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30 April 2012

Mr Geoffrey Gleeson  
Director, Operations 3  
International Trade Remedies Branch  
Australian Customs and Border Protection Service  
Customs House  
5 Constitution Avenue  
CANBERRA ACT 2601

Dear Mr Gleeson

**Public File**

**ATM Correspondence 2012/11 - HSS exported from China, Korea, Malaysia, Taiwan and Thailand – Investigation No. 177 – Kukje Steel Co., Ltd Exporter Visit Report**

I refer to the Kukje Steel Co., Ltd ("Kukje") Exporter Visit Report ("Report") recently placed on the electronic public file.

The following comments will influence Customs and Border Protection's assessment of the preliminary 3.2 per cent dumping margin determined for Kukje. OneSteel ATM is seeking Customs and Border Protection to address the items detailed below and increase the normal values (and hence dumping margins) assessed for Kukje.

Goods under Consideration

Kukje initially indicated "it was not clear about which types of HSS were the goods the subject of the application". Kukje did not include HSS for ordinary piping and pressure services "as this could not be used in structural applications".

The HSS excluded by Kukje are nevertheless the goods the subject of the application – even though they may not be used in structural applications. The goods description as initiated by Customs and Border Protection does not limit the goods coverage by end-use application. The non-structural HSS excluded by Kukje should be included in Kukje's normal value assessment. Please refer to Non-Confidential Attachment 1 for details confirming the Korean specifications for HSS that include ordinary pipe and pressure pipe as AS1074 equivalents.

Export sales to Australia

*Export inland freight*

OneSteel ATM notes that Kukje sells at FOB point. It is further noted that Kukje utilizes two ports for export of goods to Australia. In the adjustments to normal value, the upward adjustment for certain goods exported to Australia will be dependent upon port of export. The adjustment made does not appear to reflect the differing expenses associated with two ports of export. OneSteel understands that the cost differential between the two ports is approximately USDxx/MT.

#### *Freight revenue*

At Section 5.2 of the Report, reference is made to 'freight revenue' received by Kukje. OneSteel ATM requests that Customs and Border Protection clarify what is meant by 'freight revenue' and advise of the treatment to this item for the purposes (if any) of adjustment to normal value.

#### Cost to Make and Sell

##### *HRC weighted average value*

Customs and Border Protection was unable to verify Kukje's calculated weighted average HRC value for the September 2010 quarter. OneSteel ATM queries that Customs and Border Protection can conclude Kukje's raw material costs were verified to CTM&S spreadsheets when the value used by Kukje could not be 'reproduced'.

##### *Fabrication costs*

OneSteel ATM observes that Kukje undertakes certain toll processing services for some customers. It is questioned how Customs and Border Protection were satisfied that only the toll processing costs associated with the processed volumes were removed from total fabrication costs. How were these values tested by Customs and Border Protection?

##### *Scrap*

Kukje offsets scrap revenue against costs in the CTM&S spreadsheet. The offset amount should have been thoroughly reviewed by Customs and Border Protection to ensure that the revenue generated was consistent with the estimated yield loss of 5.5 per cent generated by Kukje.

OneSteel ATM could not identify in the Report that this procedure was undertaken by Customs and Border Protection.

##### *Selling, general and administration*

Kukje allocated S,G&A expenses on the basis of staff numbers. This allocation basis is inconsistent with accepted practice by Customs and Border Protection. Allocations would usually be based on sales revenues, unless good reasons for an alternative allocation basis were highlighted.

OneSteel ATM does not consider that any reasons for departing from the usual allocation of S,G&A expenses based on revenue should have been accepted by Customs and Border Protection and requests that this be reviewed.

##### *Paint costs*

Kukje's paint costs have been allocated across all sales (refer P.50 of Kukje Exporter Questionnaire). Export sales generate a disproportionate higher paint cost than across all sales. Customs and Border Protection to allocate paint costs appropriately for HSS exported to Australia.

#### Domestic Sales

##### *Domestic sales commission*

Kukje provides a sales commission to a third party for the introduction of the domestic customer to Kukje. No evidence was provided that demonstrates that the party was an agent involved in securing sales customers for Kukje. This domestic commission is simply a cost of doing business and should not be treated as a downward adjustment to normal value.

*Insufficient volume of domestic sales*

Customs and Border Protection determined that there were insufficient domestic sales of circular galvanized HSS and relied upon domestic sales of square and rectangular HSS for normal values as Kukje claimed that "shape does not affect price". It is not clear from the Report as to whether Customs and Border Protection actually tested whether there was a price differential between Kukje's domestic sales of circular and square or rectangular galvanized pipe.

OneSteel ATM considers that Customs and Border Protection could readily confirm whether Kukje's claims are accurate concerning the existence of domestic price differentials for circular and square or rectangular galvanized pipe. Typically, circular HDG involves galvanizing black HSS and is considered more expensive to manufacture than RHS/SHS that is manufactured from pregalvanized coil. This cost differential is also evidenced in the differing selling prices for CHS and SHS/RHS galvanized pipe.

Kukje's claim that there exist no cost differentials between circular and SHS/RHS galvanized pipe is incorrect. Customs and Border Protection can confirm price differentials in Kukje's domestic sales of like goods across the investigation period.

