



## Exporter Verification Report

### Verification & Case Details

<b>Initiation Date</b>	18 October 2019	<b>ADN:</b>	2019/128
<b>Case Number</b>	528		
<b>The goods under consideration</b>	Hot Rolled Coil Steel		
<b>Case type</b>	Review		
<b>Exporter</b>	Chung Hung Steel Corporation		
<b>Location</b>	Taiwan		
<b>Verification from</b>	Desktop verification		
<b>Review Period</b>	1 October 2018 to 30 September 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 COMPANY BACKGROUND**

### **1.1 Corporate Structure and Ownership**

Chung Hung Steel Corporation (CHS) is a publicly traded company listed on the Taiwan Stock Exchange. Established in 1983, it manufactures and sells a variety of steel products for both the domestic and export market, however it did not export to Australia during the period of review. Its main products are a variety of steel coils including hot rolled, cold rolled, galvanised, pickled and/or oiled, and a variety of pipe including black, rectangular and galvanised.

CHS is a subsidiary of China Steel Corporation (CSC). CSC has a large number of subsidiaries and is also a manufacturer of the goods.

### **1.2 Related Parties**

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

#### **1.2.1 Related suppliers**

CHS purchased some of its steel slab from a related party.

The Commission's assessment to determine whether the purchases of raw materials from its related supplier were arms length is discussed at chapter 5.3 of this report.

### **1.3 Accounting records**

CHS's audited financial statement was audited by Deloitte & Touche 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.

## **2 THE GOODS AND LIKE GOODS**

### **2.1 Production Process**

CHS has a hot rolling factory that processes steel slab into the goods. The hot rolling factory carries out three main processes in the manufacture of the goods:

- Hot strip mill process- steel slab is reheated before being passed through a roughing mill, coil box, finishing mill, cooling system and a down coiler to produce hot rolled band;
- Skin pass mill process- hot rolled band is passed through a skin pass mill to produce hot rolled coil; and,
- Tension leveller process- hot rolled coil is passed through a tension leveller, pickled, rinsed and air dried, and oiled to produce pickled and oiled hot rolled coil.

### **2.2 Model Control Codes (MCCs)**

CHS provided domestic sales and domestic cost data in its response to the exporter questionnaire in accordance with the model control code (MCC) structure detailed in ADN No. 2019/128 and File Note (Document No. 5) on the public record.

#### **2.2.1 Amendments to MCCs**

CHS made the following amendments to the MCC structure.

No.	Exception	Resolution
1	CHS introduced surface condition category "Q".	Products with this surface condition designation had undergone a spheroidising or fine blanking process

**Table 1 Amendments to the MCCs**

### **2.3 Verification of MCCs**

Table 2 below provides detail on how the MCC sub-categories were determined and verified to source documents.

Category	Determination of the sub-category
Quality	CHS's sales orders capture information on prime and non-prime sales
Form	CHS's production system and internal product codes capture information on sheet and coil
Surface condition	CHS's production system and internal product codes capture information on 'as rolled' or pickled and/or oiled
Standard/Grade	CHS's internal product codes capture information on standard/grade
Thickness (BMT)	CHS's production system captures information on specification and dimension including thickness
Width	CHS's production system and sales orders capture information on specification and dimension including width

**Table 2 MCC sub-category determination**

## 2.4 The goods exported to Australia

CHS did not export the goods to Australia during the review period.

## 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 under consideration, as they:

- are not distinguished from the goods under consideration during production (the goods under consideration and goods sold on the domestic market are produced in the same way, subject to individual customer specifications, and the costs of production are the same);
- are produced at the same facilities, using the same raw material inputs and manufacturing processes; and,
- can be considered functionally alike, as they have similar end uses.

A list of MCCs sold by CHS on the domestic market during the review period are at **Non-confidential attachment 1**.

## 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 under consideration and are therefore 'like goods' in accordance with section 269T(1) of the *Customs Act 1901* (the Act).<sup>1</sup>

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<sup>1</sup> References to any section in this report relate to provisions of the Act, unless specifically stated otherwise.

### **3 VERIFICATION OF SALES COMPLETENESS, RELEVANCE AND ACCURACY**

Verification of relevance and completeness is conducted by reconciling selected data submitted "upwards" through management accounts up to audited financial accounts. The total sales value and quantity is reconciled to management reports with particular attention given to ensuring that all relevant transactions are included and irrelevant transactions are excluded. The total value from the management reports is then reconciled to the total revenue figure reported in the audited income statement.

The verification team verified the completeness and relevance of the domestic sales listing provided in the Response to the Exporter Questionnaire (REQ) by reconciling these to the audited financial statements in accordance with ADN No. 2016/30.

