



## Exporter Verification Report

### Verification & Case Details

<b>Initiation Date</b>	1/08/2018	<b>ADN:</b>	2018/112
<b>Case:</b>	Steel Reinforcing Bar - Review of Measures - Korea and Taiwan		
<b>Case Number</b>	489		
<b>Exporter</b>	Wei Chih Steel Industrial Co Ltd		
<b>Location</b>	Tainan, Taiwan		
<b>Verification from</b>	24/10/2018	<b>to</b>	29/10/2018
<b>Review Period</b>	1/07/2017	<b>to</b>	30/06/2018

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 THE ANTI-DUMPING COMMISSION

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## 1 COMPANY BACKGROUND

### 1.1 Corporate Structure and Ownership

Wei Chih Steel Industrial Co., Ltd. ("Wei Chih") is a duly registered, for-profit corporation, in the Republic of China, Taiwan. It is a publicly-traded company on the Taiwan Stock Exchange.

Wei Chih has no subsidiaries or parent companies.

### 1.2 Related Parties

The verification team examined the relationships between related parties involved in the manufacture and sale of the goods.

#### 1.2.1 Related Customers

Wei Chih did not have any related customers, domestic or export, during the review period.

#### 1.2.2 Related Suppliers

Wei Chih informed the verification team that during the review period, it purchased raw materials from companies that Wei Chih's chairman has controlling shareholdings of. The verification team considers these companies to be related. The verification team tested these transactions and found they were arms length and that market price was paid for the raw materials.

## **2 THE GOODS AND LIKE GOODS**

### **2.1 Production Process**

Wei Chih is an integrated company that makes steel rebar from scrap. The raw material (scrap) is made into billets. It is at the billet making stage that alloys are added to comply with different standards. Billets for domestic goods and export goods are differentiated at this stage as the respective standards require different alloys to be added.

The billet is hot rolled into rebar and reheated. At this stage, goods destined for Australia are water quenched. The Taiwanese standard does not allow for water quenching. The rebar is placed onto a cooling bed. After cooling, the rebar undergoes a production inspection for quality control, is cut into the required length and sent to inventory.

### **2.2 Model Control Codes (MCCs)**

Wei Chih provided sales and cost data in its response to the exporter questionnaire (REQ) in accordance with the MCC structure detailed in the exporter questionnaire.

### **2.3 The goods exported to Australia**

The verification team were satisfied that Wei Chih produced and exported the goods to Australia. Wei Chih exported the goods to Australia with the following models control codes (MCC) during the period:

MCC	Exported to Australia
Quality (Prime/ non prime)	Prime
Production method	Water quenched
Form (Straight or coil)	Straight
Diameter	12-40mm
Length	6-12m
Deformation type	Ribbed
Grade (mpa)	500-650 mpa
Specification standard	AS/NZS 4671:2001
Grade	500N
Ductility	Normal
Alloy and alloy content	Nb:0.024-0.028% and Nb:0.026-0.030%
Carbon Content	0.24% max
Sales Quantity method	actual weight and theoretical weight
Coating	No coating

### **2.4 Like goods sold on the domestic market**

The verification team were satisfied that Wei Chih sold like goods in the domestic market.

The verification team considers that the goods manufactured for domestic consumption are identical to, or have characteristics closely resembling, the goods exported to Australia, as they:

- are not distinguished from the exported goods during production (the exported goods and goods sold on the domestic market are produced in the same way, subject to individual customer specifications and specification standards, and the costs of production for models sold domestically and for export are the similar);

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- are produced at the same facilities, using the same raw material inputs subject to specification standards and manufacturing processes;
- the goods compete in the same market sector and use similar distribution channels; and
- can be considered functionally alike, as they have similar end uses.

