



## **Exporter Verification Report**

### **Verification & Case Details**

<b>Initiation Date</b>	16/11/2018	<b>ADN:</b>	2018/175
<b>Case:</b>	Investigation on the alleged dumping and subsidisation of steel reinforcing bar		
<b>Case Number</b>	495		
<b>Exporter</b>	Kroman Celik Sanayii A.S.		
<b>Location</b>	Turkey		
<b>Verification from</b>	13/02/2019	<b>to</b>	18/02/2019
<b>Investigation Period</b>	1/10/2017	<b>to</b>	30/09/2018

**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

Kroman Çelik Sanayii A.Ş. (Kroman) is a private company that manufactures and sells iron/steel products including steel reinforcing bar (rebar, or the goods). Kroman's shareholders include parent company Yücel Boru ve Profil Endüstrisi A.Ş. (Yücel Boru), private companies within the Yücel Boru Group and natural persons.

None of Kroman's related entities manufacture the goods subject to the investigation.

### 1.2 Related Parties

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

#### 1.2.1 Related Customers

For all sales of the goods to Australia during the investigation period, Kroman sold via a related trading company Yücelboru İhracat İthalat ve Pazarlama A.Ş. (YIIP). Kroman did not have any related Australian customers in the investigation period.

Kroman had a low volume of domestic sales of like goods to related parties in the investigation period. The verification team tested the arms length nature of these transactions by comparing the pricing of comparable models to unrelated customers. Based on the information available, the verification team is satisfied that these transactions are arms length and the transactions have not been excluded from the sales listing. However, it is noted that these transactions were of Model Control Codes (MCCs) that were not used for model matching with export sales.

#### 1.2.2 Related Suppliers

During the investigation period, Kroman had two related party suppliers of raw materials (scrap). In verifying Kroman's cost of producing the goods, the verification team compared the prices of these related scrap purchases with purchases of scrap from unrelated entities. The verification team considers Kroman's purchases of scrap from related parties to be arms length transactions.

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

### **2.1 Production Process**

The verification team undertook a visual inspection of Kroman’s steel making and rolling mills as part of the visit to Kroman in Turkey. The production process between the goods and like goods sold by Kroman was found to be identical. Kroman’s production line features steel making facilities and rolling mills. Kroman produces rebar using a mixture of billet produced in its own steel making facilities via the electric arc furnace process and billet sourced from external suppliers. The rolling mills at Kroman, which are used to produce rebar, feature water quenching stages and are capable of producing both straight and coil rebar.

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

Kroman provided sales and cost data in its response to the exporter questionnaire in accordance with the MCC structure detailed in ADN No. 2018/175.

<b>Item</b>	<b>Category</b>	<b>Sub-category</b>	<b>Identifier</b>
1	Prime	Prime	P
		Non-Prime	N
2	Minimum yield strength specified by product standard (Mega Pascals or “MPa”)	Less than or equal to 300	A
		Greater than 300 but less than or equal to 480	B
		Greater than 480 but less than 550	C
		Equal to or greater than 550	D
3	Finished form	Rebar in length/straight	S
		Rebar in coil	C
4	Nominal diameter (millimetres or “mm”)	less than 12	A
		Greater than or equal to 12 and less than or equal to 16	B
		Greater than 16 and less than or equal to 32	C
		Greater than 32	D
5	Length (metres or “m”)	less than or equal to 6	1
		Greater than 6 and less than or equal to 12	2
		Greater than 12	3
		Coil product	C

During verification and in its REQ Kroman put forward its position that the MCC category relating to the length of straight rebar was not relevant as the price of rebar is based on volume. Kroman further advised that cost differences between rebar of differing lengths related only to the guillotine operation which incurred minor costs.

It also advised that differences in the price of rebar in each length category were only noticeable at the cost and freight (CFR) level due to ocean freight cost differences for 20 and 40 foot long containers. As a result Kroman does not consider it necessary to recover such costs in the FOB price of the goods and the MCC relating to length is not relevant. Kroman also cited the approach adopted by the US Department of Commerce which did not consider length to be a necessary consideration.

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The verification team analysed the export price of straight rebar in each length category and observed there was a difference between the price of rebar in lengths less than or equal to 6 metres and greater than 6 meters and less than or equal to 12 metres. Price differences were observed across each quarter of the investigation period however these were inconsistent. In the absence of any price list used by Kroman the verification team was unable to reliably ascertain if these price differences were driven by the different length or were simply the result of variations due to price negotiations.

The verification team also analysed the price differences for the length of straight rebar sold in the exporter's domestic market and observed no price difference attributable to length.

The verification team has maintained length as a MCC category for the purpose of this report, however where it was not possible to compare models with the same length, a surrogate model with a different length was considered appropriate. The verification team does not consider that the available evidence supports an adjustment to account for specification differences due to length is necessary.

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

The verification team were satisfied that Kroman produced and exported the goods to Australia. Kroman exported the goods to Australia with the following MCCs during the investigation period:

- P-C-C-B-C
- P-C-S-B-1
- P-C-S-B-2
- P-C-S-C-1
- P-C-S-C-2

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

The verification team were satisfied that Kroman sold like goods on the domestic market.

The verification team considers that rebar 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, that is, the exported goods and goods sold on the domestic market are produced in the same way, 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 facility, using the same raw material inputs and manufacturing processes;
- 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.

