



Exporter Verification Report

Verification & Case Details

Initiation Date	1/08/2018	ADN:	2018/112
Case:	Steel Reinforcing Bar - Review of Measures - Korea and Taiwan		
Case Number	489		
Exporter	Daehan Steel Co. Ltd		
Location	Seoul, Korea		
Verification from	10/10/2018	to	15/10/2018
Review period	1/07/2017	to	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

Daehan Steel Co Ltd (Daehan) has offices located in Seoul and Busan, South Korea, with its main production facilities in Busan and Gyeonggi-do, South Korea. The company has seven subsidiary companies and one affiliated company. It is headquartered in Busan. Daehan is a steel manufacturer that produces square billet, deformed bar-in-length (DBIL), deformed bar-in-coil (DBIC), and processed rebar products sold to Korea and export markets, including Australia. It sells goods in the domestic market, sells to Australia and other countries. It was incorporated on 10 June 1954 and listed on the stock market on 31 October 2005. As the time of the verification, the company (including subsidiaries) had 537 employees.

Daehan is not a subsidiary of another company. It is listed on the Korean stock exchange.

Daehan advised that no management fees/corporate allocation are charged to Daehan by its related companies. There was no evidence of such fees.

The financial department is located in Busan and the purchasing department in Busan and Seoul. Steel production is located at each plant responsible for production control and management, excluding Pyeongtaek plant's processing works.

Daehan produces financial statements to International Financial Reporting Standards (IFRS) which are audited.

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

Daehan sells goods under consideration to one subsidiary company (Daehan Networks Co., Ltd.). The verification team evaluated commercial sales to this company, specifically the average price over the POI and did not find evidence to suggest that these are not arm's length transactions.

1.2.2 Related Suppliers

The company has a number of related parties as suppliers. Related party transactions include the sale of scrap steel to Daehan and the provision of logistics services for both domestic and export sales.

2 THE GOODS AND LIKE GOODS

2.1 Model Control Codes (MCCs)

Daehan provided sales and cost data in its response to the exporter questionnaire in accordance with the MCC structure detailed in the exporter questionnaire, using the following categories:

- Product Type
- Steel Grade
- Diameter
- Ductility
- Alloy
- Coating

2.2 The goods exported to Australia

The verification team were satisfied that Daehan produced and exported the goods to Australia. Daehan exported the goods to Australia with the following model matching criteria during the period:

- C-500-B-N-N-N
- C-500-C-N-N-N

2.3 Like goods sold on the domestic market

The verification team were satisfied that Daehan 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, as:
 - the exported goods and goods sold on the domestic market are produced in the same way
 - are subject to individual customer specifications, and
 - the costs of production for models sold domestically and for export are the same;
- are produced at the same facilities, using the same raw material inputs and manufacturing processes;
- the goods compete in the same market sector, are interchangeable and use similar distribution channels; and
- can be considered functionally alike, as they have similar end uses.

Daehan sold like goods on the domestic market with the following criteria during the period:

- C-400-A-N-N-N
- C-400-B-N-N-N
- C-400-C-N-N-N
- C-500-A-N-N-N
- C-500-B-N-N-N

2.4 Model matching

The verification team considered the following categories when comparing sales of domestic models and export models as these were the only models sold into the Australian market.

Variable	Rationale for Model Matching	Used in Model Matching
Quality	No non-prime goods were sold	N
Production method	Single production method used for all Australian exports	N
Form	DBIL and coils produced, with only coils exported to Australia	Y
Diameter	Diameter used to distinguish goods and determine price	Y
Standard	Single standard used for Australian exports. Grade considered more applicable for distinguishing goods and determining price.	N
Grade	Grade type incorporates standards, yield strength and carbon content differences. Grades of domestic and exported goods compared. Grade used to distinguish goods and determine price.	Y
Ductility	Ductility used to distinguish goods and determine price	Y
Carbon content	Grade considered more applicable for distinguishing goods and determining price.	N
Alloy	Difference in alloy type used to determine price	Y
Alloy content	Goods not distinguished on basis of alloy content of goods. Alloy type considered more applicable.	N
Sales quantity method	Not applicable for determining price	N
Coating	Difference in coating type used to distinguish goods and determine price	Y

2.5 Like goods – assessment

The verification team considers that the goods produced by Daehan 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).¹

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

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 the REQ by reconciling these to audited financial statements in accordance with ADN. No 2016/30.

Daehan presented their upwards verification steps reconciling total sales volume and its value during the IP to audited financial statements and trial balances from their accounting system.