Wei Chih sold like goods on the domestic market with the following MCCs during the period:

MCC	Domestic market
Quality (Prime/ non prime)	Prime
Production method	Hot rolled
Form (Straight or coil)	Straight
Diameter	#3-#10
Length	9.5-18m
Deformation type	Ribbed
Grade (mpa)	Min 420 and 550 mpa
Specification standard	CNS 560
Ductility	Normal
Alloy	Vanadium (for SD420W only)
Carbon Content	0.32% (for SD420W) & 0% (for SD280)
Sales Quantity method	actual weight
Coating	No coating

## 2.5 Model matching

The verification team considered the following categories when comparing sales of domestic models and export models.

Category	Characteristics of Category & Rationale for Model Matching	Used in Model Matching
Quality (Prime/ non prime)	Most goods sold domestically and exported were prime quality. There were two sales of goods on the domestic market of non-prime goods. As these goods were sold at lower prices, the verification team has chosen to use this in model matching.	Y
Grade	This was chosen to model match on as all other categories are the same or dependent on the specification standard.	Y
Production method	Goods made to the Taiwanese standard are hot rolled. Goods made to the Australian standard are water quenched.	N
Form (Straight or coil)	All goods sold domestically and exported were straight.	N
Diameter	Goods sold domestically and exported have various diameters dependent on customer requirements. The verification team did not use diameter to model match as it has no effect on the price of the goods sold.	N
Length	Goods sold domestically and exported have various lengths dependent on customer requirements. The verification team did not use length to model match as it has no effect on the price of the goods sold.	N
Deformation type	All goods are ribbed.	N
Specification standard	This is dependent on the standard required (Australian or Taiwanese). The verification team did not use specification standard to model match as it has no effect on the price of the goods sold.	N

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Ductility	This is dependent on the standard required (Australian or Taiwanese). The verification team did not use ductility to model match as it has no effect on the price of the goods sold.	N
Alloy	This is dependent on the standard required (Australian or Taiwanese). The verification team did not use alloy to model match as it has no effect on the price of the goods sold.	N
Carbon Content	This is dependent on the standard required (Australian or Taiwanese). The verification team did not use carbon content to model match as it has no effect on the price of the goods sold.	N
Sales Quantity method	This is dependent on the customer's requirement. The verification team did not use sales quantity to model match as it has no effect on the price of the goods sold.	N
Coating	All goods are uncoated.	N

### 2.6 Like goods – assessment

The verification team considers that the goods produced by Wei Chih for domestic sale have characteristics closely resembling those of the goods exported to Australia and are therefore 'like goods' in accordance with subsection 269T(1) of the *Customs Act 1901* (the Act).<sup>1</sup>

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<sup>1</sup> References to any section or subsection in this report relate to provisions of the Act, unless specifically stated otherwise.

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**3 UPWARDS VERIFICATION OF SALES**

**3.1 Verification of Sales Completeness and Relevance**

Verification of relevance and completeness is conducted by reconciling selected data submitted "upwards" through management accounts up to audited financial accounts. The verification team verified the completeness and relevance of the export and domestic sales listings provided in its REQ by reconciling these to audited financial statements in accordance with ADN. No 2016/30.

Wei Chih's accounts are reviewed by an independent accounting firm each quarter. At the end of each financial year (Jan-Dec), its accounts are audited.

The original and translated reviewed quarters for Jul-Sep 2017, Jan-Mar 2018 and Apr-Jun 2018 and annual audited statement for Jan – Dec 2017 were provided by Wei Chih.

Wei Chih completed a sales reconciliation for each quarter of the review period and a sales reconciliation for the review period. Wei Chih showed the verification team the sales revenue figure for 2017 in their accounting system. As the entire year is audited in Q4, there is no individual reviewed statement for Q4. Wei Chih showed the verification team the sales revenue for Q4 in their systems and extracted this into pdf format.

The verification team is satisfied that the revenue from the accounting period reconciles to the revenue in the review period.

