

4 August 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 Vietnam by China Steel and Nippon Steel Vietnam Joint Stock Company (“CSV”) in relation to the following:

- Preliminary assessment of the export price;
- Suitability of domestic sales;
- Cost to make galvanised steel;
- Cost allocation methodology;
- Domestic sales rebates; and
- Normal Value adjustments.

**1. Preliminary assessment of the export price**

Both CSV’s Exporter Questionnaire Response (“EQR”) and the Commission’s recently published Exporter Verification Report (“EVR”) confirms that CSV did not export the subject goods to Australia during the review inquiry period.

In the determination of an export price in the absence of (or a low volume of) export trade, the Commission has considered it appropriate to ascertain the price under Section 269TAB(2B)<sup>1</sup>. Pursuant to this section, the Commission can determine the export price having regard to any of the following:<sup>2</sup>

- a previous export price for like goods exports to Australia by CSV, established in accordance with section 269TAB(1), for a decision of a kind mentioned in section 269(2D);
- the price paid/payable for the like goods sold by CSV in arms-length transactions for export from Vietnam to a third country; or
- an export price for like goods exported to Australia by another exporter (or exporters) established in accordance with section 269TAB(1) for a decision mentioned in section 269TAB(2D).

<sup>1</sup> References to any statutory provisions are references to the provisions of the Customs Act 1901, unless otherwise specifically stated.

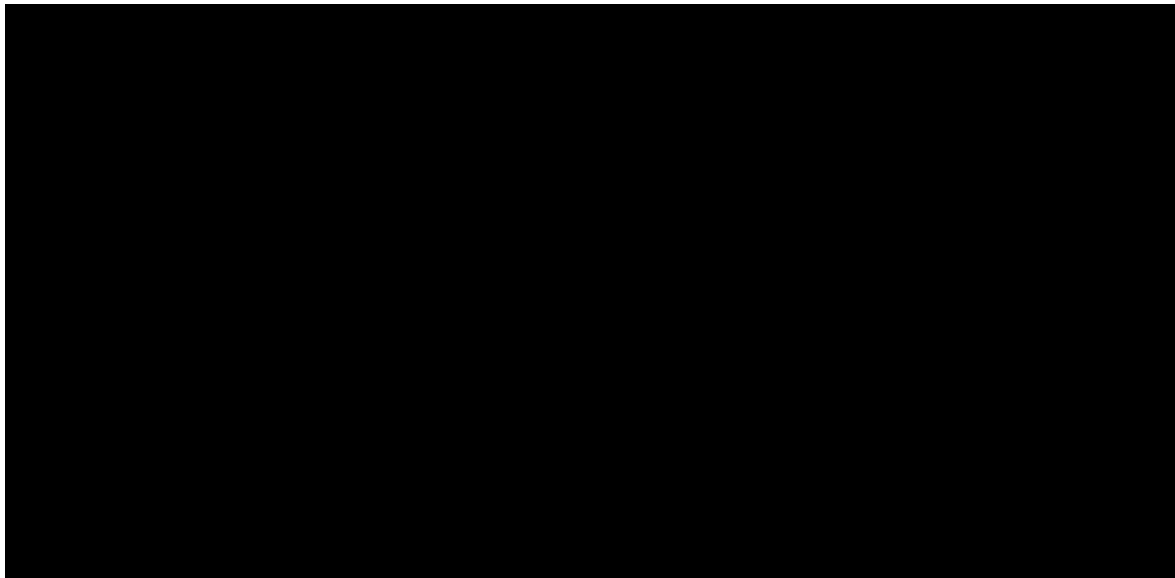
<sup>2</sup> There is no hierarchy specified to these options.

The Commission has consequently determined CSVC's export price having regard to its previous export price (per Investigation No. 370), with a timing adjustment based on the weighted average price movement for Southeast Asian Hot-Rolled Coil steel ("HRC").<sup>3</sup>

Respectfully, BlueScope submits that the Commissioner has erred in the determination of the export price in this manner, and that the export price should be calculated using an alternative methodology.

#### *Relevant Timing-Adjustment Benchmark*

BlueScope has assessed the following subject goods related published price indices<sup>4</sup>, and movements thereof over the fiscal year ("FY") 2016 to FY2019 period (including that used by the Commission) for comparative purposes in determining the export price:<sup>5</sup>



The Commission's use of the South East Asian HRC benchmark in the determination of CSVC's FY19 galvanised steel export price assumes that such a price (when assessing its movement from FY16) has [*commercial-in-confidence price movement considerations*].

Producers of galvanised steel, whether BlueScope or others, have been [*commercial-in-confidence price and cost recovery considerations*].

