



**Australian Government**  
**Australian Customs and  
Border Protection Service**

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**INVESTIGATION INTO THE ALLEGED DUMPING OF  
CERTAIN HOLLOW STRUCTURAL SECTIONS EXPORTED  
FROM THE PEOPLE'S REPUBLIC OF CHINA (CHINA), THE  
REPUBLIC OF KOREA, MALAYSIA, TAIWAN AND THE  
KINGDOM OF THAILAND**

**AND**

**ALLEGED SUBSIDISATION OF HSS EXPORTED FROM  
CHINA**

**EXPORTER VISIT REPORT**

**KUKJE STEEL CO., LTD**

**THIS REPORT AND THE VIEWS OR RECOMMENDATIONS CONTAINED  
THEREIN WILL BE REVIEWED BY THE CASE MANAGEMENT TEAM AND MAY  
NOT REFLECT THE FINAL POSITION OF CUSTOMS AND BORDER  
PROTECTION**

**March 2012**

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**2 BACKGROUND****2.1 Background to the current investigation**

On 12 August 2011, OneSteel Australian Tube Mills Pty Ltd on behalf of the Australian industry manufacturing certain hollow structural sections<sup>1</sup> (HSS), lodged an application requesting that the Minister for Home Affairs (the Minister) publish a dumping duty notice in respect of HSS exported to Australia from the People's Republic of China (China), the Republic of Korea (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](http://www.customs.gov.au).

A search of Customs and Border Protection's import database indicated that Kukje Steel Co., Ltd (Kukje) exported HSS from Korea to Australia during the investigation period (July 2010 to June 2011). Customs and Border Protection wrote to Kukje advising it of the initiation of the investigation, requesting co-operation with the investigation and providing copies of the exporter questionnaire for Kukje to complete.

Kukje completed the exporter questionnaire, providing details regarding the company, exports, domestic sales and cost to make and sell (CTMS) expenses.

**2.2 Purpose of visit**

The purpose of the visit was to verify information submitted by Kukje in its exporter questionnaire response. The exporter questionnaire response was supported by confidential appendices and attachments, including confidential spreadsheets containing sales and costs data requested in the exporter questionnaire. A non-confidential version of the exporter questionnaire response was placed on the public record.

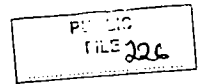
Customs and Border Protection will use the verified information to make preliminary assessments of:

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

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<sup>1</sup> Refer to the full description of the goods in section 4 of this report.

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### 2.3 Meeting dates and attendees

Verification meetings were held at Kukje's Seoul head office from Wednesday 22 to Thursday 23 February 2012. A follow up meeting was held at the Plaza Hotel on Monday 27 February 2012.

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

<b>Kukje</b>	
Mr Sung-Tae Jung Mr Kang-Sun Yun Mr Jung-Woo Kim	General Manager Director Section Chief
<b>Consultants</b>	
<b>The International Trade Consulting</b>	
Mr Sung Tae Kim Mr Changsoo (Chris) Hong Mr S W (Sam) Kim	President / CPA CPA / Senior Consultant, FRA – Origin Advisor, Analyst / CPA, FTA – Origin Specialist
<b>Howard Consulting</b>	
Mr David Birrell	Consultant
<b>Australian Customs and Border Protection Service</b>	
Mr Chris Vincent Ms Margaret Power	Manager, Operations 1 Director, Quality Assurance and Operational Support

Mr Chang Min Song, Assistant Manger, Sungjin (a member of the [ ]) was present at some stages of the meeting but did not participate in discussions.

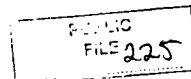
### 2.4 Preliminary issues

Prior to the meeting, we forwarded Kukje an exporter visit agenda that included the sales transactions selected for detailed verification.

At the commencement of the meeting, we outlined the investigation timeframes:

- A preliminary affirmative determination was made on 23 December 2012. Provisional measures were imposed shortly after the preliminary affirmative determination.
- A statement of essential facts was due to be placed on the public record by 9 January 2012. Due to the complexity of the issues surrounding the investigation, as well as extensions of time allowed for various interested parties to supply information, Customs and Border Protection requested an extension of the deadline for the publication of the statement of essential facts. The Minister extended the deadline for the publication of the statement of essential facts and it will now be placed on the public record no later than 23 April 2012. The statement of essential facts will set out the material findings of fact on which Customs and Border Protection intends to

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base its recommendations to the Minister. The statement of essential facts will invite interested parties to respond, within 20 days, to the issues raised. Submissions received in response to the statement of essential facts will be considered when compiling the report and recommendations to the Minister.

- Customs and Border Protection's report to the Minister is now due no later than 7 June 2012.

We informed Kukje that anti-dumping measures may only be imposed where the Minister is satisfied that the goods were dumped and the dumped goods had caused or were threatening to cause material injury to the Australian industry.