Kroman sold like goods on the domestic market with the following MCCs during the investigation period:

- N-A-C-B-C, N-B-C-A-C, N-B-C-B-C, N-C-C-A-C, N-C-C-B-C
- P-A-C-A-C, P-A-C-B-C, P-A-S-A-2, P-A-S-B-2, P-A-S-C-2
- P-B-C-A-C, P-B-C-B-C, P-B-S-A-1, P-B-S-A-2, P-B-S-B-1, P-B-S-B-2, P-B-S-B-3, P-B-S-C-1, P-B-S-C-2, P-B-S-C-3, P-B-S-D-2, P-B-S-D-3

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- P-C-C-A-C, P-C-C-B-C, P-C-S-A-2, P-C-S-B-1, P-C-S-B-2, P-C-S-B-3, P-C-S-C-2, P-C-S-C-3, P-C-S-D-2
- Non-prime mix lengths in straight

### 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
Prime/non-prime	The sales of non-prime products were of mixed length rebar straights or where products had failed quality controls. The verification team considers that these characteristics significantly impact on price comparability and as such has maintained this category for model matching. For sales of mix length rebar straights, these were of mixed properties and therefore could not be assigned an MCC category for model matching.	Y
Yield strength	The verification team maintains the characteristics of yield strength, form and diameter in the MCC structure. The verification team did not identify information to suggest that any of these characteristics do not have an effect on price.	Y
Form		Y
Diameter		Y
Length	<p>Kroman expressed the opinion that length should not be considered in the Commission's consideration of MCC categories, due to there being no difference in cost or price for domestic sales, with the difference for exports being a post-FOB cost and therefore not relevant to FOB prices. Kroman provided pricing and sales information during the verification to substantiate this claim.</p> <p>The verification team has maintained length in the MCC structure, however for models with insufficient volumes of the same length category, a surrogate length category is to be used.</p>	Y

### 2.6 Like goods – assessment

The verification team considers that the goods produced by Kroman 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.

### **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 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.

The verification team conducted the verification as follows:

- Kroman’s total operating revenue for financial year 2017 was tied to the amount for the investigation period based on Kroman’s audited financial accounts and management reports;
- The net sales revenue for non-subject products was reconciled to Kroman’s trial balance and traced to Kroman’s financial system;
- Sales of “wire rod” were further analysed in a SAP generated report, to identify sales of subject goods (rebar coil) and non-subject goods;
- The net sales revenue for the goods was separated into each market – domestic, Australia and third country – using Kroman’s sales data generated from a report in SAP; and
- The verification team tied the total net sales revenue for the subject products for each market to the respective sales listings that Kroman provided in the REQ, noting the exceptions below.

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	Domestic sales – invoice currency: It was identified that some domestic sales were invoiced in USD, with F/X gains being identified for some domestic sales.	Kroman submitted a revised domestic sales spreadsheet (REQ, attachment D-2) with updated gross invoice values and the invoice currency. The verification team tested this for accuracy.	Management reports, including trial balances.
2	Australia sales – invoice prices: Sales revenue for Australian sales did not reconcile precisely for the goods. It was identified that gross invoice prices reported in the Australian sales listing were the prices of the	Kroman submitted a revised B-2 (REQ, attachment GP-2.2) which included the invoice amounts for transactions between Kroman and YIIP.	Financial report generated through Kroman’s accounting system; source documents, including commercial invoices and bank statements.



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No.	Exception	Resolution	Evidence Relied On
	goods between YIIP (trading company) and the Australian customer.		

### 3.2 Completeness and Relevance Finding

The verification team are satisfied that the sales data provided in the REQ by Kroman, including any required amendments as outlined as an exception above, 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	One of the Australian sales invoices was recorded in the wrong quarter (invoice date was incorrectly entered). This was identified from the invoice ordering.	Kroman corrected the invoice date in the revised Australian sales listing at attachment B2, and other sales were tested for accuracy.	Source documents, including commercial invoices.
2	Several payments to YIIP did not reconcile precisely to invoice values for Australian sales.	Kroman provided further information to reconcile all payments received by YIIP in relation to Australian sales of the goods in the investigation period. This margin represented a very small percentage lost, due to banking related charges for some sales. The amount is immaterial and was not shown to affect the price received by Kroman. Therefore no adjustment was required.	Source documents, including commercial invoice and evidence of bank transactions.
3	Certain products were not listed with MCC codes in the domestic sales listing in the REQ. It was identified that these were non-prime sales of rebar straights of a variety of sizes and product categories.	As these were mixed products and could not accurately be assigned a cost base, these items were not considered OCOT sales.	Source documents, including commercial invoices and purchase orders.

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4	The verification team identified certain sales which were price outliers. It was subsequently identified that all sales of rebar coil to one customer were non-prime models.	Kroman revised the domestic sales listing (REQ, attachment D-2) with the accurate product descriptions and MCC categories.	Source documents, including commercial invoices and purchase orders.
5	The verification team identified 3 invoices as being erroneous due to the low unit prices. It was subsequently identified that these invoices had been corrected in the sales listing due to errors in the original invoice values.	Kroman revised the domestic sales listing (REQ, attachment D-2) by updating the net quantities for these invoices with corrections. These values were removed from the sales listing.	Source documents, including commercial invoices and corroborating evidence.
6	The exchange relied on by Kroman to determine the FOB export price in local currency did not reference the exchange rate relevant to the invoice date.	The verification team revised the export sales listing (REQ attachment B2) by annotating the listing with the exchange rates relevant to the date on the invoice for sale of the goods to the Australian importer. The verification team considered that this date best reflects the material terms of the sale <sup>2</sup> and therefore the exchange rate applicable for converting the export price into the exporter's domestic currency should reflect the exchange rate relevant to invoice date.	Source documents, including commercial invoices and corroborating evidence.

### 4.2 Sales Accuracy Finding

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

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<sup>2</sup> Anti-Dumping Commission *Dumping and Subsidy Manual*, Section 14.3, p.62

## 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 Kroman's REQ by reconciling it to audited financial statements in accordance with ADN No. 2016/30.

### 5.2 Completeness and Relevance Finding of CTMS data

The verification team identified that Kroman did not report cost of production data for non-prime models. During verification it was established the models which possessed the same MCC characteristics except for being prime or non-prime had identical cost of production. Relying on the cost data for the relevant prime models the verification team populated Kroman's cost to make data to include costs for non-prime models.