Accordingly, BlueScope recommends that the ADC amend its export price determination methodology to either:

1. Use the weighted average export price of other Vietnamese exporters (i.e. an export price for like goods exported to Australia by another exporter (or exporters) established in accordance with section 269TAB(1) for a decision mentioned in section 269TAB(2D)). In the absence of actual export price information by CSVC for the period, this method would appear to be the most appropriate for determining CSVC's export price; or
2. Use the Australian subject goods weighted average import price movement in the making of a timing adjustment under the Commission's current methodology as detailed in the EVR.

BlueScope argues that using the Southeast Asian HRC price movement for the export price determination is not aligned with the reality of subject goods pricing over the FY16-FY19 comparison period (either Australian

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<sup>3</sup> CSVC EVR, p.9.

<sup>4</sup> Whether that be specific to the subject goods, or the hot-rolled coil or cold-rolled coil substrate feed thereof.

<sup>5</sup> Confidential Attachment 1: Index Data Analysis.

import prices, or Asian regional ones), and nor would the price determined under this methodology [commercial-in-confidence export price considerations].

## 2. Suitability of domestic sales

The Commission notes at Section 6 of CSVC's EVR that:

*“Noting at Section 4.1 that the verification team considers that there is insufficient information to ascertain the export price of the goods due to an absence of export volume during the review period, the verification team therefore consider the verified export adjustments from INV 370 to be appropriate for use to establish a normal value.”<sup>6</sup>*

The Commission makes no specification adjustment to the normal value. BlueScope is of the view, however, that such an adjustment should be made based on the high probability that one would be required had CSVC exported the subject goods during the inquiry period.

Moreover, the absence of Model Control Codes (“MCC’s”) during Investigation No. 370 precludes a meaningful quantitative assessment of the goods exported by CSVC during the earlier inquiry period as compared to its home market MCC’s during the current inquiry period. It cannot be assumed that CSVC would have exported the same type of subject goods, and that the determination of an export price in the absence of export volumes would permit a suitable comparison without specification adjustments.

In Investigation No. 370<sup>7</sup> a specification adjustment was required due to insufficient domestic sales, and sales not in the ordinary course of trade (“OCOT”). In relevant part:

*“The verification team found there was sufficient domestic sales volume made in OCOT for a number of identical models exported to Australia during the investigation period.*

*For those models where there were insufficient domestic sales made in OCOT, or where there were no OCOT sales in the relevant month, the verification team considered using a surrogate model, however, any other models **with sufficient sales required significant specification adjustments for multiple specification differences including coating mass and width.** As such, for models and months where there were insufficient domestic sales of the identical model exported to Australia, the verification team constructed a normal value under section 269TAC(2)(c) using the cost to make the exported goods, plus SG&A applicable to the goods sold domestically, and an additional amount for profit.” [emphasis added].*

The required specification adjustment could be made in a similar way to the above-discussed calculation of CSVC's export price.

## 3. Cost to make galvanised steel

BlueScope observes that CSVC's EQR notes that it does not maintain costs separately for each specific specification or type of the subject goods, and that it reports one average cost at a given cost centre.<sup>8</sup>

Reporting only an average cost for all products will not reflect a reasonable cost to make for the goods and like goods subject to the review, and will affect OCOT, specification adjustments, and constructed normal values where required.

It is not clear from the EVR whether the average costs reported by CSVC have been adjusted to reflect the actual cost to make for galvanised steel sold on the domestic market.

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<sup>6</sup> CSVC EVR, p.12.

<sup>7</sup> CSVC Investigation No. 370 EVR, p.9.

<sup>8</sup> CSVC EQR, p.28.

#### 4. Cost allocation methodology

CSVC's EQR is heavily redacted at section G-6 (cost allocation methodology),<sup>9</sup> as follows:

##### Raw materials (HR)

Raw material cost (HR) for response purposes is calculated as follows:

[REDACTED]

##### Raw materials (Zinc)

CSVC has calculated the material cost (Zinc) for response purposes as follows:

[REDACTED]

##### Recovery-Zinc Dross

[REDACTED]

##### Recovery-Other

[REDACTED]

##### Labour and overhead

Labour and overhead is calculated as below:

[REDACTED]

CSVC provided a similar level of non-disclosure in Investigation No. 370, stating only that:

*"In order to answer for request of providing detailed information on full cost of production of input, CSVC provides the full cost of As-cold roll product as Exhibit G-6.2 Production cost of PLTCM."<sup>10</sup>*

In the absence of meaningful disclosure on costs, and how variances to costs might be allocated, BlueScope makes the following comments:

- Cost variances for raw materials can be based on budgeted/planned cost;
- Cost variances for labour can be based on the standard labour rate, less any differences that affect that rate (for example, pay increases or efficiency gains/losses);
- Cost variances for variable manufacturing overheads can be based on changes in the cost of those overheads (such as energy, consumables, etc); and
- Cost variances for fixed overheads can be based on budgeted changes and production volumes.

