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29 June 2020

Mrs Olivia Tsang
Assistant Director, Investigations Unit 4
Anti-Dumping Commission
GPO Box 1632
Melbourne Victoria 3001

**Public File**

Dear Ms Tsang,

**Review of anti-dumping measures Investigation No. 521 – Zinc Coated (Galvanised) Steel exported from China, India, Korea, Malaysia, Taiwan, and Vietnam**

BlueScope Steel Limited ("BlueScope") is the Australian manufacturer of Zinc Coated (Galvanised) steel (hereafter referred to as "galvanised steel" and/or "the subject goods") and is the applicant company for the review of anti-dumping measures.

BlueScope provides the following submission to the Anti-Dumping Commission ("the Commission") concerning the subject goods exported from Taiwan by Chung Hung Steel Corporation ("Chung Hung") in relation to the following:

– Benchmark Verification;
– Related Parties; and
– Adjustments.

## 1. Benchmark Verification

Section 3.1 of the Benchmark Exporter Verification Report ("EVR") states that:

> *"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)."*

The Commission also referenced data in previous inquiries to which Chung Hung was subject to verification.

Section 2.4 of the EVR confirmed that Chung Hung's Australian subject goods exports were classified in accordance with three Model Control Codes ("MCC's"); these broadly being galvanised steel, of a hot rolled base, of 2.5mm thickness, and of standard wide coil widths. Given this classification, [*confidential known end-uses*].

In contrast, Yieh Phui's EVR details a total of thirty-one MCC classifications of subject goods exports to Australia. In contrast also is the predominate product type that Yieh Phui's exports represent [*confidential known end-uses*].

A comparison between the two set's of MCC's yields some similarities, but many differences. For example:

- Chung Hung's Australian galvanised steel exports are all manufactured from a hot-rolled (as opposed to a cold-rolled) steel base (MCC category 3 refers). Yieh Phui manufactures the subject goods exports from both;
- Chung Hung's steel grade is of one type, likely for [*end use*] (MCC category 6 refers). Yieh Phui's is multiple, but predominately for [*end use*];
- Chung Hung manufactures and exports to one thickness point (MCC category 7 refers). Yieh Phui's thickness points are multiple.

Benchmarking Chung Hung's export sales, domestic sales and cost data to Yieh Phui's would yield obvious cost to make and sell, and/or selling price differences. For example, manufacturing galvanised steel from a hot-rolled steel base incurs AU$[*XXX*]/tonne less cost than if the coil was further cold-rolled.

BlueScope appreciates the constraints placed on the Commission in the current economic climate, and the necessity to undertake benchmark verifications. BlueScope respectfully requests that the Commission ensures accuracy when benchmarking between exporters who have markedly different subject goods characteristics, end-use markets and customers, and distribution channels.

## 2. Related Parties

In trade measures investigation No. 190[1], the Commission's verification report[2] noted that Chung Hung had three 100% owned subsidiary companies, one of which, Hung Li Steel Corporation ("Hung Li"), was a producer of galvanised steel. Specifically, the main products manufactured were galvanised hot rolled and cold rolled coil, and skin-passed hot rolled and cold rolled coil[3].

The verification report stipulated that the Commission toured the Hung Li galvanising facilities (an approximate 45-minute drive from Chung Hung's head office and manufacturing facility), and further that:

- Chung Hung's response to the Exporter Questionnaire ("EQR") comprised both separate, and combined, cost to make and sell data for the Chung Hung and Hung Li entities[4];
- Domestic sales by both Chung Hung and Hung Li were verified as part of the verification process[5];
- Chung Hung was considered the exporter of the goods, and as such only Chung Hung's costs were used in assessing ordinary course of trade and constructing normal values (domestic sales by Hung Li were excluded)[6];
- Chung Hung sold the subject goods on the domestic market to end-users and traders, and to Hung Li.

