



Exporter Verification Report

Verification & Case Details

Initiation Date	23 August 2019	ADN:	ADN No. 2019/100
Case	Review of Measures – Zinc Coated (Galvanised) Steel		
Case Number	521		
Exporter	Chung Hung Steel Corporation		
Location	Taiwan		
Review Period	1 July 2018	to	30 June 2019

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

CONTENTS

CONTENTS		2
1 COMPANY BACKGROUND		3
1.1 CORPORATE STRUCTURE AND OWNERSHIP.....		3
1.2 RELATED PARTIES		3
2 THE GOODS AND LIKE GOODS		4
2.1 PRODUCTION PROCESS.....		4
2.2 MCCs.....		4
2.3 VERIFICATION OF MCCS		4
2.4 THE GOODS EXPORTED TO AUSTRALIA		4
2.5 LIKE GOODS SOLD ON THE DOMESTIC MARKET		5
2.6 LIKE GOODS – ASSESSMENT		5
3 VERIFICATION		6
3.1 BENCHMARK VERIFICATION.....		6
3.2 RELATED PARTY SUPPLIERS.....		7
3.3 BENCHMARK VERIFICATION FINDING		7
4 EXPORT PRICE		8
4.1 THE IMPORTER.....		8
4.2 THE EXPORTER.....		8
4.3 ARMS LENGTH.....		8
4.4 EXPORT PRICE – ASSESSMENT		9
5 DOMESTIC SALES SUITABILITY		10
5.1 ARMS LENGTH.....		10
5.2 ORDINARY COURSE OF TRADE		10
5.3 SUITABILITY OF DOMESTIC SALES		10
6 ADJUSTMENTS		12
6.1 RATIONALE AND METHOD		12
6.2 ADJUSTMENTS		12
7 NORMAL VALUE		14
8 DUMPING MARGIN		15
9 APPENDICES AND ATTACHMENTS		16

1 COMPANY BACKGROUND

1.1 Corporate Structure and Ownership

Chung Hung Steel Corporation (CHS), a Taiwan-based company, was incorporated in 1983. CHS's main products include Hot Rolled Coil, Cold Rolled Coil, Pickled/Oiled Coil, Galvanised Coil, Black Pipe, Rectangular Pipe, Galvanised Pipe, API Pipe, PE Coated Pipe and so forth.

CHS is a subsidiary of China Steel Corporation (CSC). Both CHS and CSC (CHS's parent company) are publicly traded companies listed in the Taiwan Stock Exchange. As such, the holding of each shareholder varies according to trading in the stock market. CSC is the largest shareholder of CHS.

1.2 Related Parties

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

The verification team found that CHS does not have any related party customers (domestic or Australian) of the goods during the review period.

1.2.1 Related suppliers

CHS purchased raw materials from related and unrelated suppliers during the review period.¹ The Commission's assessment to determine whether the purchases of raw materials from its related suppliers were arms length is available at chapter 3 of this report.

1.2.2 Accounting records

CHS's audited financial statement was audited by Deloitte & Touche in Taipei, Taiwan and includes a statement that the financial accounts comply with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Therefore, the verification team considers that the accounting records held by the company are in accordance with the generally accepted accounting principles of Taiwan.

¹ Names of the related suppliers were provided in CHS' REQ (confidential version).

2 THE GOODS AND LIKE GOODS

2.1 Production Process

CHS manufactures the goods under consideration from a combination of hot-rolled coil (HRC) and cold-rolled coil. The raw materials are both manufactured by CHS and purchased through other suppliers. For the production of the goods under consideration, CHS have four different lines, hot rolled steel manufacturing, cold rolled steel manufacturing, hot dipped galvanised steel manufacturing and pickled and oiled hot rolled steel manufacturing.

2.2 MCCs

CHS provided its sales and cost data in its response to the exporter questionnaire in accordance with the model control code (MCC) structure detailed in Consideration Report No. 521 and ADN 2019/100.²

2.3 Verification of MCCs

Table 1 below provides detail on how the MCC sub-categories were determined and verified to source documents.