The verification team verified the relevance and completeness of the sales data for CHS as follows:

- Reconciling total sales as reported in the domestic and third country sales spreadsheets provided as part of the REQ to internal income statements; and
- Tracing totals as reported in the income statements covering the review period and then reconciling income statements for that part of the review period in 2018 to the 2018 Audited Financial Statement.

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 Sales completeness and relevance finding**

The verification team is satisfied that the sales data provided by CHS is complete and relevant. Details of this verification process are contained in the verification work program and its relevant attachments, at **Confidential Attachment 1**.

#### 4 VERIFICATION OF COST TO MAKE AND SELL (CTMS) COMPLETENESS AND RELEVANCE

Verification of relevance and completeness is conducted by reconciling selected data submitted "upwards" through management accounts up to audited financial accounts. The total cost to make data is reconciled to the cost of production in the management reports with particular attention given to ensuring that all relevant costs are included and irrelevant costs have been excluded. The cost of production data is then reconciled, through relevant account ledgers, to the cost of goods sold figure reported in the audited income statement. Additionally, selling, general and administration (SG&A) expenses are reconciled to income statements, with particular attention given to specific expenses that were excluded or should be excluded.

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

The verification team verified the relevance and completeness of the cost data as follows:

- the total cost of goods sold for calendar year 2018 was traced from the audited 2018 financial statements to the internal income statements;
- using the internal income statements for year-ending September 2018, year-ending September 2019 and calendar year 2018, the cost of goods sold was converted to the review period;
- the total cost to manufacture all products was traced to the inventory ledger for the period of review;
- the cost of goods sold for the review period was converted to cost of production by adjusting for cost of work in progress goods, and the change in finished goods inventory; and
- based on the classification of product types in the production system, the domestic cost of production for the goods was obtained.

The verification team verified the relevance and completeness of the SG&A data as follows:

- the total SG&A cost for calendar year 2018 was traced from the audited 2018 financial statements to the internal income statements;
- using the internal income statements for year-ending September 2018, year-ending September 2019 and calendar year 2018, the SG&A cost was converted to the review period; and
- the SG&A cost for the review period was reconciled to the SG&A listing in the income statements.

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**.

#### **4.1 Completeness and relevance finding of CTMS data**

The verification team is satisfied that the CTMS data provided in the exporter questionnaire response by CHS is accurate and reasonably reflect the costs associated with the production and sale of the goods under consideration.



## 5 VERIFICATION OF COST TO MAKE AND SELL (CTMS) ACCURACY

### 5.1 Cost allocation method

The verification team verified the reasonableness of the method used to allocate the cost information provided in the REQ to the relevant MCCs, 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**.

Table 3 below outlines the allocation method applied to each cost item.

Cost item	Allocation method applied for the goods
Raw Materials	Raw material costs are allocated based on production quantity.
Scrap Allocation	Scrap offsets are allocated based on production quantity.
Manufacturing Overheads	Manufacturing overheads are allocated based on conversion ratios or production quantity depending on the nature of the cost.
Labour	Labour costs are allocated based on conversion ratios or production quantity depending on the nature of the cost.
Depreciation	Depreciation is allocated based on machine time.
Variance	CHS tracks and reports actual costs in its accounts. As such, no variance is applied.

**Table 3 Cost allocation method**

### 5.2 Verification of Accuracy of CTMS data

The verification team tested the accuracy of raw material costs for the two largest models sold on the domestic market. The verification team did not go "downwards" to source documents. However, it was able to trace the raw material costs allocated from the general ledger to the raw material cost in the cost to make.

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**.

### 5.3 Related party suppliers

CHS purchased steel slab from a related party during the review period.

The verification team compared CHS raw material purchase cost to that of other Taiwanese exporters during the period of review and found that the costs were comparable.

The verification team is satisfied that CHS's purchases of steel slab were arms length transactions.

#### **5.4 Accuracy finding**

The verification team is satisfied that the CTMS data provided in the exporter questionnaire response by CHS is accurate and reasonably reflect the costs associated with the production and sale of the goods under consideration.

## 6 EXPORT PRICE

### 6.1 Export Price – preliminary assessment

The verification team has found that CHS did not export goods to Australia during the review period.

As such, the verification team considers that there is insufficient information to ascertain the export price of the goods under section 269TAB(1) due to an absence of exports during the review period.

Subject to further enquiries by the case management team, the verification team recommends that ascertaining CHS's export price under section 269TAB(2B)(c), having regard to the export price for like goods exported to Australia from the country of export by another exporter or exporters in accordance with section 269TAB(1), is the most appropriate.