Wei Chih's sales reconciliations demonstrate clearly how the figures in the sales reconciliation for the entire period was derived. The spreadsheets reconcile to the sales volume and value of the domestic sales listing and export sales listing provided in the REQ.

The verification team identified the issues outlined below during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at Confidential Attachment 1.

**3.1.1 Exceptions during Verification of Sales Completeness and Relevance**

No.	Exception	Resolution	Evidence Relied On
1	Sales of Australian grade goods onto the domestic market	During the upwards reconciliation of sales revenue, it became evident that there were sales of 500N (Australian grade) rebar sold on the Taiwanese domestic market. Wei Chih explained that these were secondary grade goods that were not suitable for export so they were sold on the domestic market at a discounted price.	The verification team requested the invoices and proof of payment for these two sales.

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		The verification team requested the domestic sales listing be updated to show the sales of these goods.	
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### 3.2 Completeness and Relevance Finding

The verification team are satisfied that the sales data provided in Wei Chih's REQ, including any required amendments as outlined as an exception above, is complete and relevant.



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### 4 DOWNWARDS VERIFICATION OF SALES

#### 4.1 Verification of Sales Accuracy

The accuracy of data is verified by reconciling selected data submitted "downwards" to source documents. This part of verification involves the process of agreeing the volume, value and other key information fields within the sales data and cost data down to source documents. This verifies the accuracy of the data (e.g. for sales data, the volume and value of the records for selected transactions are accurate and reflect sales that did occur). The verification team verified accuracy of the export and domestic sales listings submitted in the REQ by reconciling these to source documents in accordance with ADN. No 2016/30.

The verification team identified the issues outlined below during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at Confidential Attachment 1.

##### 4.1.1 Exceptions during Verification of Sales Accuracy

No.	Exception	Resolution	Evidence Relied On
1	A review of the invoices found that there were several sales the export sales listing that were outside the review period. This was because Wei Chih created the spreadsheet using date of sale rather than invoice date.	The verification team removed the sales not in the review period from the sales listing.	The upwards sales reconciliation confirmed that there were no sales missing from the export sales listing.
2	The date of sale did not reconcile with sales contract for four of the selected export sales.	Wei Chih explained that orders are received via email and the contract can take up to a day to generate. As none of the incorrect sales were at month end, the verification team was not concerned by this issue.	Sales contract
3	Wei Chih has an arrangement with two entities to receive letters of credit on Wei Chih's behalf for export sales.  For one selected shipment, the remittance of payment from intermediary to Wei Chih was unable to be fully reconciled.	Wei Chih were able to provide bank statements showing that the intermediary paid Wei Chih however, as the payment was for multiple orders, the verification team were unable to reconcile the payments to orders. The verification team chose not to pursue the matter as the other selections were able to be fully verified and this was considered low risk.	Bank statements from customer to intermediary and intermediary to Wei Chih.
4	Exchange rate verification. Wei Chih provided source documents to demonstrate the exchange rate in the export sales listing. When reconciled	Wei Chih explained that exported goods are either taken to the customs warehouse or the private warehouse. Goods in the customs warehouse require	Customs declaration statements showing exchange rates.