Category	Determination of the sub-category
Alloy content	CHS only produces non-alloy product.
Prime	There was no sales of non-prime in the domestic or Australian market.
Steel base	The company was able to identify the steel base from its product code. This was cross referenced to the sales invoice and consignment note.
Coating type	CHS only produces zinc coated product.
Coating mass	The company was able to identify the coating mass from its internal specification systems. This was cross referenced to the consignment note.
Steel grade	The company was able to identify the steel grades from its internal specification systems. This was cross referenced to the consignment note.
Base metal thickness	The company was able to identify the base metal thickness from its internal sales systems. This was cross referenced to the sales invoice.
Width	The company was able to identify the width from its internal sales systems. This was cross referenced to the sales invoice.
Form	The company was able to identify the form (sheet or coils) from its internal sales systems. This was cross referenced to the sales invoice.

Table 1 MCC sub-category determination

2.4 The goods exported to Australia

The verification team was satisfied that CHS produced and exported the goods to Australia. CHS exported the goods to Australia with the following MCC's during the period:

- NA-P-H-Z-2-D-8-B-C;
- NA-P-H-Z-2-D-8-C-C; and
- NA-P-H-Z-3-D-8-B-C.

² EPR 521 Document #2 www.adcommission.gov.au

2.5 Like goods sold on the domestic market

The verification team was satisfied that CHS sold like goods in the domestic market.

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

- are not distinguished from the exported goods during production, 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 facilities, using the same raw material inputs and manufacturing processes;
- the goods compete in the same market sector, are interchangeable and use similar distribution channels; and
- can be considered functionally alike, as they have similar end uses.

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

Domestic like goods MCC			
NA-P-C-Z-2-A-4-B-C	NA-P-C-Z-2-E-4-B-C	NA-P-H-Z-2-A-8-C-C	NA-P-H-Z-3-A-8-B-C
NA-P-C-Z-2-A-5-B-C	NA-P-C-Z-2-E-5-B-C	NA-P-H-Z-2-D-6-B-C	NA-P-H-Z-3-D-6-C-C
NA-P-C-Z-2-A-5-C-C	NA-P-H-Z-2-A-5-B-C	NA-P-H-Z-2-D-6-C-C	NA-P-H-Z-3-D-7-B-C
NA-P-C-Z-2-A-6-B-C	NA-P-H-Z-2-A-6-B-C	NA-P-H-Z-2-D-7-B-C	NA-P-H-Z-3-D-7-C-C
NA-P-C-Z-2-A-6-C-C	NA-P-H-Z-2-A-7-B-C	NA-P-H-Z-2-D-7-C-C	NA-P-H-Z-3-D-8-B-C
NA-P-C-Z-2-D-5-B-C	NA-P-H-Z-2-A-7-C-C	NA-P-H-Z-2-D-8-B-C	NA-P-H-Z-3-D-8-C-C
NA-P-C-Z-2-D-6-B-C	NA-P-H-Z-2-A-8-B-C	NA-P-H-Z-2-D-8-C-C	

Table 2 Domestic Like Goods Models

2.6 Like goods – assessment

The verification team considers that the goods produced by CHS for domestic sale have characteristics closely resembling those of the goods exported to Australia and are therefore ‘like goods’ in accordance with section 269T(1) of the *Customs Act 1901* (the Act).³

³ References to any section or section in this report relate to provisions of the Act, unless specifically stated otherwise.

3 VERIFICATION

3.1 Benchmark verification

The verification team verified the reliability of CHS’s export sales, domestic sales and cost data provided in the response to the exporter questionnaire (REQ) by benchmarking the data against other verified data.

This involved comparing the data to the following exporter that was subject to a full onsite verification visit:

- Yieh Phui Enterprise Co., Ltd (Yieh Phui)⁴

The verification team also compared the data to CHS’s own data from a previous case that was subject to a verification (Continuation inquiry no. 449 / Review no. 457).

The verification team also verified the reliability of the export and domestic sales listings submitted in the REQ by reconciling to the source documentation provided as part of CHS’ REQ.

Where the examination of the data in CHS’s REQ produced results that were inconsistent with those observed in relation to the verified exporter’s data or other relevant information, the verification team has then escalated the level of verification for those targeted areas.

During this process, the following issues were identified.