We explained to Kukje that we would prepare a report following our visit and that we would provide the company with a draft of the report to review its factual accuracy and to identify those parts of the report it considered confidential. We further advised that, following consultation about confidentiality, we would prepare a non-confidential version of the report for the public record.

Customs and Border Protection considers that the dumping margin is not itself confidential information, but rather an aggregate figure derived from confidential data. The dumping margin will be published in the public record version of the visit report.

Kukje cooperated with the verification of the exporter questionnaire response and provided further information when requested.

Prior to commencement of the meeting, Kukje advised that during preparation for the on-site verification it had identified four minor errors. Details are at **confidential attachment GEN 1**. Kukje submitted revised data correcting these errors.

Kukje also stated that it was disappointed with the level of the provisional measures. Comments are at **confidential attachment GEN 2**. We advised we could not comment on the level of these securities and suggested that Kukje pursue this matter with the case management team when this report is finalised.

**3 COMPANY INFORMATION****3.1 Company information**

Kukje was incorporated on 24 December 1992. It is not a subsidiary of any other company and Kukje's shareholders are listed in the exporter questionnaire response. It provided its 2011 tax return to verify this shareholding.

Mr Choi, the major shareholder of Kukje, also owns 75% of Kukje Nylon Co., Ltd, which manufactures and sells machinery for weaving fabrics. Kukje did not sell HSS to or purchase any materials for the production of HSS from this company.

Kukje stated that while steel pipe production in Korea is dominated by a few large producers, it is one of many (approximately 100) smaller producers. Its head office is in Seoul and its production facility is in Pohang City.

Kukje is a producer as well as a seller of steel pipes for ordinary piping and round, square and rectangular steel pipes for structural uses. It produces in accordance with both Korean and Japanese accreditation standards (see **confidential attachment GEN 3**). Kukje sells on the domestic and exports markets. Its main export markets are Australia, the United States of America and Japan, but it also has a number of smaller export markets, including China.

Kukje sells both painted and unpainted HSS. Painted HSS is mainly exported, although the domestic market is growing, albeit from a very small base. Kukje stated that as labour costs in Korea grow, domestic customers are buying more painted HSS rather than painting it themselves.

Kukje's head office in Seoul consists of three teams - an administration team, an export sales and purchasing team, and a domestic sales team. The administration team is responsible for accounting and financial activities. The export and purchase team takes care of export sales as well as purchases of raw materials. Domestic market sales are performed by the domestic sales team.

The production facility in Pohang City consists of three departments - an administrative department, a production department and a production supporting department. The administrative department is responsible for general affairs such as labour, safety and environmental issues. The production department is involved in issuing production orders, manufacturing and raw materials inventory control. The production supporting department is responsible for factory maintenance, finished goods inventory control, shipments, planning and coordinating production.

Kukje operates [ ] slitting line and [ ] forming lines. It does not have a galvanising facility and galvanised HSS it produces is manufactured using pre-galvanised hot rolled coils (HRC). Kukje purchases HRC, including galvanised HRC, from independent suppliers.

### 3.2 Accounting

Kukje's financial year is April to March and its accounts are audited annually by an independent auditor. Its 2011 audit report stated:

*In our opinion, the financial statements referred to above present fairly in all material respects, the financial positions of the Company as at March 31, 2011, March 31, 2010 and the results of its operations, deficit, the changes in retained earnings and cash flows for the years then ended in conformity with accounting standards generally accepted in Korea.*

Kukje uses a tailor made software system "Steel One". A flowchart of Kukje's accounting system is at **confidential attachment GEN 4**. Kukje only has to submit two statutory reports, its audited financial statements and its tax return.

Kukje uses actual costs rather than standard costs. It only produces carbon steel products so it simply accumulates material, labour and other fabrication costs at the company-wide level. Kukje then allocates these accumulated costs to individual products based on the production quantities. However, Kukje developed a cost calculation methodology for the preparation of the exporter questionnaire response.

Inventories are valued by the weighted average method.

Steel scrap generated at the slitting and forming stage of production are not used as inputs to the production process. It is sold to unaffiliated purchasers and recognised as income.

### 3.3 Production process

HRC is unrolled, slit and re-rolled into smaller coils ready for use in the pipe and tube mills. Slit coil is fed into the forming lines via an accumulator or similar mechanism which allows a continuous flow of slit coil into the production process. The slit coil is then cold formed through a series of rollers and continuously welded via the electric resistance welding process into hollow round tubular shapes. The round tubular shapes are further formed through rollers into round, square, rectangular and other shapes. The pipes are then surface finished by applying various protective coatings such as paint, varnish or oil. The product is finally cut to length.

**NON-CONFIDENTIAL****4 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);



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- 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**

The application stated that the goods are 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 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.

For China and Malaysia the goods exported to Australia are subject to a 4% rate of duty.

The goods exported to Australia from Thailand using Thailand Free Trade Agreement are free from duty as of 1 January 2010.