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	to the sales listing, 44 listings were incorrect and did not match the exchange rate source documents.	the full shipment to arrive prior to completion of the customs declaration whereas goods in the private warehouse can be declared in advance. This is why orders with the same invoice date may have different exchange rates. The exchange rates provided in the sales listing were correct and based on the customs declaration date, not the invoice date.  The verification team accepted Wei Chih's response.	
5	Actual and theoretical weight in the export sales listing	The export sales listing provided in the REQ had a mixture of theoretical weight and actual weights. Wei Chih explained that the weight used was at the customer's request. The verification team requested Wei Chih update the export sales listing with actual weights for all sales in the export listing. This is in line with the domestic sales listing which contains the actual weight.	Wei Chih's accounting systems showing the actual weights.
6	Wei Chih incurs an inland transport cost moving export goods from the mill to the port.  The freight company charges a fixed rate per tonne of goods shipped. The inland transport costs in the sales listing provided in the REQ were calculated using a mixture of theoretical and actual weights.	The verification team amended the formula for inland transport costs in the export sales spreadsheet to use the actual weight (and not a mixture of actual and theoretical).	Invoices from freight company and proof of payment.
7	For five of the selected shipments, the reported handling charges were understated. The discrepancies varied from 4% - 68% smaller than the figure stated in the export sales listing.	Wei Chih were unable to explain why the discrepancies occurred. The verification team has deemed handling unreliable.  For the unverified sales, the verification team has increase the handling charges listed in the REQ by the average difference of the verified sales (23.05%).	Invoices showing port handling charges and proof of payment.
8	Wei Chih pay an unrelated company a commission to assist in the export sales of the goods to Australia. For three selections, the incorrect commission was listed in the export sales listing.  The error was found to be the formula in the sales listing which used the monthly average	The verification team amended the sales listing to reflect the actual commission paid.	The invoice showing commission and proof of payment.

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	exchange rate on the spreadsheet while the invoice showing commission used a single exchange rate. The issue only occurred where orders where spread over different months.		
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**4.2 Sales Accuracy Finding**

The verification team are satisfied that the sales data provided in Wei Chih’s REQ, including any required amendments as outlined as an exception above, is accurate.

## **5 COST TO MAKE AND SELL**

### **5.1 Verification of completeness and relevance of CTMS data**

The verification team verified the completeness and relevance the cost to make and sell (CTMS) information provided in the REQ by reconciling it to audited financial statements in accordance with ADN No. 2016/30.

The verification team identified the issue outlined below during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at Confidential Attachment 1.

#### **5.1.1 Exceptions during Verification of Completeness and Relevance of CTMS data**

No.	Exception	Resolution	Evidence Relied On
1	On the first day of the verification, Wei Chih provided updated CTMS data for model SD280. The revised CTMS had amended SG&A information.	The verification team verified the SG&A and is satisfied the domestic sales CTMS is complete and relevant.	Wei Chih's accounts and financial statements.

### **5.2 Completeness and Relevance Finding of CTMS data**

The verification team are satisfied that the cost to make and sell (CTMS) data provided in the exporter questionnaire response by Wei Chih, including any required amendments as outlined as an exception above, is complete and relevant.

### **5.3 Verification of CTMS Allocation Methodology**

The verification team verified the reasonableness of the methodology used to allocate the CTMS information provided in the REQ to the relevant models, in accordance with ADN No. 2016/30.

Cost Area	Methodology Applied	Evidence Relied On
Raw Materials	Raw materials (scrap, heavy oil) are allocated based on actual use.	Wei Chih's accounting system
Scrap Allocation	Rebar scrap and short rule is allocated based on the current market price of steel. Scale is allocated based on the sale price. The figure is relatively stable.	Wei Chih's accounting system, invoices and proof of payment of scrap sales.

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Manufacturing Overheads (including depreciation)	Manufacturing overheads for the goods is worked out using a percentage of overall factory costs (these are the costs that are common to all goods produced by Wei Chih) and 100% of the costs for the rolling mill (which is only used for the rebar process).	Wei Chih's accounting system and depreciation schedule
Labour	Labour is allocated based on total labour for month / total tonnage of product (including rebar etc)	Wei Chih's accounting system
SG&A	SG&A is allocated based on actual costs.	Wei Chih's accounting system and source documents.

### 5.4 Verification of CTMS Methodology Finding

The verification team are satisfied that the allocation methodology for the cost to make and sell (CTMS) data provided in Wei Chih's REQ, including any required amendments as outlined as an exception above, is reasonable.

### 5.5 Verification of Accuracy of CTMS data

The verification team verified the accuracy of the CTMS information provided in the REQ by reconciling it to source documents in accordance with ADN No. 2016/30.

