	s269TAC(2)(c) - Constructed NV
GC	*H*	*s269TAC(1) - sales in OCOT and in sufficient quantity*
	L	s269TAC(2)(c) - Constructed NV
	M	s269TAC(2)(c) - Constructed NV
	XL	s269TAC(2)(c) - Constructed NV
GS	N/A	s269TAC(2)(c) - Constructed NV

The information above needs to be qualified in so far that the sales prices for the models identified in italics were used wherever there was a matching export sale in the same period (month). However, for some months where there are export sales and no matching sales - sometimes there was a 'gap' of several months between matches.

As prices and costs have varied over time it is our view that fair comparison is not served to use a unit normal value several months removed from the export sales (and costs to make and sell records kept by HDP do not exist at weight category level - see the commentary in section 9.7). Accordingly, in the cases where the pattern of domestic sales prices do not permit a period (monthly) match the normal value has been worked out using a constructed method.

Profit Added

Model	Weight Category	Quantity (MT)	TOTAL CTMS	TOTAL REVENUE	TOTAL PROFIT	%
BC	H	[redacted]	[redacted]	[redacted]	[redacted]	
	L	[redacted]	[redacted]	[redacted]	[redacted]	
	M	[redacted]	[redacted]	[redacted]	[redacted]	
BC Total		[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
BS	N/A	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
GC	H	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
BS & GC		[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
TOTAL		[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

A profit has been added of [redacted]% in the constructed normal values.

This profit derives from sales in the ordinary course of trade for black square pipe and galvanized heavy pipe. While these sales are not in sufficient quantities they are considered to be in the ordinary course of trade. The profitability on these sales is [redacted]% on sales or [redacted]% on costs to make and sell.

For model BS normal values have been constructed using the tolling COP for reasons described in the costs section above (with the steel cost adjustment).

The SG&A expenses used in the cost constructions have been explained in the costs section.

Where NV had to be constructed the same adjustments have been made as applied to sales prices.

12 DUMPING MARGIN – PRELIMINARY ASSESSMENT

Using the domestic sales prices as reported, or constructed normal values where relevant, the preliminary dumping margin is negative 4.39%.

The assessment may change subject to decisions by the case management team.

13 COUNTERVAILING & MARKET SITUATION

HDP responded to the exporter questionnaire in relation to these two matters.

HDP is a private company and none of the shareholders are government officials. HDP in its responses indicated it is not aware of any programs that have impacted the steel industry as it has not been informed of these by the GOC.

In subsidies, HDP reported no usage of any of the programs under investigation.

The only use was in relation to a minuscule payment from the local city government which we identified in the non operational income. This is not one of the alleged subsidies. The amount was [redacted] RMB only. We obtained a copy of the award and translated it – it was in relation to [redacted]. The details of this minor program are at **Confidential Attachment S**. We noted that it had also been awarded to 6 other companies. We did not have any information as to the specificity of the scheme nor did we inquire into this matter given it relative insignificance.

In relation to Program 20 - Hot-rolled Steel Provided by Government at Less Than Fair Market Value – HDP said it received no benefit as none of the suppliers were SOE's. In responding to questions about steel purchases and the identification of whether the supplier was an SOE or not, HDP explained that this identification was based upon its search of company details. HDP reported only one supplier as being an SOE. Its name is [redacted]. The purchases from that company were only [redacted] MT out of a total of about [redacted] MT.

We sighted some of these searches and noted that they companies had been described therein as 'limited liability owned or controlled by natural persons'. Copies were obtained. The situation is the same as the previous report on this exporter – where HDP provided the Capital Verification Reports for each identified manufacturer of their steel raw materials and it was found that SOE's had not supplied any significant quantity of raw materials.

14 LIST OF ATTACHMENTS

General

Confidential Attachment GEN1	Visit Agenda
Confidential Attachment GEN1A	Listing of Minor Corrections to Submission
Confidential Attachment GEN2	Group organisational structure chart
Confidential Attachment GEN3	Production Flow Chart
Confidential Attachment GEN4	HSS specification standards

Export Sales

Confidential AttachmentEXP1	Metric Conversion
Confidential AttachmentEXP2	Distributor Sales
Confidential AttachmentEXP3	Trader Sales
Confidential AttachmentEXP3A	Additional 18 invoices & Contracts

Domestic Sales

Confidential AttachmentDOM1	Sales Invoices goods

Completeness

Confidential AttachmentDOM2	Total All Sales – Checks
Confidential AttachmentDOM2A	Turnover Reconciliation

Costs

Confidential Attachment CTMS1	Audited Financials
Confidential Attachment CTMS2	Accounting Flow Chart
Confidential Attachment CTMS3	Monthly Production Report
Confidential Attachment CTMS4	Reconciliation Package
Confidential Attachment CTMS5	HRS Purchases
Confidential Attachment CTMS6	Slit Production and Valuation
Confidential Attachment CTMS7	Slit Steel Costs
Confidential Attachment CTMS8	BC Cost of Production
Confidential Attachment CTMS9	GC Cost of Production
Confidential Attachment CTMS10	Check to COGS
Confidential Attachment CTMS11	Electricity
Confidential Attachment CTMS12	BS Costs
Confidential Attachment CTMS 19	Legal fees invoices
Confidential Attachment CTMS 20	Evidence of handling and inland transport charges.

Adjustments

Confidential AttachmentADJ	Adjustments Documents

Countervailing

Confidential AttachmentS	City Government Grant