



1 November 2018

The Director  
Investigations 4  
Anti-Dumping Commission  
[investigations4@adcommission.gov.au](mailto:investigations4@adcommission.gov.au)

Dear Director,

**Review of Measures Inquiry Nos. 486 and 489 concerning steel reinforcing bar exported from Korea at Ors (Review Nos. 486 and 489)**

***Re.: Submission of the Australian industry in response to matters arising from the response to exporter questionnaire of Daehan Steel Co., Ltd***

We refer to the response to exporter questionnaire of Daehan Steel Co., Ltd (**Daehan**) in these matters,<sup>1</sup> and make a number of observations concerning the claims of that exporter on the following issues:

- approach to model matching;
- the making of specification adjustments;
- treatment of barter sales;
- claimed adjustments for technical support services;
- claimed lease expense adjustments; and
- adjustments for inventory carrying costs.

***Approach to model matching.***

Daehan has ACRS (*Australasian Certification Authority for Reinforcing and Structural Steels*) certification in Australia for rebar (in coils only, not straight lengths) produced to the AS/NZS 4671:2001 Grade 500N standard for nominal diameters of 10, 12, 16 and 20 mm.<sup>2</sup>

The goods exported to Australia by Daehan are likely to be Grade 500N only.

To ensure the most appropriate domestic grades are selected for comparison to the exported (Grade 500N) goods, Liberty Steel proposes the following Model Control Codes be applied:

<sup>1</sup> EPR Folio No. 486/004 (19 September 2018) and EPR Folio No.489/489 (19 September 2018).

<sup>2</sup> ACRS Certificate No. 121101.

Item	Category	Sub category
1	Prime	P: Prime
		NP: Non Prime
2*	Minimum yield strength specified by Standard produced to	<= 300MPa : Min yield strength less than or equal to 300MPa
		> 300MPa to <= 480MPa : Min yield strength greater than 300MPa but less than or equal to 480MPa
		> 480MPa to < 550MPa : Min yield strength greater than 480MPa but less than 550MPa
		>= 550MPa : Min yield strength greater than or equal to 550MPa
3**	Maximum Carbon Equivalent Value specified by Standard produced to	CES : Max Carbon Equivalent specified in Standard grade chemistry
		CEN : Max Carbon Equivalent not specified in Standard grade chemistry
4	Finished Form	DBIL: in lengths
		DBIC: in coils
5	Nominal diameter	<12mm
		>= 12mm to 16mm
		> 16mm to 32mm
		> 32mm
6	Length	<= 6m : less than or equal to 6m long
		> 6m to 12m : greater than 6m up to 12m long
		>12m: greater than 12m long
		C : Coiled product

**Notes:**

1. Criteria for Items 2 & 3 must be compared based on the Standard requirements to which grades have been produced.
2. It is not acceptable to compare based on test certificates which are only representative of a batch of steel. Grade selection for a rebar application is based on Standard comparison, rebar is not selected based on test certificates (test certificates certify that a given batch of steel has met the requirements of the Standard to which the material has been produced.)

\* Considered the top criteria to match. Apart from a small proportion of 'pool steel' sold as grade 250N, the reinforcing bar used in Australia and likely exported from Korea to Australia (for Mills with ACRS accreditation) is grade 500N with a minimum yield strength of 500MPa.

\*\* Considered very important to match as it indicates chemistry control required for welding. Known welding procedures would be set up for these grades. AS/NZS 4671:2001 requires a maximum carbon equivalent of 0.44% (cast analysis) and 0.46% (product analysis). The  $C_{eq}$  equation used is:

$$C_{eq} = C + \frac{Mn}{6} + \frac{Cr + Mo + V}{5} + \frac{Ni + Cu}{15}$$

### *The making of specification adjustments*

During the previous verification of Daehan's response to exporter questionnaire<sup>3</sup> the Commission correctly concluded that sales of Korean grade SD500W are most similar to the Australian grade 500N. However, as the then visit team did not find sales of SD500W by Daehan on the Korean domestic market, only sales of a grade SD500, the visit team, there, considered it appropriate to compare Daehan's export sales of Australian grade 500N with its domestic sales of Korean grade SD500. Liberty Steel agrees that the visit team was correct in its approach to comparing the Australian exported grade and Korean domestically sold grade, subject to two qualifications which warrant further examination by the Commission in the current reviews.