During this process, the verification team examined source documents for the purchases of raw material from related suppliers (as detailed at Chapter 1.2.2). The verification team found that the purchases from the related companies were at the same market prices as purchases from unrelated companies. The verification team finds that the purchases were at arms length.

The verification team did not identify any issues during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at Confidential Attachment 1.

### 5.6 Accuracy Finding of CTMS data

The verification team are satisfied that the cost to make and sell data provided in Wei Chih's REQ is accurate.

## 6 EXPORT PRICE

### 6.1 The importers

In relation to the goods exported by Wei Chih to Australia, the verification team considers that the customers listed for each shipment were the beneficial owners of the goods at the time of importation, and therefore were the importers of the goods.

### 6.2 The exporter

The Commission generally identifies the exporter as a 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 carrier, courier, forwarding company, or its own vehicle for delivery to Australia; or a principal in the transaction, located in the country of export, that owns, or previously owned, the goods but need not be the owner at the time the goods were shipped.

The verification team were satisfied that for all Australian export sales during the period the verification team considers Wei Chih to be the exporter of the goods.

### 6.3 Arms length

In respect of Wei Chih's Australian sales of the goods during the period, the verification team found no evidence that:

- there was any consideration payable for, or in respect of, the goods other than its 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; or
- the buyer, or an associate of the buyer, was directly or indirectly reimbursed, compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.<sup>2</sup>

The verification team therefore considers that all export sales to Australia made by Wei Chih during the period were arms length transactions.

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<sup>2</sup> Section 269TAA of the Act refers.

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### 6.4 Export Price – assessment

In respect of Australian sales of the goods by Wei Chih, the verification team recommends that the export price be determined under paragraph 269TAB(1)(a), as the price paid by the importer to the exporter less transport and other costs arising after exportation.

The verification team's preliminary export price calculations are at **Confidential Appendix 1**.

## 7 DOMESTIC SALES SUITABILITY

The verification team has assessed the domestic sales to determine if the prices paid in respect of domestic sales of like goods are suitable for assessing normal value under subsection 269TAC(1).

### 7.1 Arms length

In respect of domestic sales of the goods made by Wei Chih to its customers during the review period, the verification team found no evidence that:

- there was any consideration payable for, or in respect of, the goods other than its 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; or
- the buyer, or an associate of the buyer, was not directly or indirectly reimbursed, compensated or otherwise received a benefit for, or in respect of, the whole or any part of the price.

The verification team therefore considers that all domestic sales made by Wei Chih to domestic customers during the period were arm's length transactions.

### 7.2 Ordinary course of trade

Section 269TAAD provides that if like goods are sold in the country of export at a price less than the cost of such goods, and are unrecoverable within a reasonable period, then they are taken not to have been sold in the ordinary course of trade (OCOT).

The verification team compared the revenue (i.e. net sales value) for each domestic sale of like goods to the corresponding quarterly domestic CTMS to test whether those sales were profitable.

Where the volume of unprofitable sales exceeded 20 per cent for a particular model, the verification team tested the recoverability of the unprofitable sales by comparing the revenue for each transaction to the corresponding weighted average CTMS over the review period. Those sales found to be unrecoverable were considered not to be in the ordinary course of trade.

The results of the verification teams testing of the ordinary course of trade are as follows.

Number of Models	Models in OCOT
3	2



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### 7.3 Suitability of domestic sales

Subparagraph 269TAC(2)(a)(i) provides that the normal value of goods exported to Australia cannot be ascertained under subsection 269TAC(1) where there is an absence, or low volume, of sales of like goods in the market of the country of export. Low volume is defined by subsection 269TAC(14) as less than 5 percent of the total volume of the goods under consideration that are exported to Australia.