Adjustments

*Credit terms*

The Report is not clear as to the basis for adjusting for credit – is this on xxxxxxxxxx cost or the xxxxxxxxx in Korea? Further, was the credit cost adjustment based upon all of Kukje's domestic sales or just the GUC?

*Domestic commission*

As indicated above, it is unclear as to whether the commission is to an independent agent, or it is a party affiliated with the customer. It is unreasonable to accept that a commission was paid for sales to Kukje's largest customer without an understanding as to the role of the third party and its independence (from Kukje and the customer).

*Painting costs*

Customs and Border Protection made an upwards adjustment to Kukje's domestic sales of black pipe for painting costs due to an insufficient volume of domestic sales of painted HSS by Kukje on the domestic market. Whilst there may have been an insufficient volume of painted HSS sales by Kukje domestically, Customs and Border Protection could have examined the price differential between Kukje's domestic sales of painted and black HSS to determine whether the margin exceeded the cost (as is evident in Australia). OneSteel ATM requests Customs and Border Protection to review the price differential between Kukje's domestic black and painted HSS sales.

*Non-standard length pipe*

Korean HSS exported to Australia is of a different length to HSS sold domestically in Korea. No upward adjustment has been made to account for this difference. OneSteel ATM requests that Customs and Border Protection make a positive adjustment for this difference.

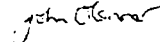
**Recommendations**

OneSteel ATM's review of the Kukje Exporter Visit Report has highlighted a number of concerns that impact Customs and Border Protection's preliminary normal values and dumping margins. These matters require urgent review including:

- The exclusion of certain ordinary and pressure piping HSS from domestic sales that are considered to be the GUC.
- The calculation of the export inland freight component as it is generated by two separate freight expenses to separate ports of export for the GUC, as appropriate.
- What is 'freight revenue' and how has this been treated in freight calculations for the goods exported to Australia.
- The reliability of Kukje's HRC costs when the weighted average value for the September 2010 quarter could not be verified;
- Whether only toll-processing fabrication costs were excluded from total fabrication costs;
- How Customs and Border Protection confirmed that the scrap offset value was consistent with the estimated yield loss for the GUC only;
- The allocation of the S,G&A expenses on staff number and not sales revenue;
- Paint costs have been allocated across all sales – not reflecting higher costs for HSS export sales to Australia.
- The claimed sales commission is to an independent third party of Kukje and its largest customer;
- The claim of an absence of a price differential between circular galvanized pipe and square/rectangular pipe (rejected by OneSteel ATM);
- What was the basis for a cost of credit adjustment?;
- Whether the price differential for painted HSS sales v black HSS sales is different to the actual painting cost incurred; and
- The inclusion of an upward adjustment for differing lengths of HSS exported to Australia.

If you have any questions concerning this submission please do not hesitate to contact me on (07) 3342 1921.

Yours sincerely



John O'Connor  
Director

Cc **Stephen Porter, General Manager Sales – OneSteel Manufacturing**

Source: HuSteel Website (<http://husteel.com/eng/index.htm>)

Standard Specification	Grade	Description	
ASTM	A 53	A,B	Pipe for General Purposes
	A135	A,B	Pipe for Conveying Liquid, Gas or Vapor
	A178	A,C,D	E.R.W. Boiler Tubes
	A214		E.R.W. Heat-Exchanger & Condenser Tubes
	A252	1,2,3	Steel Pipe Piles
	A500	A,B,C	Steel Tubes for Structural Purposes
	A513		E.R.W. Mechanical Tubing
	A589	Type I,II III,IV	Steel Water-Well Pipe

BS	1139		Metal Scaffolding
	1387	L,M,H	Steel Tubes Suitable for Pipe Thread
	1775	ERW 11 16,20	Steel Tubes for Mechanical, Structural and General Engineering Purpose
	3601	ERW 320 360,410	Steel Pipes for Pressure Purpose

JIS (KS)	G 3452 (D 3507)	SGP (SPP)	Steel Pipe for Ordinary Piping
	G 3454 (D 3562)	STPG (SPPS)	Steel Pipes for Pressure Service
	G 3461 (D 3563)	STB (STBH)	Steel Pipes for Boiler & Heat Exchanger
	G 3444 (D 3566)	STK (SPS)	Steel Pipes for General Structural Purpose
	G 3445 (D 3517)	STKM (STKM)	Steel Pipes for Machines Structural Purpose
	G 3466 (D 3586)	STKR (SPSR)	Steel Square Pipe for General Structural Purpose
	C 8305 (D 8401)	-	Rigid Steel Conduit
	(D 3583)	(SPW)	Arc Welded Carbon Steel Pipes
	(D 3589)	(P1H,P1S)	Polyethylene Coated Steel Pipe (PFP)
	(D3537)	(SPPW)	Galvanized Pipe for Water Service
	(D 3619)	(AP,PB, PC,PD)	Polyethylene Powder Lining Steel Pipes for Water Works
	A 5525 (F 4602)	-	Steel Pipe Piles
	(D 3626)	(SPCR)	Corrosion Resistance Welded Steel Pipes for Water Service