This method reflects actual prices received by other exporters for specific HRC grades, and is most reflective of prevailing market conditions for HRC sold in the Australian market during the review period.

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

## 7 DOMESTIC SALES

Section 269TAC(1) provides the general rule for calculating normal value. For sales to be relevant for the purpose of section 269TAC(1), they must be sales of like goods sold in the exporter's domestic market for home consumption that are at arms length and in the ordinary course of trade (OCOT).

### 7.1 Arms length

#### 7.1.1 Unrelated customers

CHS's domestic sales of like goods during the period are to unrelated customers. 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 arms length transactions.

### 7.2 Ordinary course of trade

Section 269TAAD states that domestic sales of like goods are not in the OCOT if arms length transactions are:

- unprofitable in substantial quantities over an extended period; and
- unlikely to be recoverable within a reasonable period.<sup>2</sup>

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

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

The verification 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:

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<sup>2</sup> In general, the Commission will consider 'extended period' and 'reasonable period' to be the investigation, review or inquiry period.

OCOT particulars	Details
Price	Net invoice price, net of rebates, excluding direct selling expenses (ex-works terms)
Cost	Quarterly CTMS, excluding direct selling expenses (ex-works terms).
Weighted average cost	Weighted average CTMS, excluding direct selling expenses (at ex-works), over the period.

**Table 4 OCOT details**

### **7.3 Volume of relevant sales**

Section 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 taken to be in a low volume under section 269TAC(14) where the total volume of like goods is less than five per cent 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).

As per the *Dumping and Subsidy Manual*, where the total volume of like goods is greater than five per cent 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.

As mentioned under Chapter 6, the verification team has determined that the most appropriate method of ascertaining CHS's export price is to use section 269TAB(2B)(c), being a weighted average export price for like goods exported to Australia from Taiwan by other exporters for which an export price was established under section 269TAB(1).

The verification team used the total volume of like goods exported to Australia from Taiwan by other exporters to assess the total volume of domestic sales of CHS as a percentage of the goods exported to Australia for the whole period. On this basis, the verification team has found that the domestic sales were sufficient. As a result, the normal value can be ascertained under section 269TAC(1).

The verification team's assessment of the suitability of domestic models to the models exported to Australia is further detailed in **Confidential Attachment 2**.

<b>8 ADJUSTMENTS</b>
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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).

### 8.1 Rationale and Method

Adjustment type	Assessment for adjustment	Calculation method and evidence	Claimed in REQ? <sup>3</sup>	Adjustment required?
Domestic credit terms	A downward adjustment to the normal value for domestic credit terms is required to ensure a fair comparison to the FOB export price.	The verification team has applied this adjustment based on the credit cost listed for each domestic transaction.	No	Yes
Domestic inland transport	A downward adjustment to the normal value for domestic inland transport is required to ensure a fair comparison to the FOB export price.	The verification team has applied this adjustment based on the inland transport cost listed for each domestic transaction.	No	Yes
Domestic warranty expenses	A downward adjustment to the normal value for domestic warranty expenses is required to ensure a fair comparison to the FOB export price.	The verification team has applied this adjustment based on the warranty expense listed for each domestic transaction.	No	Yes
Export packaging cost	An upward adjustment to the normal value for export packaging cost is required to ensure a fair comparison to the FOB export price.	This adjustment is based on the weighted average unit cost (per ton) for export packing cost over the review period.	No	Yes
Export handling cost	An upward adjustment to the normal value for export handling cost is required to ensure a fair comparison to the FOB export price.	This adjustment is based on the weighted average unit cost (per ton) for export handling costs over the review period.	No	Yes
Export inland transport cost	An upward adjustment to the normal value for export inland transport is required to ensure a fair comparison to the FOB export price.	This adjustment is based on the weighted average unit cost (per ton) for export inland transport over the review period.	No	Yes
Export port charges	An upward adjustment to the normal value for export port charges is required to ensure a fair	This adjustment is based on the weighted average unit cost (per ton) for export port	No	Yes

<sup>3</sup> Export price ascertained under section 269TAB(2B)(c). As such, adjustment required under section 269TAC(8).