**Kukje products**

Kukje stated that it was not clear about which types of HSS were the goods the subject of the application. Details of domestic and export sales included in the exporter questionnaire response are at **confidential attachment GEN 5**, which identifies sales by type and specification. Kukje was not sure if HSS for mechanical purposes were the goods. **Confidential attachment GEN 4** includes an extract from a OneSteel brochure referring to precision tube and an extract of Australian Standard AS1450 relating to HSS for use in mechanical applications.

We identified domestic sales provided in the exporter questionnaire response by reference to Kukje's product catalogue (**confidential attachment GEN 6**). Kukje included HSS for general structural purposes and HSS for machine structural purposes. It did not include HSS for ordinary piping and pressure services as this could not be used in structural applications. Kukje only exported to Australia HSS for general structural purposes and we are satisfied Kukje provided domestic sales of comparable goods that were exported to Australia.

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### Like goods

Based on information in the application and information in Kukje's exporter questionnaire response we consider that HSS sold on the domestic market in Korea by Kukje possesses similar physical characteristics and manufacturing processes and is commercially and functionally substitutable with HSS exported to Australia.

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### 5 SALES TO AUSTRALIA

#### 5.1 Export sales process

Kukje sells to one unrelated Australian customer, [ ]  
( [ ] ). [ ] operates at the wholesaler level of trade.

The first stage in the sales process is receipt of an inquiry (typically by fax or e-mail) from [ ]. Kukje then discusses the order with [ ] to determine the price and other sales terms. Once an agreement has been reached, [ ] sends a purchase contract to Kukje. The purchase contract identifies a number of lots specifying the destination port and [ ] customer (by client number). To confirm the purchase, Kukje modifies the contract (if required) and returns the signed copy to [ ]. Kukje then prepares an internal production request which is sent to the factory.

The terms of all export sales to Australia were FOB Korean port. Invoices were expressed in US dollars and converted to Korean won when Kukje recognised the sale (at bill of lading date). Goods were normally shipped break bulk, but occasionally were containerised.

When production was completed, Kukje transported the goods to the wharf, identifying each consignment by lot number. In the majority of cases each lot was shipped complete, but in some cases lots were part shipped, with each shipment being separately invoiced. Kukje sent the commercial invoice and packing list to [ ]. [ ] arranged ocean freight and delivery to the customer in Australia.

Most consignments were exported from Pohang. Pohang is a relatively small port and shipping to Australia may not be frequent. If [ ] wanted immediate shipment Kukje transported the consignments to a larger port such as Busan. Kukje separately invoiced [ ] for additional transportation charges.

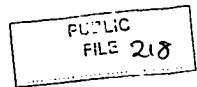
Terms and prices of export sales were determined by negotiation, based on current market conditions. There were no price lists. Kukje stated that price was not affected by HRC grade or specification (see **confidential attachment EXP 1**) and the only variation in price by thickness was an additional [ ] for HSS with a nominal thickness of 1.6 mm. Kukje stated that the difference in cost of grade C250 and C350 HRC was about [ ] per tonne. We examined the export sales data provided by Kukje and confirmed that price did not vary by grade and that there was a premium for HSS with a nominal thickness of 1.6 mm.

We calculated quarterly export prices for each model exported to Australia by two thickness categories, 1.6 mm to less than 2 mm and 2 mm to 6 mm.

#### **Discounts, rebates and allowances**

Kukje stated that during the investigation period it did not pay any commissions or offer any discounts or rebates in relation to exports to Australia.

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### Date of sale

Kukje used the date of the bill of lading as the date of sale as this is the date Kukje recognises the sale. It stated that it did not record the purchase order date in its accounting system.

### Invoice and actual weight

Kukje included the nominal and actual thicknesses in its exporter questionnaire response (nominal thicknesses are identified in the product code). All export sales and domestic sales to one customer were invoiced using weights based on nominal thickness. All other domestic sales were invoiced using weights based on actual thickness.

Standards allow for thickness tolerances and Kukje uses thinner HRC to produce HSS within acceptable tolerances to minimize raw material costs. For example, [ ] mm HRC is used to produce HSS with a nominal thickness of 3 mm. Confidential attachment EXP 1 identifies the tolerance and actual thickness of two HRC purchases.

We calculated prices for both export and domestic sales using weights based on actual thicknesses.

## 5.2 Export sales - reconciliation to financial statements

Kukje provided a seven step summary to reconcile the value of sales from its audited financial statements to the export sales spreadsheet. Supporting documents are at confidential attachment EXP 2.

- We verified total sales revenue to the audited income statement.
- The income statement for the June quarter 2011 identified sales revenue for the June quarter 2010 and 2011.
- We verified total sales revenue for the investigation period using these quarterly accounts.
- The income statements identified export sales, domestic sales and other income. We repeated steps one to three to verify these sales for the investigation period.
- Kukje provided a monthly summary of export sales by country. It provided a summary of sales by order number and a detailed sales listing for February 2012 that reconciled to the monthly summary. All export sales were the goods the subject of the application and we verified that the quantity and value of February export sales from this detailed sales listing matched February sales in the export sales spreadsheet. We requested and Kukje provide a detailed sales listing for November 2010. We verified this to the monthly summary and the total quantity and value to the export sales spreadsheet.
- Kukje provided a list of additional freight revenue by order number.
- We verified the total quantity and value of export sales plus additional freight revenue to the export sales spreadsheet.

