

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	Dragon Steel Corporation (DSC)		
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 11 March 2019, Dragon Steel Corporation (DSC) 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. DSC was granted two separate extensions to submit its REQ and the REQ was subsequently received 28 days after its initial due date. The verification team identified minor deficiencies in the REQ and on the 19 March 2019 DSC submitted a revised REQ with no material deficiencies identified.

Whilst DSC 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 DSC 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

Where the examination of the data in the DSC 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 DSC were consistent with those established for other verified exporters and are therefore considered reliable for the purposes of determining the level of dumping relating to the exports of the goods to Australia by DSC during the review period.

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

1.2 Corporate Structure and Ownership

DSC is a wholly owned subsidiary company limited by shares established in accordance with the Company Act of Taiwan that principally engages in the manufacture of steel products. These products include H-Sections, Flat Steel, Billet and Checkered H-Sections.

1.3 Related Parties

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

1.3.1 Related Customers

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

DSC indicated in its REQ that it was related to two domestic customers. However, the terms of sale and price did not vary between related and unrelated customers. The verification team compared prices between related and unrelated domestic customers and identified that prices were consistent and similar.

1.3.2 Related Suppliers

DSC stated in its REQ that it had related suppliers. The verification team identified in the raw material purchases listing that DSC had one major related supplier however this entity had supplied an immaterial volume of raw materials for the review period.

2 THE GOODS AND LIKE GOODS

2.1 Production Process

DSC 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

DSC provided sales and cost data in its response to the exporter questionnaire in accordance with the model control codes (MCC) structure detailed in ADN 2019/02.

DSC included mandatory MCC categories prime, shape and minimum yield strength and an additional category "Section" to reflect the different groups of combination of height and width of the cross-section of H-section. DSC stated this category has an effect on the cost of production and selling prices.

2.3 The Goods Exported to Australia

The verification team were satisfied that DSC produced and exported the goods to Australia. DSC exported the goods to Australia with the following MCCs detailed in ADN No.2019/02 during the period:

P-H-B-01	P-H-B-08
P-H-B-02	P-H-B-09
P-H-B-03	P-H-B-10
P-H-B-04	P-H-B-11
P-H-B-06	P-H-B-12
P-H-B-07	

2.4 Like Goods Sold on the Domestic Market

The verification team examined the goods sold by DSC 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.

DSC sold like goods on the domestic market with the following MCCs as proposed in the initiation notice for the review:

P-H-A-01	P-H-A-13	P-H-B-03	P-H-B-15
P-H-A-02	P-H-A-14	P-H-B-04	P-H-B-16

P-H-A-03	P-H-A-15	P-H-B-05	P-H-B-17
P-H-A-04	P-H-A-16	P-H-B-06	P-H-B-18
P-H-A-05	P-H-A-17	P-H-B-07	P-H-B-19
P-H-A-06	P-H-A-18	P-H-B-08	P-H-B-20
P-H-A-07	P-H-A-19	P-H-B-09	P-H-B-21
P-H-A-08	P-H-A-20	P-H-B-10	P-H-B-22
P-H-A-09	P-H-A-21	P-H-B-11	
P-H-A-10	P-H-A-22	P-H-B-12	
P-H-A-11	P-H-B-01	P-H-B-13	
P-H-A-12	P-H-B-02	P-H-B-14	

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. The characteristics of prime aligned to the MCC structure regarding domestic models. The verification team did not identify information to suggest that any of these characteristics do not have an effect on price.	Y
Shape	The characteristics of shape 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
Section	As stated in section 2.2, DSC included this additional category to reflect the different groups of combination of height and width of the cross-section of H-section. It has an effect on the cost of production and selling prices.	Y

2.6 Like Goods – Assessment

The verification team considers that the goods produced by DSC 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 DSC in its REQ and assessed the reliability and suitability of this data using the approach outlined in section 1.1. The following summarises the verification team's finding in relation to the examination.

3.1 Assessment of Cost to Make

In its REQ DSC reported 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, DSC 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 DSC is considered acceptable.

The verification team identified no sales and cost data regarding goods exported to Australia for quarter 1 and DSC confirmed there was no production and sale of the like good exported to Australia in quarter 1.