The verification team's assessment of the suitability of domestic models to the models exported to Australia is detailed below:

Export MCCs	Sufficient sales of identical model sold on the domestic market	Surrogate model identified
500N, prime	N/A – no identical model sold on domestic market	No surrogate model was found

### 7.4 Profit

Where the Commission is required to calculate a normal value under section 269TAC(2)(c), an amount of profit must be determined. The verification team has calculated an amount of profit as follows should a normal value be required under this provision.

The profit amount has been determined in accordance with section 45 of the *Customs (International Obligations) Regulation 2015* (the Regulations). The Regulations, at subsection 45(2), specifies that the profit must, if reasonably practicable, be worked out by using the production and sale of like goods in the exporter's domestic market, sold in the ordinary course of trade.

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**8 ADJUSTMENTS**

To ensure the normal value is comparable to the export price of goods exported to Australia at free-on-board (FOB) terms, the verification team has considered the following adjustments in accordance with subsection 269TAC(9).

**8.1 Rationale and Methodology**

<b>Adjustment Type</b>	<b>Rationale for Adjustment</b>	<b>Calculation Methodology</b>	<b>Evidence</b>	<b>Claimed in REQ?</b>
Export inland transport	Wei Chih incurred inland transport costs for export sales.	An upwards adjustment to the normal value based on the weighted average unit cost.	Contract with freight company, monthly invoices and proof of payment	Y
Export handling & loading & ancillary expenses	Wei Chih incurred export handling & loading & ancillary expenses for export sales.  Following a verification of 51 sales to source documents, the verification team found 19 lines in the sales listing to be incorrect. Wei Chih were unable to explain why these lines were incorrect. The verification team has deemed handling & loading & ancillary to be unreliable and adjusted the unverified transactions by the percentage difference of the verified transactions. This has resulted in an increase in the handling & loading & ancillary expenses originally reported by Wei Chih.	An upwards adjustment to the normal value based on the weighted average unit cost.	Broker and customs costs for shipments, a reconciliation table and proof of payment	Y
Export commission	For export sales, Wei Chih pays commissions to an agent. This is a fixed unit price.  The verification team has verified commissions for a selection of transactions and is satisfied that the commissions applied to the transactions in the export	An upwards adjustment to the normal value based on the weighted average unit cost.	commission agreement, commission invoice, and proof of payment	Y

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	sales listing spreadsheet.			
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**8.2 Adjustments**

<b>Adjustment Type</b>	<b>Deduction/addition</b>
Export inland transport	Addition
Export handling & loading & ancillary expenses	Addition
Export commission	Addition

The verification team’s preliminary adjustment calculations are included in normal value calculations at **Confidential Appendix 4**.

## 9 NORMAL VALUE

The verification team is satisfied that because of the absence, or low volume, of sales of like goods in the market of the country of export that would be relevant for the purpose of determining a normal value, the normal value of goods exported to Australia cannot be ascertained under subsection 269TAC(1),

The verification team has therefore calculated a preliminary normal value under subsection 269TAC(2)(c).

The verification team's preliminary normal value calculations are at **Confidential Appendix 4**.

## **10 DUMPING MARGIN**

The dumping margin has been assessed by comparing weighted average Australian export prices to the corresponding quarterly weighted average normal value for the investigation period, in accordance with paragraph 269TACB(2)(a) of the Act.

The dumping margin in respect of the goods exported to Australia by Wei Chih Steel Industrial Co Ltd for the period is **-0.4 per cent**.

Details of the preliminary dumping margin calculation are at **Confidential Appendix 5**.

**11 APPENDICES AND ATTACHMENTS**

<b>Confidential Appendix 1</b>	Export price
<b>Confidential Appendix 2</b>	Cost to make and sell
<b>Confidential Appendix 3</b>	Domestic sales, OCOT and profitability
<b>Confidential Appendix 4</b>	Normal Value
<b>Confidential Appendix 5</b>	Dumping Margin
<b>Confidential Attachment 1</b>	Verification work program