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We consider the export sales information provided by Kukje is complete and relevant.

### 5.3 Export sales – verification to source documents

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

- customer;
- level of trade;
- product specifications;
- invoice date and number;
- date of sale;
- order number;
- shipping and payment terms;
- sales quantity (tonnes);
- actual thickness;
- revenue;
- other charges;
- exchange rate;
- inland transport;
- handling and other charges; and
- bank fees.

Prior to the visit, we requested that Kukje provide supporting documents for eight selected shipments to Australia. Kukje provided the following documents for each of these shipments during the verification visit:

- purchase contract;
- commercial invoice and packing list;
- bill of lading;
- invoices for inland freight, handling charges and brokerage fees;
- export declaration; and
- evidence of payment and bank charges.

These documents are at **confidential attachments EXP 3 to 10**.

We verified details for the selected shipments to the export sales spreadsheet. We identified a minor error in the calculation of inland freight charges for one shipment. The impact of the error was not material. We also verified that the exchange rate used was reasonable.

Kukje provided details of additional freight charges (**confidential attachment EXP 11**). This included a summary by order number for the investigation period, an invoice for additional charges and the commercial invoice for the original transaction. We verified this information to the export sales spreadsheet. We noted that these charges represented a little over 0.5% of the total invoice value for the investigation period and accepted these charges as submitted.

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We consider that the export sales data provided by Kukje is accurate.

### 5.4 The exporter

We consider Kukje was the exporter. Kukje:

- manufactured the goods to the specific order of the Australian customer;
- was listed as the supplier on the bill of lading;
- invoiced the Australian customer for the goods;
- arranged and paid the inland freight;
- was 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 identity of the purchaser of the goods.

### 5.5 The importer

We noted that Kukje's Australian customer:

- negotiated directly with Kukje for the purchase of the HSS;
- was named as the consignee on the bills of lading; and
- arranged customs clearance, logistics, and delivery of the goods after they were delivered to the Australian port.

We consider that the Australian customer is the importer of HSS exported by Kukje and consider this customer to be the beneficial owner of the HSS at the time of importation.

### 5.6 Arms length

In respect Kukje's sales of HSS to its Australian customer during the investigation period, we found no evidence that:

- there was any consideration payable for or in respect of the goods other than their price;
- the price was influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- the buyer, or an associate of the buyer, was directly or indirectly, reimbursed, compensated or otherwise received a benefit for, or in respect of, whole or any part of the price.

We therefore consider all of Kukje's export sales to Australia during the investigation period were arms length transactions.

**NON-CONFIDENTIAL****5.7 Export price – preliminary assessment**

We consider:

- that the goods were exported to Australia otherwise than by the importer;
- that the goods were purchased by the importer from the exporter; and
- the purchases of the goods were arms length transactions.

Therefore, we are satisfied that export prices can be established under s. 269TAB(1)(a) of the *Customs Act 1901*<sup>2</sup>, being the price paid or payable by the importer less any part of the price that represents a charge in respect of transport of the goods or in respect of any other matter arising after exportation.

A summary of export prices is at **confidential appendix 1**.

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<sup>2</sup> A reference to a section or subsection in this report is a reference to a provision of the Act, unless otherwise specified.

**6 COST TO MAKE & SELL****6.1 Production volumes**

Kukje produces HSS at its Pohang plant. The production data for each product classification number is entered into Kukje's accounting system at the end of each production order. Kukje provided a download of production data for each product for each quarter of the investigation period (**confidential attachment COSTS 1**).

**6.2 Cost to make****6.2.1 Verification upwards to financial statements**

Kukje provided a summary of raw material costs, labour costs, fabrication costs, opening and closing work in progress balances, cost of sales (HRC and slit coil) and costs associated with toll manufacturing. We verified the total cost of manufacturing for Kukje's 2011 financial year (April 2010 to March 2011) to its audited accounts. Kukje provided a quarterly breakdown of manufacturing costs for the September 2010, December 2010 and March 2011 quarters; it also provided a statement of the cost of goods manufactured and income statement for the June quarter 2011. Supporting documents are at **confidential attachment COSTS 2**. We verified the total manufacturing costs for the investigation period in the income statement at Appendix A-5 to Kukje's financial accounts. During the downwards verification, we verified these manufacturing costs to the CTMS spreadsheets.

**6.2.2 HRC**

HRC is the largest component of the CTMS HSS.