Hung Li was then referenced in Chung Hung's EQR in review of measures inquiry No. 376[7] as one of Chung Hung's subsidiaries[8] (no further mention of Hung Li was made in this enquiry, by either Chung or the Commission).
In review of measures (Minister initiated) inquiry No. 457[9], Hung Li was again referenced in Chung Hung's EQR as a subsidiary and producer of the subject goods (and again, no further mention was made throughout this inquiry).

[1] EPR 190: Dumping and Subsidisation of Zinc coated (galvanised) steel
[2] Ibid, EPR folio No. 71.
[3] Ibid, p.11.
[4] Ibid, p.17.
[5] Ibid, p.34.
[6] Ibid.
[7] EPR 376: Review – Zinc coated (galvanised) steel from China and Taiwan.
[8] Ibid, p.7.
[9] EPR 457: Review – Zinc coated (galvanised) steel from China, Korea and Taiwan.

BlueScope understands that Chung Hung and Hung Li merged in 2018, although the exact month is uncertain, and uncertain also is whether this merger would explain an omission of any reference to Hung Li during this inquiry given that the enquiry period was October 2016 to September 2017.

As relevant to this inquiry, BlueScope requests that the Commission consider the following:

1. Whether, irrespective of the merger, there exists subject goods related party transactions between Chung Hung and Hung Li for the purposes of assessing costs, normal values, ordinary course of trade, and export selling arrangements; and
2. Whether different normal value adjustments are required for transport/freight for sales made from the Chung Hung (Chiao Tou District) and Hung Li (Xiaogang District) facilities. There is a clear geographic distance, of approximately 23 kilometres, between facilities (see below). Intermediate transportation costs for the subject goods between facilities, and consequent despatch to either domestic or the Australian export markets need to be appropriately accounted for.