**PUBLIC RECORD**

	comparison to the FOB export price.	charges over the review period.		
Export commission fee	An upward adjustment to the normal value for export commission fee is required to ensure a fair comparison to the FOB export price.	This adjustment is based on the weighted average unit cost (per ton) for export commission fees over the review period.	No	Yes
Export bank charge	An upward adjustment to the normal value for export is required to ensure a fair comparison to the FOB export price.	This adjustment is based on the weighted average unit cost (per ton) over the review period.	No	Yes
Timing adjustment	For certain models, <b>add or deduct</b> the difference in timing			

**Table 5 Assessment of adjustments**

## 8.2 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.

<b>Adjustment Type</b>	<b>Deduction/addition</b>
Domestic credit terms	Deduct an amount for domestic credit
Domestic inland transport	Deduct an amount for domestic inland transport
Domestic warranty expense	Deduct an amount for domestic warranty expense
Export packaging	Add an amount for export packaging
Export handling	Add an amount for export handling
Export inland transport	Add an amount for export inland transport
Export port charges	Add an amount for export port charges
Export commission fee	Add an amount for export commission fees
Export bank charge	Add an amount for export bank charge
Timing	For certain models, <b>add or deduct</b> the difference in timing

**Table 6 Summary of adjustments**

The verification team’s preliminary adjustment calculations are included in normal value calculations at **Confidential Appendix 4**.

## 9 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 8.

The verification team’s preliminary normal value calculations are at **Confidential Appendix 4**.



## 10 DUMPING MARGIN

The dumping margin was assessed by comparing weighted average Australian export prices to the corresponding quarterly weighted average normal value for the review period.

The dumping margin for the goods exported to Australia by CHS for the period is **negative 8.9 per cent**.

The preliminary dumping margin calculation is at **Confidential Appendix 5**.

**APPENDICES AND ATTACHMENTS**

<b>Confidential Appendix 1</b>	Export price
<b>Confidential Appendix 2</b>	Cost to make and sell
<b>Confidential Appendix 3</b>	Domestic sales, OCOT and profitability
<b>Confidential Appendix 4</b>	Normal Value
<b>Confidential Appendix 5</b>	Dumping Margin
<b>Confidential Attachment 1</b>	Verification work program
<b>Confidential Attachment 2</b>	Model matching of domestic models to the models exported to Australia
<b>Non-confidential Attachment 1</b>	List of MCCs sold domestically

<b>NON-CONFIDENTIAL ATTACHMENT 1 – MCC LIST</b>
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**Like goods sold on the domestic market**

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

N-C-A-1-T1-W1	N-C-PI-5-T3-W1	P-C-A-5-T3-W1
N-C-A-1-T1-W2	N-C-PI-5-T3-W2	P-C-A-5-T3-W2
N-C-A-1-T2-W1	N-C-PI-5-T4-W1	P-C-A-5-T4-W1
N-C-A-1-T2-W2	N-C-Q-1-T3-W2	P-C-A-5-T4-W2
N-C-A-1-T3-W1	N-C-Q-5-T3-W1	P-C-PI-1-T1-W1
N-C-A-1-T3-W2	N-C-Q-5-T4-W1	P-C-PI-1-T1-W2
N-C-A-1-T4-W1	P-C-A-1-T1-W1	P-C-PI-1-T2-W2
N-C-A-1-T4-W2	P-C-A-1-T1-W2	P-C-PI-1-T3-W1
N-C-A-2-T2-W2	P-C-A-1-T2-W1	P-C-PI-1-T3-W2
N-C-A-2-T3-W2	P-C-A-1-T2-W2	P-C-PI-1-T4-W2
N-C-A-2-T4-W2	P-C-A-1-T3-W1	P-C-PI-2-T1-W2
N-C-A-3-T3-W2	P-C-A-1-T3-W2	P-C-PI-2-T2-W2
N-C-A-3-T4-W2	P-C-A-1-T4-W1	P-C-PI-2-T3-W2
N-C-A-5-T2-W1	P-C-A-1-T4-W2	P-C-PI-2-T4-W2
N-C-A-5-T3-W2	P-C-A-2-T2-W2	P-C-PI-5-T2-W1
N-C-A-5-T4-W1	P-C-A-2-T3-W1	P-C-PI-5-T2-W2
N-C-PI-1-T1-W2	P-C-A-2-T3-W2	P-C-PI-5-T3-W1
N-C-PI-1-T2-W2	P-C-A-2-T4-W2	P-C-PI-5-T3-W2
N-C-PI-1-T3-W1	P-C-A-3-T3-W1	P-C-PI-5-T4-W1
N-C-PI-1-T3-W2	P-C-A-3-T3-W2	P-C-PI-5-T4-W2
N-C-PI-1-T4-W2	P-C-A-3-T4-W1	P-C-Q-1-T3-W2
N-C-PI-2-T3-W2	P-C-A-3-T4-W2	P-C-Q-5-T3-W1
N-C-PI-2-T4-W2	P-C-A-5-T2-W1	P-C-Q-5-T3-W2
N-C-PI-5-T2-W1	P-C-A-5-T2-W2	P-C-Q-5-T4-W1