<sup>9</sup> CSVC EQR, p.30.

<sup>10</sup> CSVC Investigation No. 370 EQR, p.50.

## 5. Domestic sales rebates

In its EQR<sup>11</sup>, CSVC notes that it grants the following types of sales adjustments to all domestic market customers:

<i>Reason Code</i>	<i>Description</i>	<i>Reported in D-4</i>
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

(1) [REDACTED] (b)

[REDACTED]

(2) [REDACTED] (b)

[REDACTED]

*The above sales adjustments are all reported in Column "Sales Adjustments".*

In Investigation No. 370<sup>12</sup>, CSVC made two additional sales-related adjustments (again, with minimal and inadequate disclosure):

<sup>11</sup> CSVC EQR, p.21.

<sup>12</sup> CSVC Investigation No. 370 EQR, p.28-29.

<i>Reason Code</i>	<i>Description</i>	<i>Reported in D-4</i>
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

(1) [REDACTED]

[REDACTED]

(2) [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

(3) [REDACTED]

[REDACTED]

(4) [REDACTED]

[REDACTED]

*[Confidential domestic selling terms]*

*The above sales adjustments are all reported in Column "Rebate".*

BlueScope requests that the Commission re-examine CSVC's sales adjustments and the potential absence of additional ones, given the implications for OCOT testing and constructed normal values.

### 3. Normal Value Adjustments

#### Foreign Exchange Gains & Losses

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

CSVC's EQR states that China Steel Corporation ("CSC") (CSVC's Taiwanese parent entity) supplied and produced the raw material HRC for CSVC's production of the subject goods, and that Dragon Steel Corporation ("DSC") (a related party to CSVC under the same ownership of CSC) also produced HRC for CSVC's Vietnamese production. HRC from both sources will have been imported from Taiwan.

BlueScope submits that zinc is also a major raw material in the production of the subject goods and was likely imported. Accordingly, BlueScope requests that the Commission review the exchange rates used on importation of HRC and zinc; and determine the date for such transactions. BlueScope also requests that the Commission do the same 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 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 and zinc). Given there is no evidence of foreign exchange hedging activities (i.e. forward contracts), any gains or losses are directly relevant to CSVC's realised sales revenues, 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."<sup>13</sup>

BlueScope therefore submits that foreign exchange losses on HRC and zinc import purchases should be added to the Cost to Make for OCOT, and to any constructed normal value.

#### Handling Charges

The Commission has made the following adjustments to CSVC's normal value as part of this inquiry:<sup>14</sup>

<b>Adjustment Type</b>	<b>Deduction/addition</b>
Domestic credit insurance fee	Deduct an amount for credit insurance fee
Domestic packaging	Deduct an amount for domestic packaging
Domestic inland transport	Deduct an amount for domestic inland transport
Domestic handling charges	Deduct an amount for handling charges
Export costs	Add an amount for packaging, inland transport, handling charges and other costs

**Table 6 Summary of adjustments**

No adjustment was made for domestic handling charges per Investigation No. 370:<sup>15</sup>

<sup>13</sup> Dumping and Subsidy Manual, November 2018, p.48.

<sup>14</sup> CSVC EVR, p.12.

<sup>15</sup> CSVC Investigation No. 370 EVR, p.12.

<b>Adjustment Type</b>	<b>Deduction/addition</b>
Domestic credit	<b>Deduct</b> the cost of domestic credit
Domestic inland transport	<b>Deduct</b> the cost of domestic inland transport
Domestic packing	<b>Deduct</b> the cost of domestic packing
Export credit	<b>Add</b> the cost of export credit
Export inland transport	<b>Add</b> the cost of export inland transport
Export packing	<b>Add</b> the cost of export packing
Export commission	<b>Add</b> the cost of export commission
Export customs declare fee	<b>Add</b> the cost of export customs declare fee
Export handling and other	<b>Add</b> the cost of export handling and other

BlueScope queries the requirement to make a downwards normal value adjustment for domestic handling given its absence in the prior investigation. BlueScope contends that CSVC's domestic supply chain, and the various components thereof in servicing the Vietnamese domestic market, would not have altered since FY16, and that this downwards adjustment is not required.

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

Yours faithfully,

[REDACTED]

Manager – Trade Measures