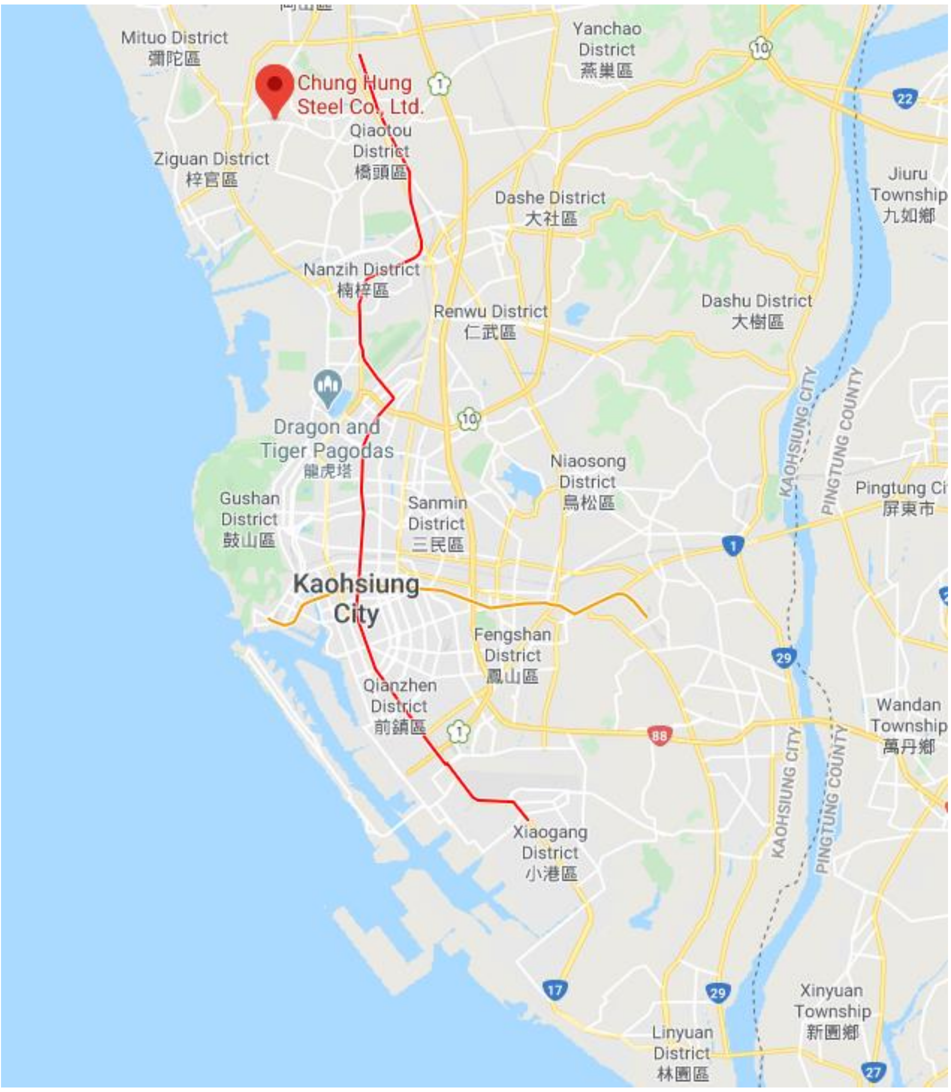


Figure 1: Geographic distance between the Chung Hung and Hung Li facilities.

### 3. Adjustments

Domestic Warranty Expense

BlueScope submits that warranty claims are addressed within the steel industry via credits issued for product defects, goods incorrectly supplied and/or invoiced, damaged in transit, and the like. Their occurrence is therefore not limited to a domestic market but apply universally.

BlueScope respectfully submits that a downwards normal value adjustment for warranties should be offset by a corresponding upwards adjustment for export sales. In the alternative, no downwards adjustment should be made.

Foreign Exchange Gains & Losses

BlueScope notes that there is no mention of foreign exchange gains and losses in the EVR.

Chung Hung's EQR states that purchased hot-rolled coil ("HRC") and slab are the main raw materials used in the manufacture of the subject goods. BlueScope submits that zinc is also a major raw material. Whilst likely that Chung Hung purchased most of this feed material locally from its parent entity China Steel Corp., to the extent any was imported BlueScope requests that the Commission review the exchange rates used, and determine the date, for such transactions. BlueScope also requests that the Commission do similar for sales of the subject goods.

The date of a sales transaction typically refers to the date of invoice; a foreign exchange gain or loss can then arise when the exchange rate is different on the date when a payment is received or made, as compared to the rate applying at the date of invoice.

Changes in foreign exchange rates between the date of transaction – date of invoice – and the date of payment, can result in decreased revenue from exports (in this case, galvanised steel), and increased costs for imports of raw material (HRC, slab and zinc). Given there is no evidence of foreign exchange hedging activities (i.e. forward contracts), any gains or losses are directly relevant to Chung Hung's sales revenues realised, or material cost expenses incurred, following currency conversion.

BlueScope understands that the Commission's practice is to treat relevant foreign exchange gains and losses as selling, general and administrative (SG&A) expenses in the calculation of the cost to make and sell. Regarding the treatment of non-operational SG&A expenses, the Dumping and Subsidy Manual states that the Commission will "*allocate the net transaction foreign exchange gains/losses to the goods on a reasonable basis*."[10]

BlueScope notes that Chung Hung would only incur foreign exchange gains/losses vis-à-vis selling expenses for its export sales of galvanised steel. This results in a difference in SG&A expenses for domestic and export sales; the normal value should hence be adjusted by deducting domestic SG&A expenses, and adding export SG&A expenses, to ensure a comparable normal value to the export price.

BlueScope therefore submits that:

- For foreign exchange losses on subject goods exports to Australia, an upwards adjustment to the normal value is required; and
- For foreign exchange losses on HRC, slab and zinc import purchases, that these be added to the Cost to Make for the Ordinary Course of Trade Test, and to any constructed normal value.

[10] Dumping and Subsidy Manual, November 2018, p.48.

If you have any questions concerning this submission, please do not hesitate to contact me on [redacted].

Yours faithfully,

[redacted]
Manager – Trade Measures