Kukje provided a raw material cost summary identifying for each quarter the quantity, value and unit price of HRC consumed (that is, input to production). We verified that the total value of HRC consumed in this summary equalled the raw material cost, less costs of HRC sold, in the income statement for the investigation period. Kukje provided a summary of its raw material inventory account identifying the quantity and value of opening and closing inventory, purchases, sales and details of each type of coil consumed. The total value of HRC consumed matched the value of HRC consumed in the raw material cost summary. Kukje provided a copy of its raw material inventory account for purchases of a certain type of coil in September 2010 that matched details in the raw material inventory summary for the September quarter 2010. It also provided the tax invoice and shipping invoices to support these purchases. Supporting documents are at **confidential attachment COSTS 3**.

We asked Kukje to provide its raw material inventory account for coil specification SAE1022 for the December quarter 2010. This document is at **confidential attachment COSTS 4**. The raw material inventory account identifies the quantity and value of each purchase and the total quantity and value matched the quarterly total in the summary of the raw material inventory account. We asked Kukje to provide this raw material inventory account for October 2010 and associated tax invoices. These documents are at **confidential attachment COSTS 5**. We verified



that the total quantity and value for October matched the totals from the tax invoices. We also verified that the October details matched the information in the raw material account for the quarter.

Kukje advised that the value of HRC consumed was calculated using the weighted average value for its financial year to date. That is, the value for a quarter was the value for the year to date less the value for the year to date for the previous quarter. We were unable to reproduce the weighted average values provided by Kukje. The company advised that the weighted average value was calculated for each type of coil and a consolidated value was determined for each coil specification. We verified this was the case for coil specification SAE1022 for the September quarter 2010. Supporting documents are at **confidential attachment COSTS 6.**

Kukje does not calculate yield losses and used a two step process to calculate the unit raw material cost in the CTMS spreadsheets. The first step was the calculation of raw material costs for each model in each quarter by multiplying the actual production quantity of HSS by the unit cost of HRC consumed. The total for the investigation period was less than the raw material cost from the financial accounts. This difference was attributed to yield losses and inventory variations. The second step was the allocation of this difference to each type of coil in each quarter by using the raw material costs calculated in the first step. After this allocation the total raw material cost in the CTMS spreadsheets equalled the raw material cost in the accounts (excluding adjustments referred to below). Using the volume of HRC consumed and the volume of HSS produced, the yield loss was about 5.5%. Supporting documents are at **confidential attachment COSTS 7.**

Kukje's HRC supplier will at times provide discounts, depending on market conditions. It identified discounts posted in July 2011 that related to purchases in March and April 2011 and adjusted the raw material costs accordingly. Supporting documents are at **confidential attachment COSTS 8.** The total value of these adjustments was less than 0.2% of total raw material costs. We accepted the adjustments provided by Kukje.

We verified the unit raw material costs were correctly recorded in the CTMS spreadsheets.

### **6.2.3 Fabrication costs**

Fabrication costs include labour, variable overheads and fixed overheads. Kukje provided details of these costs and the total matched labour and fabrication costs from the financial accounts. Kukje made four adjustments to fabrication costs – labour, painting, redrawing costs and toll manufacturing. Supporting documents for fabrication costs are at **confidential attachment COSTS 9.**

Kukje provided a general ledger summary of fabrication costs by month. This indicated that labour costs in the March quarter were unusually high. Kukje provided general ledger details of labour costs in January, February and March 2011. Bonuses were paid in January and March. Kukje calculated the value of these bonuses and allocated them equally over the investigation period. The total labour cost remained unchanged.

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Painting costs were allocated to all products. Kukje deducted these costs from fabrication costs and separately allocated them to painted products. It provided a summary of paint purchases and supporting invoices for July 2010 purchases. Kukje also provided details of painting labour costs.

Kukje similarly deducted redrawing costs and allocated them to redrawn product. It provided a summary of redrawing costs, ledger details supporting these costs in July 2010 and tax invoices supporting the ledger details.

Kukje performs toll processing services for certain customers. That is, it processes HRC and slit coil for these companies. Kukje deducted fabrication costs for these toll processing services from total fabrication costs. Fabrication costs were allocated to tolling services and Kukje's own production using volumes processed. Kukje provided summaries of volumes processed, supported by ledger summaries and tax invoices for selected shipments. Supporting documents are at **confidential attachment COSTS 10**. Kukje advised that it discovered a minor error in the data originally submitted which resulted in fabrication costs being understated by 0.26%. This does not have a material affect in the costs submitted and we have accepted the costs as submitted.

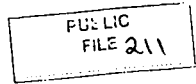
### 6.2.4 Scrap

Kukje sells scrap on the domestic market. In its accounts it records scrap as domestic sales, but offset scrap revenue against costs in the CTMS spreadsheet. Kukje provided a summary of scrap revenue and allocated it to each product classification number using material costs. To verify total scrap revenue Kukje provided a monthly summary of scrap sales. It provided tax invoices and supporting documents to verify scrap revenue in July 2010. Supporting documents are at **confidential attachment COSTS 11**.