Firstly, should any Korean domestic sales of SD500W be found (even if in insufficient volumes), then a comparison of weighted average unit prices should be made to the Korean grade SD500 to assess whether the former grade trades at a premium. If this is found, then a specification adjustment should be made under s.269TAC(8) of the *Customs Act 1901*<sup>4</sup> to ensure a fair comparison of normal values and export prices. On the other hand, as we understand that all Daehan's exports of like goods to Australia were rebar in coil (DBIC), then the comparison between the Australian sales of DBIC grade 500N should be made to Korean domestic sales of DBIC grade (ideally) SD500W (or alternatively) SD500.

Secondly, in the unlikely event that insufficient volumes in the ordinary course of trade of DBIC are sold domestically by Daehan into the Korean domestic market, and a comparison is made to Korean sales of rebar in straight lengths (DBIL) of grade SD500 (or SD500W) are necessary, then we refer the Commission to evidence previously led by the Australian industry in Inquiry No. 452, which points to a price premium of KRW [REDACTED]/t in the Korean domestic market for DBIC when compared to DBIL.<sup>5</sup> Therefore, an upward adjustment to the normal value of at least this amount is required under s.269TAC(8) to allow a fair comparison of normal values and export prices.

### *Treatment of barter sales*

In *Inquiry No. 452*, and before that, *Investigation No. 264*, the Commission found that a significant volume of domestic coil sales were made under a barter sale arrangement where Daehan sold DBIC to certain customers and receives other like goods, such as DBIL, in return. In both the earlier inquiry and investigation, the Commission correctly excluded the barter sales from the calculation of the normal value consistent with the view that such sales may not be deemed to be in the ordinary course of trade, "as they are based on a notional price rather than an actual price for which payment can be verified".<sup>6</sup>

Liberty Steel considers that the Commission's earlier treatment of barter sales is the correct and preferable conclusion, and should be applied in the current reviews.

### *Claimed adjustments for technical support services*

In *Inquiry No. 452*,<sup>7</sup> the Commission correctly refused to allow an adjustment to the normal value for technical support services, in spite of an earlier incorrect decision in *Investigation No. 264* to allow such an adjustment. The nature of this claimed expense by Daehan is that it provides specific domestic customers with technical support services free of charged and incurred additional costs (in the form of employees who visit the customer's premises to provide a technical support service to customers who lease coil processing equipment) in doing so.

In its pre-exporter visit briefing to the Commission in Inquiry No. 452, the Australian industry indicated that this 'service' was "unlikely to apply to (unprocessed) rebar coil domestic sales" and "[m]ore likely to apply to

<sup>3</sup> Associated with *Anti-circumvention inquiry No. 452* ('Visit Report – Exporter, Daehan Steel Co., Ltd', February 2018)

<sup>4</sup> Unless otherwise specified all legislative references are to the *Customs Act 1901*.

<sup>5</sup> EPR Folio No. 452/006, p. 13.

<sup>6</sup> EPR Folio No. 264/008, p. 28.

<sup>7</sup> EPR Folio No. 452/008, p.13.



processed rebar solutions for application in construction”.<sup>8</sup> As expected, the Commission at verification in *Inquiry No. 452* correctly concluded that:

*“the technical support services are linked indirectly to the sale of coils but are provided in relation to further processing the like goods (to produce downstream products which are not like goods) ...*

*“the technical support services cost does not appear to be factored into pricing of like goods, therefore does not affect price comparability between export sales and domestic sales. This was supported by the visit team’s pricing analysis which compared the selling prices Daehan charged to the customers receiving the services with the selling prices charged to other customers”.*<sup>9</sup>

Liberty Steel considers that the Commission’s treatment of this claimed adjustment was the correct and preferable conclusion, and should be applied in the current reviews.

