

Exporter Benchmark Verification Report

Verification & Case Details

Initiation Date	11 February 2019	ADN:	2019/02
Case:	Hot Rolled Structural Steel – Review of Measures – Japan, Korea, Taiwan (except for exports by Feng Hsin Steel Co Ltd) and Thailand.		
Case Number	499		
Exporter	TS Steel Co. Ltd. (TS Steel)		
Location	Taiwan		
Review Period	1 January 2018	to	31 December 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 BACKGROUND

1.1 Benchmark Verification

On 27 February 2019, TS Steel Co. Ltd. (TS Steel) submitted its response to the exporter questionnaire (REQ) in relation to the Review of Measures (REV 499) into Hot Rolled Structural Sections (the goods) exported from the Japan, Korea, Taiwan (except for exports by Feng Hsin Steel Co Ltd) and Thailand. TS Steel was granted an extension to submit its REQ and the REQ was subsequently received 16 days after its initial due date. The verification team identified minor deficiencies in the REQ and on the same date 27 February 2019 TS Steel submitted a revised REQ with no material deficiencies identified.

Whilst TS Steel was not requested to host the Commission for a verification visit, its REQ response was considered suitable such that it could be verified by having regard to other information available and benchmarking the data in its response to other data sources.

The reliability of data in the TS Steel REQ has been established by ascertaining the variable factors relevant to its exports of the goods to Australia and benchmarking these factors, and the relevant data underlying these factors to the following:

- the sales and cost data and the variable factors ascertained for the other cooperating exporter from Taiwan that was the subject of a verification visit;
- the sales and cost data and the variable factors ascertained for the other cooperating exporter from Taiwan whose data was not the subject of a verification visit; and
- relevant information from previous reviews which involved TS Steel (Review No. 233 (INV 233) refers).

Where the examination of the data in the TS Steel REQ produced results that were inconsistent with those observed in relation to other exporters' data or other relevant information, the verification team has escalated the level of verification where necessary.

The verification team found that the variable factors ascertained for TS Steel were consistent with those established for the other verified exporter from Taiwan and are therefore considered reliable for the purposes of determining the level of dumping relating to the exports of the goods to Australia by TS Steel during the review period.

Details of the benchmark verification assessment is contained in **Confidential Attachment 1**.

1.2 Corporate Structure and Ownership

TS Steel is a privately owned company that principally engages in the manufacture, distribution and sale of commercial merchant bars including hot rolled steel flat bars, channel bars, equal angle bars and unequal angle bars. The company has fourteen individual shareholders.

1.3 Related Parties

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

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1.3.1 Related Customers

TS Steel stated in its REQ that it was not related to any of its Australian or domestic customers during the review period. The verification team did not find any evidence to suggest that TS Steel was related to its Australian or domestic customers.

1.3.2 Related Suppliers

TS Steel stated in its REQ that it was not related to any of its suppliers. The verification team did not find any evidence that TS Steel was related to other suppliers.

2 THE GOODS AND LIKE GOODS

2.1 Production Process

TS Steel provided a flow chart in their REQ to explain their production process. The process was typical of a standard production process for hot rolled structural sections.

2.2 Model Control Codes

TS Steel provided sales and cost data in its response to the exporter questionnaire in accordance with the Model Control Code (MCC) structure detailed in ADN 2019/02.

TS Steel could not separately identify a thickness category of '1' or '2' in its domestic and Australian cost to make (CTM) HRS. This category is optional and therefore TS Steel subsequently excluded this category. This resulted in one single MCC:

- P-A-B-B--L-Y

2.3 The goods exported to Australia

The verification team were satisfied that TS Steel produced and exported the goods to Australia. TS Steel exported the goods to Australia with the following MCC during the period:

- P-A-B-B--L-Y

2.4 Like Goods Sold on the Domestic Market

The verification team examined the goods sold by TS Steel in its domestic market and 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. 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.