### 6.3 Selling, general and administration expenses

Kukje provided a summary of selling, general and administration (SG&A) expenses. It included sales and general administration expenses, non-operating income and non-operating expenses from its financial accounts. We verified the figures to Kukje's 2011 audited accounts. Kukje allocated sales and general administration expenses, excluding transportation, to selling and administration expenses based on staff numbers. Non-operating income and non-operating expenses were allocated to financial costs. Actual domestic and actual transportation expenses were identified. Kukje then calculated these expenses, other than domestic transportation expenses, as a percentage of sales revenue. Transportation expenses were expressed as a percentage of domestic sales revenue. Kukje calculated SG&A expenses for each product classification by applying these percentages to the unit domestic sales value in each quarter. Supporting documents are at **confidential attachment COSTS 12**. We verified Kukje's calculations and accepted SG&A expenses as claimed.

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### 6.4 Cost to make and sell – summary

We are satisfied that sufficient information was available and verified to substantiate the CTMS HSS by Kukje. We consider these CTMS are suitable for:

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

The CTMS the various models is summarised at **confidential appendix 2**.

**NON-CONFIDENTIAL****7 DOMESTIC SALES****7.1 Domestic sales process**

Kukje sells to traders and end-users on the domestic market, but prices do not vary with the distribution channel. It does not have price lists. Kukje stated that the domestic market is very competitive because of the number of producers and imports from China. When a customer makes an inquiry, Kukje's domestic sales team negotiates sales terms by phone or by on-site visit. Domestic sales are typically sold from stock and filled within a few days. When the ordered goods are dispatched, Kukje issues a shipping invoice and normally issues a tax invoice and commercial invoice at the end of each month. Customers pay by cash or by promissory note. In the domestic sales spreadsheet Kukje reported the date of dispatch as the date of sale.

Kukje provided a summary of early payment discounts paid to each customer during the investigation period. We verified the total paid to sales discounts in the audited financial statements. For each customer Kukje expressed this amount as a percentage of sales value during the investigation period and calculated the discount for each sale to these customers in the domestic sales spreadsheet. Supporting documents are at **confidential attachment DOM 1**.

The majority of sales are delivered, but a small quantity are sold ex-factory.

As with export sales, we found no evidence that price was affected by HRC grade or specification and we classified sales by thickness category. We created two additional thickness categories, less than 1.6 mm and over 6 mm, as there were domestic sales of these thicknesses.

Kukje paid commissions for sales to its largest customer, [ ]. The commission is paid to an independent party that introduced Kukje to this company. No commissions were paid by Kukje in relation to any other customers.

We calculated quarterly prices for each model by four thickness categories, less than 1.6 mm, 1.6 mm to less than 2 mm, 2 mm to 6 mm and above 6 mm.

**Discounts, rebates and allowances**

Kukje stated that it did not provide discounts or rebates to its customers except a discount for early payment (discussed above). It did not provide any financial assistance to its customers.

**7.2 Domestic sales - reconciliation to financial statements**

In section 5.2 we verified export sales to the audited financial statements using a seven step summary provided by Kukje. Kukje provided a five step summary for domestic sales, although the first four were the same as for export sales. Supporting documents are at **confidential attachment DOM 2**.

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For the fifth step Kukje provided a monthly summary of sales of the goods the subject of the investigation and other goods during the investigation period. It provided a detailed sales listing of all sales in July 2010 and identified whether each sale was the goods the subject of the investigation or not. Over 75% of sales were the goods the subject of the investigation. We verified that sales not included in the domestic sales listing were HSS for ordinary piping and pressure services. As noted in section 4 Kukje did not export these types of HSS to Australia during the investigation period and therefore are not relevant to our dumping calculations.

We consider the domestic sales information provided by Kukje is complete and relevant.

**7.3 Domestic sales – verification to source documents**

The domestic sales spreadsheets provided by Kukje included line by line information relating to:

- customer;
- level of trade;
- product specifications;
- invoice date and number;
- order number;
- freight payment terms;
- sales quantity (pieces and tonnes);
- gross and net revenue;
- discounts;
- inland transport;
- commissions;
- credit cost; and
- handling and other charges.

Prior to the visit, we requested that Kukje provide supporting documents for twelve selected transactions. Kukje provided the following documents for each of these shipments:

- tax invoice;
- commercial invoice;
- commercial invoice for transportation
- tax invoice for transportation; and
- evidence of payment and calculation of credit costs.

These documents are at **confidential attachments DOM 3 to 14**.

We verified details for the selected transactions to the domestic sales spreadsheet.

We consider that the domestic sales data provided by Kukje is accurate.

#### 7.4 Arms length transactions

In respect of Kukje's domestic sales of HSS, we found no evidence that:

- there was any consideration payable for or in respect of the goods other than their price; or
- the price was 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.

We therefore consider Kukje's domestic sales during the investigation period were arms length transactions.