In Appendix G-4.1 of its REQ Kroman listed all of the accounts it considered might be relevant for the calculation of indirect selling, general and administration costs (SG&A). The verification team identified accounts that related to gains and losses on foreign exchange rates however it could not be reasonably determined whether the gains and losses on foreign exchange reported by Kroman were relevant to the sale of the goods. As a result these accounts were excluded from Kroman SG&A cost calculations. After further discussion with Kroman, four additional accounts were excluded on the basis that these accounts involved a net decrease in the SG&A indirect cost base and did not generally appear to relate to the sale of any goods produced by Kroman.

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

### 5.3 Completeness and Relevance Finding of CTMS data

The verification team are satisfied that the CTMS data provided in the REQ by Kroman is complete and relevant.

### 5.4 Verification of CTMS Allocation Methodology

The verification team verified the reasonableness of the methodology used to allocate the CTMS information provided in Kroman's 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	End of month weighted average value of closing stocks by monthly production quantities for the relevant rolling mill.	<ul style="list-style-type: none"> <li>• General and sub-ledgers for billet and scrap inventories;</li> <li>• Raw material purchase listings;</li> <li>• Raw materials consumption reconciliation to trial balance data;</li> <li>• Production order data; and</li> <li>• Source documents, including invoices and proof of payment for raw materials purchases.</li> </ul>
Scrap Allocation	Net sales revenue achieved applied by monthly production quantities for the relevant workshops.	<ul style="list-style-type: none"> <li>• General and sub-ledgers for by-product inventories.</li> </ul>
Manufacturing Overheads	End of month weighted average unit cost for each type of cost by the relevant factor of consumption, e.g. kilograms, time units, cubic metres, Mega Watt hours, for the relevant rolling mill.	<ul style="list-style-type: none"> <li>• Trial balance data for the investigation period;</li> <li>• Cost centre activity reports; and</li> <li>• Production order data.</li> </ul>
Direct labour	End of month weighted average unit cost of labour by monthly production line machine time for the relevant rolling mill.	<ul style="list-style-type: none"> <li>• Trial balance data for the investigation period;</li> <li>• Cost centre activity reports; and</li> <li>• Production order data.</li> </ul>
Depreciation	Weighted average costing by monthly production line machine time for the relevant rolling mill. Straight line method based on asset type, original value and depreciation rate.	<ul style="list-style-type: none"> <li>• Trial balance data for the investigation period;</li> <li>• Cost centre activity reports; and</li> <li>• Production order data.</li> </ul>
Packaging	Weighted average unit cost for the investigation period, for each relevant material code.	<ul style="list-style-type: none"> <li>• General and sub-ledgers for manufacturing overheads inventories and marketing and sales expenses.</li> </ul>

### 5.5 Verification of CTMS Methodology Finding

The verification team are satisfied that the allocation methodology for the CTMS data provided in the REQ by Kroman, is reasonable.

### 5.6 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.

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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.

### 5.6.1 Exceptions during Verification of Accuracy of CTMS data

No.	Exception	Resolution	Evidence Relied On
1	The verification observed negative values for manufacturing overhead costs in the initial version of Kroman's cost of production at Appendix G3 of its REQ.	The verification team established that Kroman reported costs relating to scrap offset, depreciation and manufacturing overheads as a single cost item. Kroman provided a revised version of its cost of production data for both domestic and Australian sales to separately identify the above costs.	<ul style="list-style-type: none"><li>• Production cost mapping table in Attachment GP10.1 to the verification work program at Confidential Attachment 1.</li><li>• Production cost data in Attachment GP10.2 to the verification work program at Confidential Attachment 1.</li></ul>
2	The verification team was unable to precisely reconcile the export and domestic sales quantities used in Kroman's allocation of domestic and export packaging expenses.	Packing costs were reallocated based on verified sales data, having regard to Kroman's revised turnover spreadsheet provided during the verification.	<ul style="list-style-type: none"><li>• General sales ledgers</li></ul>

### 5.7 Accuracy Finding of CTMS data

The verification team are satisfied that the CTMS data provided in the REQ by Kroman, including any required amendments as outlined as an exception above, is accurate. 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 importer

In relation to the goods exported by Kroman to Australia, the verification team considers that the customer listed for each shipment was the beneficial owner of the goods at the time of importation, and therefore the importer 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.

With regards to Kroman's role in its Australian sales, the verification team notes that Kroman:

- manufactured the goods to Australian standards and is listed as the manufacturer on commercial invoices and purchase orders between YIIP and Australian importer;
- negotiated directly with customers, including the Australian importer; and
- arranged inland transport of the goods to the port of export, knowingly placing the goods in the hands of a carrier, for delivery to Australia.

Based on these roles, the verification team is satisfied that Kroman is the exporter of the goods.

### 6.3 Arms length

In respect of Kroman's Australian sales of the goods during the investigation 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>3</sup>

The verification team observed that Kroman paid a set commission to YIIP to cover costs relevant to the exportation. This was provided for in an agreement and considered to be in accordance with established trading practices, and not to affect the arms length nature of the transactions.<sup>4</sup>

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

### 6.4 Export Price – assessment

In respect of Australian sales of the goods by Kroman the verification team recommends that the export price be cannot be determined under subsection 269TAB(1)(a) or 269TAB(1)(b). This is because the goods were not purchased by the importers from the exporter (Kroman). The goods

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<sup>3</sup> Section 269TAA of the Act refers.

<sup>4</sup> Subsection 269TAA(1A) of the Act refers.