DSC's REQ indicates total manufacturing cost is only applied to prime products. Non-prime products are valued at their standard costs and then deducted from the total manufacturing cost as recovery. The verification team identified non-prime MCC's in the domestic sales and CTM worksheets. DSC confirmed these sales should be excluded from normal value calculations.

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

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

3.2 Assessment of Indirect Selling, General and Administration Costs

In Appendix G-4.1 of its REQ DSC 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 SGA costs against total revenue for the domestic sales of each like goods model and compared this 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 DSC 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.

In addition, the verification team also had regard to the preparation of the data provided by DSC in relation to its indirect SG&A costs and whether this contained any errors. The preparation of the

data reported by DSC 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 DSC 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 DSC 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 DSC 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 DSC was not related to its Australian customers. In relation to the goods exported by DSC to Australia, the verification team 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 DSC in its Australian sales, the verification team notes that DSC:

- manufactured the goods to Australian standards and is listed as the manufacturer on commercial invoices and purchase orders between DSC 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 these roles, the verification team are satisfied that DSC 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 DSC against the export prices calculated for the other verified exporter cooperating with the review. The verification team observed an acceptable variance between the FOB export prices for the goods sold by DSC 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 DSC 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 Arms Length

In respect of Australian sales of the goods by DSC 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
- 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 received 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 DSC during the review period were arms 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 arms 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 DSC 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 DSC 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 DSC 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 Arms Length

Having regard to the relevant information available in respect of the domestic sales of the goods made by DSC to its customers during the review period and the price comparative analysis conducted on related customers (section 1.3.1), 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 DSC to domestic customers during the review period were arms 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.

All domestic models had sales within OCOT.

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

PUBLIC RECORD

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)	No adjustments regarding domestic credit and export credit terms because payment terms were LC at sight or T/T in advance.	Adjustments not made.	<ul style="list-style-type: none"> • DSC REQ Domestic sales listing D-2 • DSC REQ Section E-1 	N
Rebates (domestic)	Rebates considered “off invoice” therefore an adjustment was applied to adjust the sale price	Actual rebates for domestic goods	<ul style="list-style-type: none"> • DSC REQ Domestic sales listing D-2 • DSC REQ Section D-1.5 	
Packaging (domestic and export)	DSC reported packaging costs for goods exported and sold domestically with additional costs incurred for exported goods.	Actual packaging costs for domestic goods and weighted average unit cost for exported goods.	<ul style="list-style-type: none"> • DSC REQ Australian sales listing B2 • DSC REQ Domestic sales listing D2 • DSC REQ Section E-2 	N
Inland transport (domestic and export)	DSC reported Inland transport costs incurred for goods exported to Australia and sold on the domestic market.	Actual inland transport costs for domestic goods and weighted average unit cost for exported goods.	<ul style="list-style-type: none"> • DSC REQ Australian sales listing B2 • DSC REQ Domestic sales listing D2 • DSC REQ Section E-3 	N
Handling and other (export)	DSC reported handling expenses in relation to Australian sales.	Weighted average unit cost for exported goods.	<ul style="list-style-type: none"> • DSC REQ Australian sales listing B2 • DSC REQ Section B-3.1 	N
Commission (export)	DSC incurred commissions and service charges for exported goods.	Weighted average unit cost for exported goods.	<ul style="list-style-type: none"> • DSC REQ Australian sales listing B2 • DSC REQ Section E-4.1 	Y
Bank charges	DSC incurred bank charges for exported goods.	Weighted average unit cost for exported goods.	<ul style="list-style-type: none"> • DSC REQ Australian sales listing B2 	N

6.2 Adjustments

Adjustment Type	Deduction/addition
Rebates (domestic)	Deduct the actual rebates for domestic goods
Packaging (domestic and export)	Deduct the actual packaging costs for domestic goods and add the weighted average unit cost for exported goods.
Inland transport (domestic and export)	Deduct the actual inland transport costs for domestic goods and add the weighted average unit cost for exported goods.
Handling and other (export)	Add the weighted average unit cost for exported goods.
Commission (export)	Add the weighted average unit cost for exported goods.
Bank charges	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 team 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 DSC for the review period is **9.0 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