#### 7.5 Ordinary course of trade

We compared the unit invoice price paid for each domestic sale with the fully absorbed CTMS those models for the corresponding quarter. We then compared the selling prices of the loss making sales with the weighted average CTMS for the investigation period to test whether some of those sales may be taken to be recoverable within a reasonable period of time.

For galvanised HSS we found that less than 20% of Kukje's domestic sales of each model and thickness category were not profitable and not recoverable over the investigation period. We therefore used all domestic sales of like goods to establish normal values.

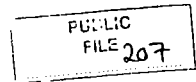
For black and painted HSS we found that more than 20% of Kukje's domestic sales of each model and thickness category were not profitable and not recoverable over the investigation period. We therefore only used profitable domestic sales of like goods to establish normal values.

#### 7.6 Volume and suitability of sales

Domestic sales cannot be used to establish normal values if the volume of domestic sales is less than 5% of the volume of comparable goods exported to Australia. We compared the volume of Kukje's export sales of each model and thickness category over the investigation period with comparable domestic sales that are suitable to establish normal values. We found that:

- for circular galvanised HSS there was an insufficient volume of domestic sales and we used all sales of rectangular and square galvanised HSS as shape does not affect price;
- for rectangular and square galvanised HSS there was a sufficient volume of domestic sales and we used all domestic sales;
- for black HSS of all models there was a sufficient volume of domestic sales and we used profitable domestic sales; and
- for painted HSS there was an insufficient volume of domestic sales and we used profitable sales of black HSS of reasonably similar model/thickness combinations and made a specification adjustment for painting costs.

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### 7.7 Sales by other sellers

There are other sellers of HSS in Korea. Customs and Border Protection is not visiting other Korean producers of HSS.

### 7.8 Domestic sales – summary

We found a sufficient volume of sales in the domestic market for black HSS, and rectangular and square galvanised HSS that were arms length and sold at prices that were in the ordinary course of trade. The price paid for the goods in those domestic sales was established satisfactorily.

We found insufficient volume of sales in the ordinary course of trade for circular galvanised HSS and all models of painted HSS, we found sufficient volumes of domestic sales in the ordinary course of trade for a reasonably similar model/thickness combination (with adjustments for physical differences of painting in the case of painted HSS).

Based on the information provided by Kukje, and the verification processes conducted on site, we consider that prices paid in respect of domestic sales are suitable for assessing normal value under s. 269TAC(1).

A summary of domestic sales suitable for establishing normal values is at **confidential appendix 3**.

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**8 THIRD COUNTRY SALES**

Kukje considered that the volume of its domestic sales was sufficient to calculate normal values. It therefore did not provide third country sales. We advised Kukje that if we found that domestic sales and costs were not suitable for establishing normal values, Customs and Border Protection would rely on the best available information.



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## 9 ADJUSTMENTS

Kukje claimed adjustments to the normal value for the following items.

### 9.1 Adjustments in respect of domestic sales

#### 9.1.1 Credit terms

Kukje normally transports HSS to its customers throughout the month, but issues a tax invoice at the end of each month. Some customers pay by promissory notes and Kukje cannot cash the promissory notes until the due date. The total credit period therefore consists of the period from shipment date to tax invoice date and the term of the promissory notes. Kukje calculated the credit cost for each transaction using the following formula:

$$\text{net invoice value} * \text{short-term interest rate} * \text{credit period} / 365 \text{ days}$$

The credit period is the accounts receivable turnover for each customer. The calculations for the selected transactions are at confidential attachments DOM 3 to 14.

The short term interest rate was calculated using the value of short term borrowings and the short term interest expense. Supporting documents are at confidential attachment ADJ 1.

We made a negative adjustment for domestic credit terms. We calculated the quarterly credit cost for the domestic sales used to establish normal values.

#### 9.1.2 Domestic freight

The majority of Kukje's sales include delivery to the customer. Kukje calculated the freight cost for each domestic transaction. Supporting documents for the selected transactions are at confidential attachments DOM 3 to 14.

We made a negative adjustment for domestic freight. We calculated the quarterly freight cost for the domestic sales used to establish normal values.

#### 9.1.3 Domestic commissions

Kukje has an agency agreement with an unaffiliated company, [ ] Company. It pays a commission to this company of for sales to its largest customer, [ ], which supplies further processed goods to [ ]. Kukje pays the commissions monthly. Supporting documents are at confidential attachment ADJ 2.

We made a negative adjustment for domestic commissions. We calculated the quarterly commissions paid for the domestic sales used to establish normal values.

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## 9.2 Adjustments in respect of export sales

Kukje provided details of inland freight, handling costs and bank charges in its export sales spreadsheet.

### 9.2.1 Export inland freight

Export inland freight includes freight from the plant to the port. These services were provided by unaffiliated trucking companies. Loading fees are included as these expenses are charged by the trucking companies. Supporting documents for the selected transactions are at confidential attachments EXP 3 to 10. The reported inland transportation expenses are the costs actually incurred, calculated on a vessel-specific basis.