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were instead purchased by the importers from an intermediary, being YIIP. The verification team recommends that the export price be calculated under subsection 269TAB(1)(c) having regard to all the circumstances of the exportation. Specifically, the verification team considers the appropriate method of calculating the FOB export price as the price paid by the related trading company (YIIP) to Kroman, with the addition of relevant FOB costs incurred by YIIP.<sup>5</sup>

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

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<sup>5</sup> Anti-Dumping Commission – Dumping and Subsidy Manual (November, 2018), p. 30, “Where an intermediary is involved the export price, for the purposes of calculating a dumping or subsidy margin, will be the price received by that exporter when selling to the intermediary (even if the intermediary is in the same country as the exporter)”.



## **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 Kroman to its customers during the investigation 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 Kroman to domestic customers during the period were arms 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 investigation period. Those sales found to be unrecoverable were considered not to be in the OCOT.

The results of the verification teams testing of the OCOT are as follows.

<b>Number of Models</b>	<b>Models in OCOT</b>
31	26

### **7.3 Suitability of domestic sales**

Subsection 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:

## PUBLIC RECORD

Export MCCs	Sufficient sales of identical model sold on the domestic market	Surrogate model identified
P-C-C-B-C	No	Not available
P-C-S-B-1	No	P-C-S-B-2
P-C-S-B-2	Yes	N/A
P-C-S-C-1	No	P-C-S-C-2
P-C-S-C-2	Yes	N/A

For two of the export MCCs where there was a low volume of identical MCCs on the domestic market, there were sufficient sales of products of similar specifications but of a different length. As discussed at section 2.5, Kroman was of the opinion that length should not be considered as an MCC category, with evidence being provided in support of this assertion.

The verification team reviewed Kroman's cost and pricing data and available information and was of the view that based on the information available, Kroman's domestic sales of similar MCC categories but of different length were suitable determining normal values under subsection 269TAC(1). The verification team has not sought to make an adjustment to account for specification differences, which in this case was length.

For the model where there was no suitable surrogate, the verification team recommends constructing the normal value under subsection 269TAC(2)(c).

### 7.4 Profit

Where the Commission is required to calculate a normal value under subsection 269TAC(2)(c), an amount of profit must be determined. The verification team has calculated an amount of profit based on the production and sale of like goods by Kroman on the domestic market in the OCOT, in accordance with subsection 45(2) of the *Customs (International Obligations) Regulation 2015*.

**PUBLIC RECORD**

**8 ADJUSTMENTS**

To ensure the normal value is comparable to the export price of goods exported to Australia at FOB terms, the verification team has considered the following adjustments in accordance with subsection 269TAC(8) and where applicable, subsection 269TAC(9).

**8.1 Rationale and Methodology**

Adjustment Type	Rationale for Adjustment	Calculation Methodology	Evidence	Claimed in REQ?
<b>Credit expenses (domestic)</b>	Kroman had different payment terms between domestic and export sales. For domestic sales, Kroman's payment terms varied from sale-to-sale, whereas for export sales to Australia, all sales were arranged by letter of credit 'at sight'.	Actual unit credit cost applied to invoice prices.	The visit team verified amounts for credit expenses as applied in Kroman's accounting system. These were reconciled to short-term credit rates applicable during the investigation period.  Contracts for letters of credit were provided in relation to Australian sales of the goods.	<b>Y</b>
<b>Packaging (domestic and export)</b>	The packaging for goods exported to Australia incur additional costs compared to rebar sold on the domestic market	Total packaging costs relating to domestic sales were allocated across all domestically sold like goods.  The packaging costs relating to export sales were allocated across all export sales.	The visit team verified the amounts for domestic and export packaging costs and relevant quantities to the sub-ledgers in the accounting system.	<b>Y</b>
<b>Inland transport (domestic and export)</b>	Kroman incurred inland transport expenses for certain Australian and domestic sales.	Kroman allocated inland transport costs relevant to domestic sales and exports respectively based on the actual invoice quantity, for those invoices where inland transport costs were incurred.	Commercial invoices and sub-ledgers from the accounting system for inland transport expenses.	<b>Y</b>

**PUBLIC RECORD**

<b>Adjustment Type</b>	<b>Rationale for Adjustment</b>	<b>Calculation Methodology</b>	<b>Evidence</b>	<b>Claimed in REQ?</b>
<b>Collection insurance (domestic)</b>	Kroman incurred financial expenses for sales to certain domestic customers, in relation to an insurance arrangement to cover bad debt.	The total amount paid for collection insurance was allocated to relevant domestic sales (including non-subject goods) based on the percentage of total revenue of those sales.	Commercial invoices and sub-ledgers from the accounting system.	<b>Y</b>
<b>Direct debit expense (domestic)</b>	Kroman incurred financial expenses for sales to certain domestic customers, in relation to credit arrangements with domestic banks.	The total amount paid for direct debit expenses was allocated to relevant domestic sales (including non-subject goods) based on the percentage of total revenue of those sales.	Commercial invoices and sub-ledgers from the accounting system.	<b>Y</b>
<b>Handling and other (export)</b>	YIIP incurred handling expenses in relation to Kroman's Australian sales.	Actual expense incurred for relevant consignments.	Commercial invoices and supporting documentation.	<b>Y</b>
<b>Commission (export)</b>	Kroman incurred commission expenses for Australian sales.	Actual expense incurred.	Commercial invoices and supporting documentation.	<b>Y</b>
<b>Exporter association fee (export)</b>	Kroman incurred export association fees in relation to its Australian sales.	Actual expense incurred for relevant consignments.	Commercial invoices and supporting documentation.	<b>Y</b>
<b>Customs brokerage (export)</b>	YIIP incurred domestic customs brokerage expenses in relation to Kroman's Australian sales.	Actual expense incurred.	Commercial invoices and supporting documentation.	<b>Y</b>
<b>Customs overtime (export)</b>	Kroman incurred customs overtime fees in relation to certain export sales.	Actual expense incurred for relevant consignments.	Commercial invoices and supporting documentation.	<b>Y</b>
<b>Surveillance costs (export)</b>	Kroman incurred inspection fees in relation to export sales.	Actual expense incurred for relevant consignments.	Commercial invoices and supporting documentation.	<b>Y</b>
<b>Inventory carrying cost</b>	In its REQ, Kroman stated that it maintains an inventory in relation to domestic sales, and therefore considers an allowable adjustment for the inventory carrying costs is necessary.	Adjustment not made.	Nil.	<b>Y</b>