TS Steel sold like goods on the domestic market with the following MCC during the period:

- P-A-B-B--L-Y

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	Prime or non-prime. This category was not used in model matching as all the goods sold by TS Steel were prime.	N
Shape	The characteristics of shape is aligned to 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
Minimum yield strength	The characteristics of minimum yield strength aligned to 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
Thickness	As indicated in Section 2.2 TS Steel could not separately identify a thickness category of '1' or '2' in its domestic and Australian CTM. TS Steel subsequently excluded this category resulting in one single MCC.	N
Tensile strength	The characteristics of tensile strength aligned to 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
Dimension	The characteristics of dimension aligned to 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
Weldability	The characteristics of weldability aligned to 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

2.6 Like Goods – Assessment

The verification team considers that the goods produced by TS Steel 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 COST TO MAKE AND SELL

The verification team examined the cost to make and sell (CTMS) data reported by TS Steel in its REQ and assessed the reliability and suitability of this data using the approach outlined in section 1.1. The following summarises verification team' finding in relation to the examination.

3.1 Assessment of Cost of Make

In its REQ TS Steel reported separate cost of production figures relevant to the models it sold on the domestic market and those exported to Australia during the review period. The verification team's examination of this data revealed that where the same MCC was sold into either market, TS Steel relied on an identical cost base for the purpose of presenting a unit cost of production. The verification team identified that this approach was similar to other exporters whose production cost data was subject to verification and on this basis the approach adopted by TS Steel is considered acceptable. As a result the verification team were not required to undertake a separate examination of the domestic and Australian cost to make reported by TS Steel in its REQ. The verification team identified no sales and cost data regarding goods exported to Australia for quarters 1 and 2 and TS Steel confirmed that there was no production and sale of these goods for those quarters.

Being satisfied with the preparation of the CTM data reported by TS Steel, the verification team compared the quarterly and review period weighted average unit CTM reported by TS Steel against the figure reported by the verified exporter. Minor variances were observed between the figures reported by TS Steel and the verified exporter and these variances were not considered indicative of an underlying error in TS Steel's costs.

Having regard to the above, the verification team considers that the CTM reported by TS Steel is reliable and likely suitable for determining the variable factors relevant to the exports of the goods to Australia by TS Steel.

3.2 Assessment of Indirect Selling, General and Administration Costs (SG&A)

In Appendix G-4.1 of its REQ TS Steel listed all of the accounts it considered might be relevant for the calculation of indirect selling, general and administration costs (SG&A). Direct selling expenses specifically freight expenses were also reported in Appendix G-4.1 and were also reported in the Australian and domestic sales listings submitted at Appendix B-2 and D-2. Consequently these costs were considered in the verification of the data reported in those particular appendices.

The verification team calculated a weighted average unit indirect SG&A cost and a proportion of SG&A costs against total revenue for the domestic sales of each like goods model and compared them to the results calculated for the verified exporter in the review. As a proportion of the total revenue earned, the level of indirect SG&A cost and SG&A costs as a proportion of total revenue for TS Steel was observed to be comparable when benchmarked to the value determined for the other cooperating exporter examined in the review. Factors unique to each exporter, such as the size of each exporter's total revenue, were found to have an influence on the level of indirect cost allocated to each exporter's sales of domestic like goods.

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In addition, the verification team also had regard to the preparation of the data provided by TS Steel in relation to its indirect SG&A costs and whether this contained any errors. The preparation of the data reported by TS Steel was consistent with the approach taken by the other verified exporter and did not appear to contain any errors.

As a result, the verification team considers that the indirect SG&A cost applicable to domestic sales of like goods by TS Steel is appropriate.

3.3 Cost to Make and Sell – Summary

The verification team is satisfied that the cost to make and sell data provided in the exporter questionnaire response by TS Steel is reliable for the purpose of ascertaining the variable factors relevant to its exports to Australia.

The verification team's preliminary CTMS calculations are contained in **Confidential Appendix 2**.

4 EXPORT PRICE

4.1 The Importer

Having regard to the Australian sales listing provided by TS Steel at Appendix B2 of its REQ, the verification team identified its Australian customers of the goods. Relying on the available information in this review and previous reviews relating to the goods and other imports of traded steel commodities, the verification team were satisfied that TS Steel was not related to its Australian customers. In relation to the goods exported by TS Steel to Australia, the verification team therefore considers that the Australian customers listed for each shipment were the beneficial owners of the goods at the time of importation, and therefore the importers of the goods.

4.2 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 the role of TS Steel in its Australian sales, the verification team notes that TS Steel:

- manufactured the goods to Australian standards and is listed as the manufacturer on commercial invoices and purchase orders between TS Steel and Australian importers;
- 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 this information, the verification team is satisfied that TS Steel is the exporter of the goods.