A diagram on how the values reconcile with Daehan's income statement first by identifying the values relevant to the POI, then finished goods, and then export values to Australia and other countries was presented to the verification team. This was combined with evidence from their accounting system at each of these steps.

3.2 Completeness and Relevance Finding

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.

The verification team are satisfied that the sales data provided in the exporter questionnaire response by Daehan is complete and relevant.

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 audited financial statements 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	The verification team identified that for one of the selected export transactions, Daehan engaged a wholly owned subsidiary to organise inland transport and handling and this company did not pass the full cost on to Daehan.	The Commission requested and checked documents related to all export sales and additional domestic sales. No further issues were identified.	Invoice documents from Daehan and the affiliated company.
2	During the verification a minor error in the calculation of rebates was discovered	An updated domestic sales listing with revised rebate data was supplied	Tested against customer rebate agreements.
3	Exception 2 above has a very minor impact on the recalculation of credit costs	An updated domestic sales listing with revised credit calculations was supplied	Tested against customer rebate agreements.

4.2 Sales Accuracy Finding

The verification team are satisfied that the sales data provided in the exporter questionnaire response by Daehan, 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 following exception during the verification

5.1.1 Verification of CTMS completeness and relevance exceptions

No.	Exception	Resolution	Evidence Relied On
1	Analysis of the purchase pricing for scrap comparing related and unrelated parties showed the values were similar for all related companies and all quarters with the exception of February 2018 for which scrap purchases from one of the related suppliers were at a much higher unit price.	The company explained and evidenced that for that month, there was a human error in the posting of the invoice and that it was discovered and reversed during March 2018.	The company provided a reconciliation workbook and accounting records which verified the error. As a result, the Commission considers the purchase of scrap from related parties to be at arms length pricing.

Details of this verification process are contained in the verification work program, and its relevant attachments, at Confidential Attachment 1.

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 Daehan, including any required amendments as outlined as an exception above, is complete and relevant.

Details of this verification process are contained in the verification work program, and its relevant attachments, at Confidential Attachment 1.

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.

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Cost Area	Methodology Applied	Evidence Relied On
Raw Materials	Actual usage (standard costs adjusted at month end to reflect actual)	Accounting records
Scrap Allocation	Actual usage (standard costs adjusted at month end to reflect actual)	Accounting records
Manufacturing Overheads	Actual usage (standard costs adjusted at month end to reflect actual)	Accounting records
Labour	Actual usage (standard costs adjusted at month end to reflect actual)	Accounting records
Depreciation	As per depreciation schedule	Accounting records
Packaging	The Commission found no differences in packaging.	N/A

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.

5.3.1 Verification of CTMS Allocation Methodology Exceptions

No.	Exception	Resolution	Evidence Relied On
1	Impairment loss on subsidiary stock was incorrectly allocated	Revised SG&A and CTMS worksheets provided.	Company accounts

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 the exporter questionnaire response by Daehan, 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.

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 (CTMS) data provided in the exporter questionnaire response by Daehan, including any required amendments as outlined as an exception above, is accurate.

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

6 EXPORT PRICE

6.1 The importers

Daehan manufactures and exports rebar to Stemcor (S.E.A.) and Duferco. Duferco sell the goods to DITH (a related company) who arrange and pay for freight to Australia. Duferco receive payment for the services it renders to DITH.

The verification team considers DITH and Stemcor to be the beneficial owners of the goods at the time of importation and therefore the importer as they:

- are declared as the importer on the importation declaration to ABF;
- arrange and pay duties, customs clearance;
- pay for all the importation charges; and
- arrange delivery from the port to their customers.

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 Daehan to be the exporter of the goods.

6.3 Arms length

In respect of Daehan'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.²

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

6.4 Export Price – assessment

In respect of Australian sales of the goods by Daehan, the verification team recommends that the export price be determined under subsections 269TAB(1)(a) and 269TAB(1)(c).

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

² Section 269TAA of the Act refers.

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 Daehan 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 Daehan 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 visit team tested the recoverability of the unprofitable sales by comparing the revenue for each transaction to the corresponding weighted average CTMS over the inquiry period. Those sales found to be unrecoverable were considered not to be in the ordinary course of trade.

The visit team noted that a significant volume of domestic DBIC sales were made under a barter arrangement where Daehan receives DBIL in return. Consistent with the original investigation, these sales have been excluded from the normal value calculations for this inquiry.

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

Number of Models	Models in OCOT
5	5

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.