**PUBLIC RECORD**

Adjustment Type	Rationale for Adjustment	Calculation Methodology	Evidence	Claimed in REQ?
	<p>Kroman did not provide any supporting information to quantify any impact of inventory carrying costs which would affect the fair comparison of export price to the normal value of the goods.</p>			
<p><b>Duty Drawback – Inward Processing Regime (IPR)</b></p>	<p>In its REQ, Kroman claimed that a duty drawback adjustment is necessary in order to ensure a fair comparison between export and domestic prices. Kroman stated that during the investigation period, it imported billets and made exports under the Turkish Inward Processing Regime (IPR), which provides an exemption from import duties and import taxes under certain conditions.</p> <p>It further stated that this duty drawback adjustment would represent the amount of duties that Kroman would have to pay if the product had been sold in the domestic market rather than in the export market.</p> <p>It is considered that import charges are a form of taxation and the adjustment for drawback of customs duty implements the requirement for an adjustment where price comparability is affected due to differences in taxation.<sup>6</sup></p> <p>The visit team verified Kroman’s use of the IPR during the investigation period and is satisfied that Kroman did not pay import duties in relation to these imports. The verification team also established that Kroman did not pay duties on its imports of scrap metal, which is used to produce billet in its own billet making facilities. Billets produced from imported duty free scrap were used to make rebar sold in the exporter’s domestic market.</p> <p>The verification team is therefore satisfied that price comparability of exports was not affected due to differences in taxation for like goods sold on the domestic market.</p>	<p>Adjustment not made.</p>	<p>Nil.</p>	<p><b>Y</b></p>

<sup>6</sup> Anti-Dumping Commission – Dumping and Subsidy Manual (November, 2018), p. 69.

**PUBLIC RECORD**

**8.2 Adjustments**

<b>Adjustment Type</b>	<b>Deduction/addition</b>
Domestic credit costs	Deduct domestic credit costs under subsection 269TAC(8) and TAC(9).
Domestic inland transport	Deduct domestic inland transport under subsection 269TAC(8)
Domestic packaging	Deduct domestic packaging under subsection 269TAC(8) and TAC(9)
Domestic collection insurance	Deduct collection insurance under subsection 269TAC(8)
Domestic direct debit system expenses	Deduct direct debit system expenses under subsection 269TAC(8)
Export packaging	Add export packaging under subsection 269TAC(8) and TAC(9).
Export inland transport	Add export inland transport under subsection 269TAC(8) and TAC(9).
Export handling & other (loading and lashing)	Add export handling & other (loading and lashing) under subsection 269TAC(8) and TAC(9).
Export commission expenses	Add export commission expenses under subsection 269TAC(8) and TAC(9).
Export Turkish customs brokerage	Add export Turkish customs brokerage under subsection 269TAC(8) and TAC(9).
Export related Government of Turkey Customs overtime charges	Add export Government of Turkey customs overtime charges
Export exporter association fees	Add export related exporter association fees under subsection 269TAC(8) and TAC(9).
Export consignment surveillance expenses	Add export consignment surveillance expenses under subsection 269TAC(8) and TAC(9).

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

## 9 NORMAL VALUE

In relation to 4 of the export MCCs, the verification found that there were suitable models with sufficient volumes of domestic sales, 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 are suitable for assessing the normal value of the goods 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.

In relation to 1 of the export MCCs, 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) based on Kroman's:

- cost of production of the goods; and
- the SG&A costs that would be incurred on the assumption that the exported good is sold on the domestic market;
- and an amount for profit.

In using a constructed normal value, the verification team has made certain adjustments as considered necessary, in accordance with subsection 269TAC(9), to ensure that the fair comparison of normal values with export prices.

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

## 10 DUMPING MARGIN

### 10.1 Short term currency fluctuation

In its application, Liberty OneSteel (Newcastle) Pty Ltd (the applicant) highlighted the fluctuations it observed in the Turkish Lira (TRY) and US dollar (USD) exchange rate.<sup>7</sup> The applicant argued that the Commission should apply the provisions of subsection 269TAF(3) of the Act to address what it considers to be short-term currency fluctuations between the TRY and USD.

The applicant referred to the Commission's approach in *Investigation 240* where the Commission applied the following method to eliminate short-term fluctuations in currency:

- an eight week moving average for the exporter's currency against the USD was established for the investigation period;
- daily actual rates were compared to the 8 week moving average and a daily variance benchmark was established; and
- where the actual daily rate varied from the benchmark rate by more than two and a quarter per cent the actual daily rate was classified as fluctuating.

This issue is currently being considered by the case team and may impact on the dumping margin. Whilst this issue is being considered, the verification team has not published a dumping margin.

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<sup>7</sup> Liberty OneSteel (Newcastle) Pty Ltd, section B-5.1.5, Case 495 Public Record Item No.002



## **11 SUBSIDIES**

In its REQ, Kroman reported receiving benefits under the following subsidy programs outlined in the exporter questionnaire:

- Program 5 - Deductions from Taxable Income for Export Revenue;
- Program 6 - R&D Income Tax Deduction;
- Program 12 - Inward Processing Certificate Exemption Program;
- Program 17 - Rediscount Program; and
- Program 21 - Industrial R&D Grants.

Kroman also reported receiving benefits from additional programs. However, Kroman was of the view that the benefits received in relation to these additional programs were not specific as they were applicable to all enterprises in Turkey:

- Support and Stability Fund for participating in trade fairs in abroad;
- Minimum Wage Support;
- Employment of Handicapped Staff;
- Employment of Unemployed; and
- Employment of Additional Employee.