#### ***Claimed lease expense adjustments***

Daehan has consistently claimed its entitlement to an adjustment for expenses (in the form of lease depreciation costs) for specific Korean domestic customers who lease the processing facility which enables them to further process DBIC. The Australian industry has consistently opposed the making of this adjustment on the grounds that it is an expense arising from processing facilities related to downstream products (which are not like goods subject to measures).<sup>10</sup>

The Commission correctly concluded in *Inquiry No. 452* that the claimed adjustment was not warranted for reasons similar to those advanced by the Australian industry together with the following additional observation:

*“the lease depreciation costs does [sic.] not appear to be factored into pricing of like goods, therefore do not affect price comparability between export sales and domestic sales”.*<sup>11</sup>

Liberty Steel considers that the Commission’s treatment of this claimed adjustment was the correct and preferable conclusion, and should be applied in the current reviews.

#### ***Adjustments for inventory carrying costs***

An adjustment for domestic inventory carrying costs was claimed in *Investigation No. 264* and *Inquiry No. 452*. Although granted in the former, it was refused in the latter on the basis that *“the evidence provided did not demonstrate differences in the costs and any consequential impact on price comparability”*.<sup>12</sup>

The Australian industry considers that the evidentiary standard applied by the Commission in *Inquiry No. 452* was both correct and preferable, and that a similar standard of proof should be applied in these reviews. Furthermore, as expressed in its pre-exporter visit briefing to the Commission in *Inquiry No. 452*, the Commission must in these reviews carefully consider whether or not any inventory carrying costs do in fact affect price comparability between export and domestic sales.

Daehan’s distribution and marketing model is understood to be different to that of other Korean rebar producers. Daehan has sought to differentiate themselves by not only producing the like goods but also moving downstream and processing the rebar internally. As such Daehan have branded this as “Sta-z solution” or “Framework”.<sup>13</sup>

<sup>8</sup> EPR Folio No. 452/006, p. 28.

<sup>9</sup> EPR Folio No. 452/008, p. 13.

<sup>10</sup> EPR Folio No. 452/006, p. 18.

<sup>11</sup> EPR Folio No. 452/008, p. 13.

<sup>12</sup> *Ibid.*, at p. 14.

<sup>13</sup> EPR Folio No. 452/006, p. 27.





Therefore, any claimed downward adjustments for the domestic marketing and inventory costs should be resisted as they more accurately are associated with the selling and marketing of the downstream processed products and related construction solutions.<sup>14</sup>

### **Conclusions**

Liberty Steel considers that its proposed Model Control Codes provides a realistic and commercial view of the points of similarity that should be considered when comparing domestic and export models of the like goods the subject of these reviews.

Adoption of the Model Control Codes also provides the Commission with a workable framework within which to consider any specification adjustments. Liberty Steel considers that adjustments should be made both for the weldability of the Australian grade 500N exported by Daehan if the closest domestic grade is only SD500 (not SD500W). Furthermore, as Daehan only exported grade 500N in coil form, any domestic sales of rebar in straight lengths must face an upward adjustment of at least KRW [REDACTED]/t in order to reflect the price premium of DBIC in the Korean domestic market.

Consistent with the approach in both Investigation No. 264 and Inquiry No. 452, domestic barter sales should be excluded from the calculation of the normal value.

The conclusions reached in *Inquiry No. 452* concerning rejection of Daehan's claimed adjustments for

- claimed adjustments for technical support services;
- claimed lease expense adjustments; and
- adjustments for inventory carrying costs,

should also be upheld in these reviews.

Should you have any questions concerning any aspect of this submission, do not hesitate to contact the Australian industry member.

FOR AND ON BEHALF OF

**LIBERTY STEEL,**  
as sole member of the Australian industry producing like goods.

<sup>14</sup> EPR Folio No. 452/006, p. 27.