



## Australian Industry Verification Report

### Verification & Case Details

<b>Initiation Date</b>	23/8/2019	<b>ADN:</b>	2019/100
<b>Case:</b>	<p>Reviews of measures:</p> <p>Certain Zinc Coated (Galvanised) Steel exported to Australia from the People's Republic of China, the Republic of India, the Republic of Korea, Malaysia, Taiwan and the Socialist Republic of Vietnam</p> <p>and</p> <p>Certain Aluminium Zinc Coated Steel exported to Australia from the People's Republic of China.</p>		
<b>Case Number</b>	521 and 522		
<b>Company</b>	BlueScope Steel Limited (BlueScope)		
<b>Location</b>	Hastings, Victoria		
<b>Verification from</b>	11/09/2019	<b>to</b>	13/09/2019
<b>Review Period</b>	01/07/2018	<b>to</b>	30/06/2019

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

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## 1 BACKGROUND

### 1.1 Corporate Structure and Ownership

BlueScope Steel Limited (BlueScope) is a flat steel product manufacturer and is publicly-listed (limited by shares) on the Australian Securities Exchange.

BlueScope produces and markets a range of value added coated and painted flat steel products for the Australian building and construction markets. Products are primarily sold to the Australian domestic market.

### 1.2 Related Parties

BlueScope has several subsidiaries and joint ventures both in Australia and overseas. In its response to the Australian Industry questionnaire, BlueScope indicated it has neither any related suppliers nor relationships with any exporter to Australia of the goods the subject of these two reviews. BlueScope is an integrated manufacturer of steel products and sources hot rolled coil inputs to coated steel products from its blast furnace operations in Port Kembla.

The verification team examined the relationships between related parties involved in the manufacture and sale of the subject goods. These relationships are discussed in section 2, 3 and 4 below.

### 1.3 Manufacturing in Australia

BlueScope is the sole manufacturer of zinc coated (galvanised) steel and aluminium zinc coated steel in Australia.

During the visit, BlueScope provided the verification team with a tour of its manufacturing facility at Hastings, Victoria. Details of this production process are contained in the verification work program at **Confidential Attachment 1**.

### 1.4 Model Control Codes (MCCs)

BlueScope provided sales and cost data in accordance with the Model Control Codes (MCC) structure detailed in Consideration Report No.521 and 522 and ADN 2019/100.

The verification team analysed these MCCs and is satisfied that the suggested categories impact BlueScope's pricing of goods. As a result, the verification team considers the MCC structures proposed by BlueScope appear to be reasonable. The Commission has sought submissions from any interested parties on the MCC structures in the initiation of these reviews. The data from BlueScope, exporter questionnaires and any submissions will be considered prior to the Commission finalising the MCC structures.

### 1.5 Like goods

Based on information available including findings from the original investigation and information gathered during the visit, the verification team considers that, for both zinc coated (galvanised) steel and aluminium zinc coated steel:

- the primary physical characteristics of the goods exported to Australia and locally produced goods are similar, notwithstanding variations in technical specifications (i.e. grade or thickness);

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- the goods exported to Australia and locally produced goods are commercially alike as they are sold to common users and directly compete in the same market;
- the goods exported to Australia and locally produced goods are functionally alike as they have a similar range of end-uses; and
- the goods exported to Australia and locally produced goods are manufactured in a similar manner.

In light of the above, the verification team is satisfied that both zinc coated (galvanised) steel and aluminium zinc coated steel produced by the Australian industry is like to the imported goods, as defined in subsection 269T(1) of the Act.

### 1.6 Preliminary like goods assessment

The verification team is satisfied that:

- zinc coated (galvanised) steel and aluminium zinc coated steel manufactured by BlueScope are like to the goods exported to Australia;<sup>1</sup>
- at least one substantial process of manufacture of zinc coated (galvanised) steel and aluminium zinc coated steel is carried out in Australia;<sup>2</sup>
- the like goods were wholly or partly manufactured in Australia by BlueScope;<sup>3</sup> and
- there is an Australian industry, consisting of BlueScope, which produces like goods in Australia.<sup>4</sup>

### 1.7 Marketing and distribution

BlueScope uses different marketing strategies to sell its brands into various market sectors.

- GALVABOND is a commercial grade suitable for forming and pressing.
- ZINCANNEAL is a similar product but the zinc coating is subjected to direct fire gas furnace post exiting the coating bath and consequently the surface has a much finer crystalline structure.
- GALVASPAN is aimed at the construction market for the production of purlins and girts. ZINCHITEN is a structural product that can have the same structural properties, but is typically sold with a lower coating mass.
- ZINCALUME and TRUECORE are the main brands of aluminium zinc coated steel.

### 1.8 Sales and distribution

BlueScope explained that there are two major distribution channels:

- BlueScope sells to its distributors around Australia, and the distributors will on sell to its customers; and
- BlueScope sells directly to large customers.