Further to the above, Kroman also reported receiving a benefit in the form of payments received from the Turkish Employers' Association of Metal Industries (MESS) Assistance. In addition, the Government of Turkey reported that Kroman received a benefit in relation to the Export Credit Insurance program. Information regarding this program will be evaluated by the case management team to assess whether benefits under this program constitute a countervailable subsidy.

To assess the level of subsidisation Kroman has received in relation to its exports of the goods to Australia, the team examined the information provided by Kroman in its REQ, the questionnaire response received from the Government of Turkey (GoT), as well as data submitted and verified in relation to other exporters.

### **11.1 Program 1 - Natural Gas for LTAR**

At H-2.2 of its REQ, Kroman reported that it does not source any of its natural gas requirements from either a State Owned Enterprise (SOE) or a State Invested Enterprise (SIE). The verification team examined the listing of natural gas purchases by Kroman during the investigation period and compared these to the relevant accounts in its financial records and against a selection of supplier invoices. The verification team was satisfied that Kroman's natural gas supplier is not an SOE or an SIE. As a result Program 1 is not considered applicable to Kroman.

### **11.2 Program 2 - Land for less than adequate remuneration**

In a footnote in response to H-2.5 of its REQ, Kroman advised that it purchased land from a non-public body, however the date of purchase supported that the purchase would not relate to the investigation period. Kroman provided the title documents relating to this purchase which identified the vendor. Kroman advised that there was currently nothing installed on this plot of land.

## **PUBLIC RECORD**

In general discussion Kroman advised that the benefit conferred by this program was via a law which granted operators Government owned land for free of charge or at a lower than market rate.

Kroman advised the land is commonly located within special industrial zones that are usually clearly marked by way of special entry points and the address of the operators located in the zone which would refer to the name of the zone.

In the GoT RGQ it cited YIIP as being located in the Osmaniye Organised Industrial Zone which is located in one of the provinces that the GoT advised was subject to land allocations for in provinces stipulated in clause (b) of Article 2 of Law No. 5084 (GoT RGQ Exhibit 10 p.99). If located in such a province the Commission was of the understanding that organisations within those provinces would likely benefit from Program 2, Program 3 and Program 7.

In follow up enquiries with Kroman it advised that the GoT had incorrectly referred to YIIP and should have referred to related party pipe and profiles producer Yücel Boru ve Profil Endüstrisi A.Ş. ("Yücel Boru") which Kroman confirmed is located in the Osmaniye Organised Industrial Zone. Kroman is located in the province of Kocaeli. YIIP, which is a trading company with no production facilities is located in Istanbul.

On the basis of the further information provided by Kroman in relation to YIIP and Yücel Boru the verification team does not consider that Program 2, and in connection, Programs 3 and 7, apply to Kroman.

### **11.3 Program 3 – Electricity for less than adequate remuneration**

In response to question H-2.6 Kroman reported it does not source any of its electricity requirements from an SOE or an SIE. Kroman advised that it purchased its electricity from privately owned electricity suppliers. In support, Kroman provided the verification team with documents relating to the owner of its electricity providers. The verification team examined the listing of electricity purchases by Kroman during the investigation period and compared these to the relevant accounts in its financial records and against a selection of supplier invoices. The verification team was satisfied that Kroman's electricity costs had been accurately represented in its financial records and its suppliers were privately owned. Consequently, Program 3 is not considered to apply.

### **11.4 Program 4 – Lignite for less than adequate remuneration**

In response to its REQ at H-2.9, 2.10 and 2.11 Kroman indicated it was not a producer of electricity and therefore not a purchaser of raw materials relating to the activity of electricity generation. The verification team is satisfied that Kroman's response regarding lignite purchase is accurate.

### **11.5 Program 5 – Deductions from Taxable Income for Export Revenue**

In response to H-3.1 and H-3.7 to its REQ Kroman advised that related party YIIP received a benefit in relation to deductions from taxable income for export revenue under Article 40 of the Turkish Income Tax Law. YIIP is a related party to Kroman who is responsible for all export sales functions on behalf of Kroman.

The verification team examined YIIP's Corporate Tax Return FY2017 which indicated a deduction had been claimed in relation to Program 5.

## **PUBLIC RECORD**

Under Program 5, total deductible expenses are not allowed to exceed more than 0.5 per cent of the foreign exchange revenue. Kroman explained that expenses that are to be subject to a claim for a deduction under Program 5 are assessed by tax accountants so the amount to be claimed may not necessarily equate to the maximum allowable 0.5 per cent. Details in Article 40 of the Income Tax Law also refer to the existence of such assessments by the Turkish government. The figure claimed in YIIP's FY2017 tax return was lower than the maximum allowable 0.5 per cent.

In FY2017 the tax rate applicable to YIIP was 20 per cent. Based on the amount claimed and the applicable tax rate the verification team was able to identify the benefit received under this program.

Kroman did report any deductions under Article 40 in FY2017. The verification team's examination of Kroman's FY2017 corporate tax return confirmed this to be correct. Although Kroman and YIIP provided provisional corporate tax returns for the period ending 30 September 2018, the interim returns did not contain information relating to deductions under Article 40. The final 2018 tax returns will be available in April 2018. The tax rate in FY2018 will be 22 per cent.

Pending receipt of the FY2018 corporate tax returns, the benefit received has been preliminarily determined for the investigation period based on the deduction appearing in YIIP's FY2017 tax return using the tax rate applicable in 2018, i.e. 22 per cent. This approach recognises that the rates applicable to FY2018, which covers three quarters of the investigation period are the most relevant and relies on the most contemporaneous information available.

### **11.6 Program 6 - R&D Income Tax Deduction**

In response to H-3.1 and H-3.7 to its REQ Kroman advised that it received a benefit in relation to allowable deductions pursuant to the Law on Supporting Research and Development Activities Law No.5746 Article 3. Program 6 is jointly administered by the Turkish Ministry of Finance and government entity Tubitak (Scientific and Technological Research Council of Turkey).