We made a positive adjustment for export inland freight.

### 9.2.2 Handling, loading and ancillary expenses

Handling, loading and ancillary expenses includes items such as terminal handling charges, wharfage, document fees and customs brokerage fees. Supporting documents for the selected transactions are at confidential attachments EXP 3 to 10.

We made a positive adjustment for handling, loading and ancillary expenses.

### 9.2.3 Bank charges

Payment terms for export sales were letter of credit at sight. Banks charged Kukje interest for the period from the negotiation date to customers' payment due date. Kukje reported these costs with other bank charges. Supporting documents for the selected transactions are at confidential attachments EXP 3 to 10.

We made a positive adjustment for bank charges.

### 9.2.4 Painting cost

There was an insufficient volume of domestic sales of painted HSS at prices that were in the ordinary course of trade and we established normal values for painted HSS using profitable sales of black HSS.

We made a positive adjustment for painting costs, using the weighted average quarterly costs of paint purchases and painting labour plus the gross margin of [ ]% achieved by Kukje during the investigation period.

## 9.3 Other adjustments

### 9.3.1 Credit terms

The terms of export sales were letter of credit at sight and no adjustment for export credit terms was required.

**NON-CONFIDENTIAL****9.3.2 Level of trade**

Kukje did not claim a level of trade adjustment in its exporter questionnaire response. However, during the visit it claimed that such an adjustment was warranted as it only exported to one customer in Australia and there were no domestic customers that purchased a comparable volume.

We noted that Kukje exported over [ ] tonnes of HSS to [ ], but that its four largest domestic customers were [ ] ([ ] and [ ] tonnes), [ ] ([ ] tonnes) and [ ] ([ ] tonnes). We compared prices to these customers with prices to all other customers for various models and did not observe any trends to suggest that a level of trade adjustment was warranted.

We did not make a level of trade adjustment.

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**10 NORMAL VALUE**

We consider that information gathered from all sources and detailed in this report and its attachments, can be relied upon to establish normal values under s. 269TAC(1). We have made adjustments to the normal value under s. 269TAC(8) for:

- domestic credit;
- domestic freight;
- domestic commissions;
- export inland freight;
- export handling costs;
- export bank charges; and
- painting.

We calculated normal values using sales in the domestic market that were arms length transactions and sold at prices that were in the ordinary course of trade. A summary of normal value calculations is at **confidential appendix 4**.

**NON-CONFIDENTIAL****11 DUMPING MARGIN – PRELIMINARY ASSESSMENT**

In calculating the dumping margin we compared each export transaction with the corresponding quarterly normal value for the corresponding model and thickness category of HSS, or a reasonably similar model/thickness (as adjusted for physical differences). We have not used domestic sales with thicknesses above 6 mm or below 1.6 mm as there were no exports of these goods. The weighted average product dumping margin is 3.2%. A summary of dumping margin calculations is at confidential appendix 4.

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**12 LIST OF APPENDICES AND ATTACHMENTS**

Confidential appendix 1	Export price summary
Confidential appendix 2	CTMS summary
Confidential appendix 3	Domestic sales summary
Confidential appendix 4	Normal values and dumping margin summary
Confidential attachment GEN 1	Minor corrections
Confidential attachment GEN 2	Comments on provisional measures
Confidential attachment GEN 3	Kukje's accreditation
Confidential attachment GEN 4	Flowchart of Kukje's accounting system
Confidential attachment GEN 5	Specifications of Kukje's product
Confidential attachment GEN 6	Product catalogue
Confidential attachment EXP 1	Effect of HRC grade or specification on price
Confidential attachment EXP 2	Reconciliation of export sales to audited accounts
Confidential attachment EXP 3 to 10	Documents supporting selected shipments
Confidential attachment EXP 11	Additional freight charges
Confidential attachment COSTS 1	Production volumes
Confidential attachment COSTS 2	Reconciliation of costs to audited accounts
Confidential attachment COSTS 3	HRC costs
Confidential attachment COSTS 4	Inventory account for December quarter 2010
Confidential attachment COSTS 5	Inventory account and tax invoices for October 2010
Confidential attachment COSTS 6	Documents supporting weighted average inventory calculation
Confidential attachment COSTS 7	Yield loss
Confidential attachment COSTS 8	HRC discounts posted in July 2011
Confidential attachment COSTS 9	Documents supporting fabrication costs
Confidential attachment COSTS 10	Allocation of fabrication costs to toll processing services
Confidential attachment COSTS 11	Scrap recovery
Confidential attachment COSTS 12	SG&A expenses
Confidential attachment DOM 1	Calculation of early payment discount
Confidential attachment DOM 2	Reconciliation of domestic sales to audited accounts
Confidential attachment DOM 3 to 14	Documents supporting selected shipments
Confidential attachment ADJ 1	Short term interest rate
Confidential attachment ADJ 2	Domestic commissions