4.3 Assessment of Export Sales Data

Having regard to the approach outlined at section 1.1, the verification team compared the quarterly weighted average and period of review FOB export price in the New Taiwanese Dollar (NTD) determined for TS Steel against the export price calculated for other verified exporter cooperating with the review. The verification team observed an acceptable variance between the FOB export prices for the goods sold by TS Steel and the FOB export prices observed for the exporter cooperating with the review period.

Based on the above assessment, the verification team considers that the data provided by TS Steel in relation to its Australian exports sales provides an acceptable basis for determining the variable factors relevant to its exports of the goods to Australia.

4.4 Arm's Length

In respect of Australian sales of the goods by TS Steel during the review period, and having regarding to the available information, the verification team found no evidence that:

- there was any consideration payable for, or in respect of, the goods other than its price; or

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- 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 TS Steel during the review period were arm's length transactions.

4.5 Export Price – Assessment

The verification team is satisfied that the goods have been exported to Australia by someone other than the importer, they have been purchased by the importer from the exporter, and the purchase of the goods by the importer was an arm's length transaction. The export price has therefore been determined at the FOB level under subsection 269TAB(1).

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

² Section 269TAA of the Act refers.

5 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).

5.1 Assessment of Domestic Sales Data

Having regard to the approach outlined at section 1.1, the verification team compared the quarterly weighted average and period of review domestic selling prices for TS Steel against the domestic selling prices calculated for the other verified exporter cooperating with the review. The verification team observed an acceptable variance between the domestic prices for the goods sold by TS Steel and the domestic selling price observed for the exporter cooperating with the review period.

Based on the above assessment, the verification team considers that the data provided by TS Steel in relation to its domestic sales of like goods provides an acceptable basis for determining the variable factors relevant to its exports of the goods to Australia.

5.2 Arm's Length

Having regard to the relevant information available in respect of the domestic sales of the goods made by TS Steel 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 domestic sales made by TS Steel to domestic customers during the review period were arm's length transactions.

5.3 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 OCOT.

The one domestic model had sales within OCOT.

The domestic sales listing, ordinary course of trade test and profitability calculation are contained in **Confidential Appendix 3**.

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6 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(8) and where applicable subsection 269TAC(9).

6.1 Rationale and Methodology

Adjustment Type	Rationale for Adjustment	Calculation Methodology	Evidence	Claimed in REQ?
Credit expenses (domestic and export)	TS Steel offered 30 day payment terms on domestic sales. No adjustment regarding export credit terms because no export credit terms were offered.	Actual domestic credit expenses over the review period.	<ul style="list-style-type: none"> • TS Steel REQ Domestic sales listing D-2 • TS Steel REQ Section E-1 • Emails from TS Steel 	N
Packaging (domestic and export)	The packaging for goods exported to Australia and sold on the domestic market incurred the same costs.	Adjustment not made.	<ul style="list-style-type: none"> • TS Steel REQ Australian sales listing B2 • TS Steel REQ Domestic sales listing D2 • TS Steel REQ Section E-2 	N
Inland transport (domestic and export)	Inland transport costs exported to Australia and sold on the domestic market incurred the same costs.	Adjustment not made.	<ul style="list-style-type: none"> • TS Steel REQ Australian sales listing B2 • TS Steel REQ Domestic sales listing D2 • TS Steel REQ Section E-3 	N
Handling and other (export)	TS Steel reported handling expenses in relation to Australian sales.	Weighted average unit cost for exported goods.	<ul style="list-style-type: none"> • TS Steel REQ Australian sales listing B2 • TS Steel REQ Section B-3.1 	N

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6.2 Adjustments

Adjustment Type	Deduction/addition
Domestic credit terms	Deduct the actual domestic credit expenses
Export handling	Add the weighted average unit cost for exported goods.

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

7 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 6 (above).

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

8 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 review period, in accordance with paragraph 269TACB(2)(a) of the Act.

The preliminary dumping margin in respect of hot rolled structural sections exported to Australia by TS Steel for the review period is **2.1 per cent**.

9 APPENDICES AND ATTACHMENTS

Confidential Appendix 1	Export price
Confidential Appendix 2	Cost to make and sell
Confidential Appendix 3	Domestic sales
Confidential Appendix 4	Normal value
Confidential Appendix 5	Dumping margin
Confidential Attachment 1	Benchmark verification assessment