At H-3.7(J) to its REQ Kroman confirmed the figure relating to its deductions under Program 6 however stated that the deductions were in relation to cost for projects that did not relate to the goods the subject of the investigation. The verification team examined the documents provided by Kroman in relation to these projects. The verification team observed that the scope of the projects appeared to support that they may universally relate to all goods produced by Kroman. On this basis that verification team was satisfied that the R&D expenses claimed under Program 6 were relevant to the goods.

The verification team examined Kroman's FY2017 tax return and identified it had claimed eligible R&D expenses which reduced its taxable income. At the time of verifying Kroman's REQ its 2018 financial year tax return was not finalised. As a result, the verification team has determined the benefit received under this program in relation to the investigation period by relying on the value of the deduction claimed in FY2017 and the 2018 financial year tax rate of 22 percent. Similar to the approach taken for Program 5, this approach recognises that the rates applicable to the 2018 tax year, which covers three quarters of the investigation period, are the most relevant.

### **11.7 Program 7 - Withholding of Income Tax on Wages and Salaries**

Kroman did not report receiving a benefit under this program however advised at the visit that it was terminated in 2013. Kroman also advised that payment of income tax on behalf of employees is a company liability in Turkey rather than the individual. As a result a reduction in the income tax liability would be a benefit to the employer.

### **11.8 Program 8 - Property Tax**

Kroman is not located in one of the eligible zones (refer to discussion at 11.3). Consequently, this program is not relevant to Kroman.

### **11.9 Program 9 - Exemption from Income Tax on Wages Paid to workers**

Kroman stated that this program was a duplication as it is the same as Program 7.

### **11.10 Program 11 – Investment Encouragement Program VAT and Import Duty Exemption**

Kroman advised that to access relief from import duty on imported plant and equipment the GoT will firstly issue a certificate to importers (refer to GoT RGQ, p.63). Kroman also informed the verification team that imports from Italy are exempt from duty under the Customs Union. In relation to this program Kroman stated that it has not sought such relief from payment of VAT or import duty from the GoT.

To validate Kroman's response the verification team examined a listing of plant and equipment and consumables imported during 2018 and selected a sample of imports to compare to the relevant import declarations.

The verification team observed that the import declarations indicated the valuation basis and the amount of duty, VAT and stamp duty payable. Kroman presented cash receipts as proof of payment of customs duty and VAT and stamp tax. Supplier's commercial invoices were also provided to establish the nature of the goods, country of origin, invoice value and terms of sale. The verification team was satisfied that Kroman has paid all necessary fees to the Turkish government in relation to the importations examined. On the basis of the verification team's examination of Kroman's records relevant to Program 11 Kroman does not appear to have received a benefit under this program.

### **11.11 Program 10 – RDP (Domestic Processing Regime) Duty Exemption**

During the verification visit Kroman advised that Programs 10 and 12 are both pursuant to Article 2 of Turkey's Domestic Processing Regime Resolution 2005/8391. Kroman also refers to this regime as the Inward Processing Regime (IPR). Kroman explained that the difference between the two programs is due to the way in which import duty is assessed. The first method being to pay duty at the time of importation and seek a drawback. The second method suspends the payment of import duty on the basis of a guarantee from the importer that the imported goods will be further processed and exported as finished goods. Kroman utilises the method relating to the suspension (exemption) of import duty, otherwise referred to by the Commission as Program 12.

Kroman's REQ at H-4.1 provided a detailed explanation regarding the operation of the IPR and the use of the Inward Processing Certificate (IPC) system. Kroman utilised the category D-1 IPC for imports of raw materials for use in finished products that will be exported. The verification team established that Kroman did not pay import duty on its imports of scrap metal and such imports are not subject to import tariffs in Turkey in any case. However, it did access the IPR for its imports of billet which are subject to a range of import tariffs depending on country of origin.

## PUBLIC RECORD

Using the data reported by Kroman the verification team was able to calculate the value and volume of Kroman's billet imports in relation to the IPCs which were active over the course of the investigation period and the amount of suspended duty payable.

To verify the accuracy of Kroman's reporting the verification team examined a sample of entry documents for two importations. The documents were useful for establishing which IPC number related to the goods being imported and the value of Value Add Tax (VAT) and import tariff.

In terms of the general operation of the IPC system Kroman explained that an IPC must be closed off within 6 months subject to one 3 month extension, otherwise duty is payable on the imports plus penalties, hence why the guarantee letter is required. Under certain circumstances up to 12 months is allowed. The maximum time period for an IPC to be open is stated in the resolution IPR Resolution No.2005/8391 at Article 20 is 12 months.

Kroman advised that an IPC is first obtained by way of a projection of future sales of exported goods and a yield loss ratio to estimate the quantity of imports required to make the estimated volume of finished goods for export. Once a permit to import a certain volume is granted, the volume of imports subject to the IPC must be offset by a similar volume of exports of finished goods less yield losses.

Once the imported volume of goods subject to the IPC is fully exhausted the exporter will make a submission to the government requesting closure of the IPC. The government will then undertake a reconciliation exercise to validate the request and close the IPC.

During verification Kroman provided downloads of data from the Turkish government customs e-portal website in relation to its imports of billet and exports of finished goods relating to the IPCs that were active over the investigation period. The verification team examined the data provided and was satisfied that the volume of goods imported under the relevant IPC had been fully offset by an equivalent volume of exported finished goods less allowable differences relating to yield loss.

In relation to IPCs which were are still open, Kroman calculated the pro rata volume of expected exports derived from the volume of goods imported under these certificates. The verification team observed that the volume of exported finished goods corresponded with the volume of imported raw materials less yield losses as allowed by the regime. After allowing for yield, in either instance the volume of quantities of imported raw materials did not exceed the quantities of finished products which were exported.