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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
C-500-B-N-N-N	Yes	N/A
C-500-C-N-N-N	No	C-500-B-N-N-N

8 ADJUSTMENTS

To ensure the normal value is comparable to the export price of goods exported to Australia at comparable trade terms, the verification team has considered the following adjustments in accordance with subsection 269TAC(8).

8.1 Rationale and Methodology

Adjustment Type	Rationale for Adjustment	Calculation Methodology	Evidence	Claimed in REQ?	Commission's decision and reasoning.
Deduct domestic technical support costs	Daehan presented in its REQ a technical support cost related to the company's provision of technical services to customers for the machinery used in the cutting and bending process to produce finished goods.	Actual Cost	The verification team reviewed accounting records and contracts that confirm the accuracy of the cost incurred in the provision of this service.	Y	The verification team considers that these costs relate to a general marketing practice that provides support for machines that are not the ones producing the goods. The verification team has denied the claim as The verification team considers that general expenses of this nature do not fall within the scope of the term 'differences in conditions and terms of sale'.
Deduct domestic coil test costs	Daehan, provided coil testing beyond the required Korean standard in order to address the complaints of a customer and ensure the continuity of business with it.	Actual Cost	The verification team reviewed accounting records, contracts and proof of tests that confirm the accuracy of the cost incurred in	Y	The verification team does not consider that this additional testing has an effect on the conditions and terms of sale and has therefore rejected it.

PUBLIC RECORD

			the provision of this service.		
Deduct Domestic quality maintenance service expense	Daehan presented costs for a service provided to some customers to give them confidence in the quality of the products being produced.	Actual Cost	The verification team reviewed accounting records and contracts that confirm the accuracy of the cost incurred in the provision of this service.	Y	The Commission could not find evidence of how this testing had an effect on price, and considers that this is a general expense that does not alter the conditions and terms of sale.
Deduct domestic inventory carrying costs	Daehan made claim that they only held stock of inventory of domestic sales.	Inventory ledger closing balances	Inventory ledger	Y	Closing balance statements show stock was held of grades that included not only grades relevant to the domestic market but grades exported to Australia and other export markets. The Commission has denied this claim.
Deduct domestic inland transport	Daehan sells its domestic product on 'delivered' and 'ex-works' terms. For delivered items Daehan claimed an adjustment.	Actual cost	The verification team reviewed accounting records, contracts and proof of payments that confirm the accuracy of the cost incurred in	Y	The verification team considers that these costs are relevant to the conditions of sale and has therefore accepted this adjustment.

PUBLIC RECORD

			the provision of this service.		
Deduct domestic credit cost	As per section 6 of this report, Daehan incurred a credit cost.	Calculated cost	The verification team reviewed the average short term interest rates used for borrowings that confirm the accuracy of the cost incurred.	Y	The verification team considers that these costs are relevant to the conditions of sale and has therefore accepted this adjustment.
Add export inland transport	Daehan sells its product exported to Australia on 'FOB' terms.	Actual cost	The verification team reviewed accounting records, contracts and proof of payments that confirm the accuracy of the cost incurred.	Y	The verification team considers that these costs are relevant to the conditions of sale and has therefore accepted this adjustment.
Add export handling and other charges	Daehan incurs handling and other charges directly relevant to the selling of its product in Australia.	Actual cost	The verification team reviewed accounting records, contracts and	Y	The verification team considers that these costs are relevant to the conditions of sale and has therefore accepted this adjustment

PUBLIC RECORD

			proof of payments that confirm the accuracy of the cost incurred.		
Adjust models not sold domestically	A model sold in Australia is not sold domestically.	Specification Adjustment	Price variance table.	Y	Referring to a price variance specification, this model's FOB normal value was adjusted to make it comparable to a domestic model.

8.2 Adjustments Accepted

Adjustment Type	Deduction/addition
Domestic inland transport	Deduction
Domestic credit cost	Deduction
Export inland transport	Addition
Export handling and other charges	Addition
Adjust models not sold domestically	Specification Adjustment

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

9 NORMAL VALUE

The verification found that there were models with sufficient volumes of domestic sales of the goods, exported to Australia, that were arms length transactions and at prices that were within the OCOT. The verification team is therefore satisfied that the prices paid in respect of domestic sales of these models of the goods are suitable for assessing normal value under subsection 269TAC(1).

In using domestic sales as a basis for normal value, the verification team considers that certain adjustments, in accordance with subsection 269TAC(8), are necessary to ensure fair comparison of normal values with export prices, as outlined in section 8.

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 Daehan for the period is **3.84% per cent**.

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

11 APPENDICES AND ATTACHMENTS

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