Detailed sale routes of its Australian market can be found in **Confidential Attachment 1**.

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<sup>1</sup> Section 269T(1).

<sup>2</sup> Section 269T(3).

<sup>3</sup> Section 269T(2).

<sup>4</sup> Section 269T(4).

## **1.9 Pricing Structure**

BlueScope provided a copy of its current distributor price list that identifies extra prices for variations in factors such as grade and coating mass. The verification team considered the pricing structure when assessing the MCC proposed by BlueScope. This will be further considered during the review.

BlueScope indicates that the mechanism for establishing sale prices to related parties is the same as to its broader customer base.

### **1.9.1 Rebates and Discounts**

BlueScope confirmed that it offers numerous rebates and discounts to its customers. These discounts and rebates can be credited per invoice, against future invoices or in bulk for a particular period. BlueScope indicates that discounts and rebates are offered to both related and non-related entities.

A discussion of the verification team's finding regarding BlueScope's discounts and rebates between related and unrelated parties can be found in section 2.3 below.

<b>2 VERIFICATION OF SALES</b>
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**2.1 Verification of Sales data to audited financial statements**

The verification team verified the completeness and relevance of BlueScope’s sales listing by reconciling it to audited financial statements in accordance with ADN No. 2016/30.

BlueScope’s consolidated account is a comprehensive statement for its parent entity and subsidiary entities. The verification team sought to reconcile the sales data provided in both responses of the Industry questionnaire to BlueScope’s 2018–19 audited financial accounts to ensure completeness.

The verification teams notes that BlueScope carries out management accounting through various operational systems such as:

- an invoicing and settlement discounts system;
- debtor management;
- rebate model;
- manufacturing costs; and
- freight model systems.

The dataset from these operational systems are aggregated into the COGNOS database, which lists the line-by-line sales revenue and all associated costs for all products.

The verification team noticed that variances exist between the COGNOS databases and the trial balance in SAP. BlueScope were able to clarify the differences between SAP and COGNOS and were able to demonstrate how the COGNOS data reconciles to the audited financial statements.

The verification team did not find any major issues with the verification of the sales listing to audited financial statements. Details of this verification process are contained in the verification work program at **Confidential Attachment 1**.

**2.2 Verification of Sales data to source documents**

The verification team verified the accuracy of BlueScope’s sales listing by reconciling it to source documents in accordance with ADN No. 2016/30.

Details of this verification process are contained in the verification work program at **Confidential Attachment 1**.

Exception	Resolution
<p>For one (aluminium zinc coated steel) sales transaction, the net invoice value was negative due to a rebate amount being greater than the gross invoice value.</p>	<p>BlueScope explained that, for some customers, rebates can be credited to a future invoice and this particular rebate was related to an adjustment for a sale transaction in March 2018 (before the review period). BlueScope provided a revised rebate summary showing the correct rebate amount applicable to that particular sales transaction. The verification team is of the view that the net invoice values and rebates should reflect the actual amounts related to the goods under consideration during the review period. Accordingly, the verification team has revised this transaction with the correct rebate and net invoice value as supplied by BlueScope.</p>

**Table 1 - Exceptions during Verification of Sales Accuracy**

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The verification team established the following information as outlined in the table below:

<b>Item</b>	<b>Method Applied</b>
Sales quantity	Based on invoice
Date of sale	Taken as invoice date, as appears on invoice
Gross invoice value	Based on invoice
Rebates and discounts	Based on invoice, credit adjustment note, rebate agreement document, rebate reconciliation summary, bank statements and / or intercompany payment receipts
Net invoice value	Based on invoice less discounts and rebates
Inland transport	Standard costs, adjusted monthly from previous costs
Packaging	Standard costs, adjusted monthly from previous costs

**Table 2 - Sales calculation method**

The verification team noticed some minor variances in sales data between the sales listing and source documents. These variances were corrected and reconciled during the visit.

### **2.3 Related party customers**

The verification team observed that BlueScope sold zinc coated (galvanised) steel and aluminium zinc coated steel to related customers. Sales methods and discounts and / or rebates offered to related customers were the same as non-related customers.

The verification team analysed the prices for unrelated and related customers. The verification team considers that, given there were no significant price differences between related and unrelated customers, the sales to related customers is made at arm's length. The verification team is satisfied that BlueScope's selling prices for zinc coated (galvanised) steel and aluminium zinc coated steel to related customers can be relied upon in establishing unsuppressed selling price (USP) and non-injurious price (NIP).

### **2.4 Sales — Conclusion**

The verification team considers that BlueScope's sales data is a complete, relevant, and accurate reflection of the sales of zinc coated (galvanised) steel and aluminium zinc coated steel from 1 July 2018 to 30 June 2019.