No.	Exception	Resolution	Evidence Relied On
1	Packing costs listed in the domestic sales listing and Australian sales listing were not based on actual costs incurred.	CHS provided actual packing cost calculation spreadsheets and also resubmitted their domestic sales listing and Australian sales listing using the actual packing costs incurred.	CHS provided a packing cost calculation spreadsheet based on actual costs incurred.
2	The domestic sales listing showed credit cost for sales which had a payment terms of cash or letter of credit.	CHS confirmed that credit costs should only be applicable to customers who have an account (120-150 day terms). The verification team deleted all credit costs associated with sales where the customers paid with cash or with a letter of credit.	Information from CHS’s accounting records.

Table 3 Exceptions during benchmark verification of the data

Details of the benchmark verification assessment and its relevant attachments are contained in **Confidential Attachment 1**.

⁴ EPR 521 Document #20 www.adcommission.gov.au

3.2 Related party suppliers

CHS purchased raw materials from related party suppliers during the review period. The verification team verified a sample of raw material purchases from related and non-related parties to source documents. The verification team compared the weighted average of slab purchase prices between related and non-related suppliers and found that for certain quarters, purchase prices from related party suppliers were higher than non-related suppliers and vice versa. The price variance between related and non-related prices over the review period were small. The verification team also compared CHS's HRC purchase price to those paid by the verified exporter, Yieh Phui, and found the variance to be small. The verification team is therefore satisfied that the raw material purchases represent arms length transactions.

Details of this assessment is contained in **Confidential Attachment 1**.

3.3 Benchmark verification finding

The verification team is satisfied that the export sales, domestic sales and cost data provided by CHS, including any required amendments as outlined in the exception table above, are reasonable and can be considered reliable for the purpose of ascertaining variable factors for CHS.

CHS' cost data are available at **Confidential Appendix 2**.

4 EXPORT PRICE

4.1 The importer

The verification team believes CHS's (sole) Australian customer to be the beneficial owner of the goods at the time of importation as the importer is:

- named on the commercial invoice as the customer;
- named as the consignee on the bill of lading,
- declared as the importer on the importation declaration to ABF;
- pays for all the importation charges; and
- arranges delivery from the port.

In relation to the goods exported by CHS to Australia, the verification team believes the customers listed for each shipment were the beneficial owners of the goods at the time of importation so those customers were the importers of the goods.

4.2 The exporter

The verification team believes CHS to be the exporter of the goods⁵, as CHS is:

- the manufacturer of the goods;
- named on the commercial invoice as the supplier;
- named as consignor on the bill of lading;
- arranges and pays for the inland transport to the port of export;
- arranges and pays for the port handling charges at the port of export; and
- arranges and pays for the ocean freight and marine insurance.

The verification team considers that, for all Australian export sales during the period, CHS was the exporter of the goods.

4.3 Arms length⁶

In respect of CHS's Australian sales of the goods to its sole unrelated customer during the period, the verification team found no evidence that:

- there was any consideration payable for, or in respect of, the goods other than its price; or
- the price was influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- the buyer, or an associate of the buyer, was directly or indirectly reimbursed, compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.⁷

⁵ 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.

⁶ Refer to section 269TAA and Chapter 5 of the Dumping and Subsidy Manual November 2018 for an explanation of the term, 'arms length transaction'.

⁷ Section 269TAA of the Act refers.

PUBLIC RECORD

The verification team therefore considers that all export sales made by CHS to its sole unrelated Australian customers during the period were arms length transactions.

4.4 Export Price – assessment

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

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

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 section 269TAC(1).

5.1 Arms length

In respect of CHS's domestic sales of like goods to its unrelated customers during the period, the verification team found no evidence that:

- there was any consideration payable for, or in respect of, the goods other than its price; or
- the price was influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- the buyer, or an associate of the buyer, was 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 CHS to its unrelated domestic customers during the period were arm's length transactions.

5.2 Ordinary course of trade

Section 269TAAD states that domestic transactions are not in the ordinary course of trade (OCOT) if arms length transactions are:

- unprofitable in substantial quantities over the investigation period; and
- unlikely to be recoverable within the period.

The verification team tested profitability by comparing the price at ex-works against the relevant cost for each domestic sales transaction.

The team then tested whether the unprofitable sales were in substantial quantities (not less than 20%) by comparing the volume of unprofitable sales to the total sales volume, for each MCC over the period.

The team tested recoverability by comparing the price at ex-works against the relevant weighted average cost over the period for each domestic sales transaction.