Using the data provided by Kroman in its REQ the verification team was able to calculate the unit value of the duty payable and the amount per tonne that may confer a benefit in relation to its exports of the goods to Australia.

At H-4.1 to its REQ Kroman notes that Turkey's IPR is compliant with the World Trade Organisation Subsidies and Countervailing Measures Agreement which renders this program as non-countervailable.

The verification team noted Kroman's position and for the purpose of this report, the verification team has concluded that a benefit under Program 10 or 12 has not been conferred. However, a final finding regarding these programs be communicated by the Commission in due course.

### **11.12 Program 17 – Rediscount Program**

At H-5.1 to its REQ Kroman reported receiving rediscount loans of the kind relevant to Program 17 from the Turkish Eximbank which is a state owned bank in Turkey. In Attachment H-5 to its

## **PUBLIC RECORD**

REQ Kroman reported all of the loans it obtained from commercial and state owned banks during the investigation period.

The verification team compared the data in the listing of loans it provided in its REQ to the relevant accounts to verify the outstanding balance of its loans as at 30 September 2018. The verification team noted that the balance in TRY at 30 September 2018 was significantly higher than the loan principal amount. Kroman advised that the balance of its loans was based on the USD/TRY exchange rate as of 30 September 2018. The variance between principal amount and balance amount is therefore caused by the change in exchange rates between when the time the loan started and the date that the balance owing was calculated. The exchange rate relied on by Kroman references the Turkish Central Bank rate for the last day of September 2018. The value of the loans balances outstanding and the principal amounts reported by Kroman was nonetheless observed to be accurate.

### Kroman Program 17 Interest Rate Benchmark

At Attachment H-5 of its REQ Kroman calculated a weighted average interest rate in relation to its short term US dollar loans that commenced during the investigation period. The verification team observed that Kroman's calculations included loans from two government owned banks. Excluding loans from these banks resulted in a lower average interest rate.

Notwithstanding the above, Kroman's discounted interest rate calculation, inclusive of loans from the two mentioned government owned banks, was put forward as a suggested benchmark interest rate for comparison to its rediscounted loans from the Turkish Eximbank.

In relation to the rediscount program for loans from the Turkish Eximbank the verification team found that the Turkish Eximbank rediscount loan interest rates were the lowest when compared to the interest rates for Kroman's other loans. The benefit received under this program has been calculated by working out the difference between the interest payable to the Eximbank and the interest payable using the benchmark rate. On this basis the verification team considers that the lower interest rates on rediscount loans from the Turkish Eximbank have conferred a benefit from a public body.

### **11.13 Program 21 – Industrial R&D Projects Grant Program**

At H-6.1 to its REQ Kroman reported receiving a benefit under this program. Kroman advised it received a grant from Turkish government entity Tubitak. A summary of the benefits received by Kroman is provided at Exhibit H-6 to its REQ. The name of grants provided by Tubitak as the 'Industrial R&D Projects Grant Program' were approved pursuant to the;

- Law on Supporting Research and Development Activities dated 28/2/2008 and numbered 5746; and
- Application and Inspection Directive for Supporting Research and Development Activities published on the Official Gazette dated 31/7/2008 and numbered 26953.

The verification team examined the approval documents provided in respect of each project which received a grant under this program to ascertain the project start and finish date, nature and scope of the project and the estimated funding.

To determine the benefit received the verification team examined the payment slips relating to the funds transferred from Tubitak in relation to each project and the relevant general ledger entries. Payments in relation to the grants for both projects were received during the investigation period.

## PUBLIC RECORD

At H-6.4 to its REQ Kroman responded by indicating that the projects which attracted the grants from Tubitak were not in relation to the production of rebar. The verification team's examination of the project approval documents and the application lodged by Kroman suggested that the projects were universally applicable to all of the goods produced by Kroman. On this basis the verification team considers that the grants confer a benefit received from a public body. The subsidy per unit has been calculated by having regard to Kroman's total sales volume of all goods produced in the investigation period.

### 11.14 Other Programs

The verification team examined the non-operating income accounted provided by Kroman in response to H-6.2 of its REQ for both Kroman and YIIP.

In relation to Kroman, significant items of income compared to the general value of transactions were discussed. The verification team identified the payments made to Kroman for the R&D grants and from MESS (Turkish Employers Association of Metal Industries). A number of other payments related to rebates from material suppliers for achieving volume purchase targets and various other miscellaneous payments received from various sources. Most other items were in relative terms low in value.

In relation to YIIP the verification team also examined significant items of income. The details in the transaction description were sufficient to allow the nature and purpose of the transactions.

The verification team's examination of Kroman's non-operating income accounts did not reveal the existence of income which may have been the result of other programs which the Commission has not already been informed of by either the GoT of the exporters who have cooperated with this investigation.

At H-9 to its REQ Kroman reported support programs that where not found to be countervailable by the United States Department of Commerce. It also made specific mention of the payments received from MESS. These payments were identified in the examination of Kroman's other income ledger. The treatment of payments by MESS will be subject to further assessment by the case management team.

### 11.15 Subsidies – Conclusion

The verification team found that Kroman received a benefit in relation to the following programs;

- Program 5 – Deductions from Taxable Income for Export Revenue;
- Program 6 - R&D Income Tax Deduction;
- Program 17 – Rediscount Program; and
- Program 21 – Industrial R&D Projects Grant Program.

On the basis that the case management team finds these programs to be countervailable subsidies, the verification team has calculated a preliminary subsidy margin for Kroman during the investigation period to be **0.04 per cent** at **Confidential Appendix 6**.

Details of the verification are contained within the verification work program at **Confidential Attachment 1**.

**12 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 (not published)
<b>Confidential Appendix 6</b>	Subsidy Margin
<b>Confidential Attachment 1</b>	Verification work program