### 3 VERIFICATION OF COST TO MAKE AND SELL

The verification team verified the completeness and relevance of the cost to make and sell (CTMS) information provided in the application by reconciling it to audited financial statements in accordance with ADN No. 2016/30.

The verification team relied on a sample of accounting information from the July to September 2018 quarter to verify the completeness and relevance of BlueScope's CTMS information. The verification team reconciled the total cost of goods sold (COGS) for the sample quarter to corresponding data extracted from BlueScope's accounting systems. Following this, the verification team reconciled the cost of production for all products BlueScope sold in the selected quarter. BlueScope then demonstrated its methods for, firstly, classifying its products as within or outside the goods description and, secondly, classifying its products as for sale to domestic or overseas customers.

BlueScope applied a transfer price with respect to purchases of hot rolled coil as a raw material from a related entity within the BlueScope Group. BlueScope based its transfer price on the difference between the cost of hot rolled coil from its related entity and an estimated market price based on an external benchmark price for hot rolled coil.

The verification team did not identify any issues during this process. Details of this verification process are contained in the verification work program and its relevant attachments at **Confidential Attachment 1**.

#### 3.1 CTMS completeness and relevance finding

The verification team is satisfied that the CTMS data provided in the application by BlueScope is complete and relevant.



## **4 VERIFICATION OF CTMS ACCURACY**

### **4.1 Cost allocation method**

The verification team verified the reasonableness of the method used to allocate the CTMS information provided in the application to the relevant MCCs, in accordance with ADN No. 2016/30.

<b>Cost Area</b>	<b>Method Applied</b>
Raw Materials	Raw material costs for hot rolled coil sourced from a related supplier within the BlueScope group are based on the actual production costs adjusted for transfer pricing. The unit cost allocated is based on a weighted average value for each month. <u>Evidence relied on:</u> CTMS cost allocation method spreadsheet BlueScope's internal cost accounting system Internal transfer pricing policy
Scrap Allocation	Standard costs, using bill of materials and production cost worksheets
Manufacturing Overheads	Standard costs, using bill of materials and production cost worksheets
Labour	Standard costs, using bill of materials and production cost worksheets
Variance	Standard quantity and values in BlueScope's accounting systems was compared to the production quantity as per production warehouse reports and actual costs recorded in the accounting systems. The verification team noted an insignificant variance between quantities. The verification team accounted for these variances accordingly in the cost data submitted.

**Table 3 - Cost calculation method**

The verification team did not identify any issues during this process. Details of this verification process are contained in the verification work program and its relevant attachments, at **Confidential Attachment 1**.

### **4.2 Verification of accuracy of CTMS data**

The verification team verified the accuracy of the CTMS information provided in the application by reconciling it to source documents in accordance with ADN No. 2016/30.

The verification team did not identify any issues during this process. Details of this verification process are contained in the verification work program and its relevant attachments, at **Confidential Attachment 1**.

### **4.3 Related party suppliers**

BlueScope sources raw materials from a related party, specifically hot rolled coil from a related entity within the BlueScope group.

BlueScope purchases hot rolled coil from its related party at cost. This cost is then adjusted using a transfer price from the related party. The transfer price is based on its estimate of external market prices of hot rolled coil.

The verification team considers that the costs paid to its related supplier is made at arm's length, taking into account BlueScope's regular payment of a transfer price based on an external benchmark price for hot rolled coil. The verification team considers that the transfer pricing arrangements for hot rolled coil has an effect on the profitability of the coated steel business unit. When considering profit in determining a USP and NIP, the verification team is of the view that further analysis of the effect of the transfer pricing structure should be considered.

#### **4.4 Cost to make and sell verification finding**

The verification team is satisfied that the CTMS data provided in the application by BlueScope is complete, relevant and accurate.

Accordingly, the verification team considers BlueScope's CTMS data is suitable for determination of unsuppressed selling prices for its zinc coated (galvanised) steel and aluminium zinc coated steel operations from 1 July 2018 to 30 June 2019.

## **5 UNSUPPRESSED SELLING PRICE**

The verification team sought input from BlueScope on the calculation of the USP and NIP at the verification visit. BlueScope's expressed a view that it supports establishing the NIP at the normal value for each exporter. BlueScope sees no need to alter this methodology, which was used in the original investigation and subsequent reviews.

The verification team explained the Commission has a preferred approach to establishing the USP. This is set out in chapter 23 of the Manual and observes the following hierarchy:

- Industry selling prices at a time unaffected by dumping;
- constructed industry prices – the Australian industry CTMS, plus profit; or
- selling prices of undumped and unsubsidised imports.

BlueScope was invited to provide further submissions to the Commission regarding its views on the USP, NIP and the form of measures.

**6 APPENDICES AND ATTACHMENTS**

<b>Confidential Attachment 1</b>	Verification work program
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