The following table sets out further detail:

OCOT particulars	Details
Price	Net invoice price, excluding direct selling expenses
Cost	Quarterly cost to make and sell, excluding direct selling expenses
Weighted average cost	Weighted average cost to make and sell, excluding direct selling expenses, over the review period.

Table 4 OCOT details

5.3 Suitability of domestic sales

Subparagraph 269TAC(2)(a)(i) provides that the normal value of goods exported to Australia cannot be ascertained under section 269TAC(1) where there is an absence, or low volume, of sales of like goods in the market of the country of export. Domestic sales of like goods are

PUBLIC RECORD

taken to be in a low volume under section 269TAC(14) where the total volume of like goods is less than five percent of the total volume of the goods under consideration that are exported to Australia (unless the Minister is satisfied that the volume is still large enough to permit a proper comparison).

The verification team assessed the total volume of like goods as a percentage of the goods exported to Australia for the whole period and found that the domestic sales were sufficient. As a result, the normal value was ascertained under section 269TAC(1).

As per the *Dumping and Subsidy Manual*, where the total volume of like goods is greater than five percent of the total volume of the goods under consideration, and where comparable models exist, the Commission also tests the suitability of domestic sales of like goods individually for each model type.

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

Export MCCs	Sufficient domestic sales of identical MCC	Treatment of normal value where there were insufficient domestic sales of identical MCC
NA-P-H-Z-2-D-8-B-C	Y	Sufficient sales volumes available for TAC(1).
NA-P-H-Z-2-D-8-C-C	Y	Sufficient sales volumes available for TAC(1).
NA-P-H-Z-3-D-8-B-C	Y	Sufficient sales volumes available for TAC(1).
All sales	Y	

Table 5 Sufficiency test

As outlined in Table 5 above, the verification team found that there were sufficient domestic sales volumes of identical MCCs made in OCOT for three MCCs exported to Australia.

The verification team's assessment on the suitability of domestic sales is at **Confidential Appendix 3**.

6 ADJUSTMENTS

Adjustments were made where a particular MCC has no cost to make value or no normal value for a particular quarter or review period.

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 section 269TAC(8).

6.1 Rationale and Method

Adjustment type	Assessment for adjustment	Claimed in REQ?	Adjustment required?
Domestic inland transport	Inland transport expenses were incurred for domestic sales.	Y	Y
Domestic warranty expenses	Warranty expenses were incurred for domestic sales.	Y	Y
Domestic credit costs	Finance charges were applied to certain domestic customers who did not pay with cash.	Y	Y
Domestic and export packaging	Different packaging and protection varied between export and domestic sales.	Y	Y
Export inland transport	Inland transport expenses were incurred for all Australian sales.	Y	Y
Export handling and other charges	Handling and other charges were incurred for all Australian sales.	Y	Y
Export commission	Commission were incurred for all Australian sales.	Y	Y
Export other costs	Certain costs including B/L & wharfage, survey fee, agent fee, shipping charge, trade promotion charge were incurred for all Australian sales.	Y	Y

Table 6 Assessment of adjustments

6.2 Adjustments

The verification team considers the following adjustments under section 269TAC(8) are necessary to ensure that the normal value so ascertained is properly compared with the export price of those goods.

Adjustment Type	Deduction/addition
Domestic packaging	Deduct an amount for domestic packaging
Domestic inland transport	Deduct an amount for domestic inland transport
Domestic warranty	Deduct an amount for domestic warranty
Domestic credit costs	Deduct an amount for domestic credit costs
Export packaging	Add an amount for export packaging
Export inland transport	Add an amount for export inland transport
Export handling and other charges	Add an amount for export handling and other charges
Export commission	Add an amount for export commission
Export other costs ⁸	Add an amount for other export costs

Table 7 Summary of adjustments

⁸ This includes B/L & wharfage, survey fee, agent fee, shipping charge and trade promotion charge.

PUBLIC RECORD

The verification team's preliminary adjustment calculations are included in the 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 section 269TAC(1).

In using domestic sales as a basis for normal value, the verification team considers that certain adjustments, in accordance with section 269TAC(8), are necessary to ensure fair comparison of normal values with export prices, as outlined in chapter **Error! Reference source not found.**

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 inquiry period, in accordance with section 269TACB(2)(a) of the Act.

The dumping margin in respect of the goods exported to Australia by CHS for the period is **negative 1.2 per cent**.

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

9 APPENDICES AND ATTACHMENTS

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