



## Exporter Verification Report

### Verification & Case Details

<b>Initiation Date</b>	3/03/2020	<b>ADN:</b>	2020/020
<b>Case</b>	Steel Reinforcing Bar - Continuation of Measures - InfraBuild (Newcastle) Pty Ltd		
<b>Case Number</b>	546		
<b>Exporter</b>	NatSteel Holdings Pte Ltd		
<b>Location</b>	Desktop verification		
<b>Inquiry Period</b>	1/01/2019 to 31/12/2019		

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**

NatSteel Holdings Pte Ltd (NatSteel) is a private company based in Singapore and is a manufacturer, distributor and fabricator of steel products. Its ultimate parent company is Tata Steel Ltd (Tata Steel), a publicly listed company headquartered in Mumbai, India.

NatSteel owns in varying percentages and either directly or indirectly, a number of subsidiaries based in South East Asia. These subsidiaries are also involved in the manufacture and sale of a range of steel products.

### **1.2 Related Parties**

The verification team examined the relationships between NatSteel and parties relevant to the manufacture and sale of the goods.

The verification team did not find that NatSteel's domestic and Australian export sales were to related entities during the inquiry period.

#### **1.2.1 Related suppliers**

NatSteel purchases all of its scrap steel, the primary raw material input for the manufacture of the goods subject to Continuation Inquiry 546, from a wholly owned subsidiary.

Further, NatSteel engages a related company for the provision of brokerage services for overseas shipments, including its exports to Australia.

### **1.3 Accounting records**

NatSteel's audited financial statements for the period 1 April 2018 to 31 March 2019 included a statement that the financial accounts comply with the Financial Reporting Standards in Singapore.

The verification team therefore considers that the accounting records held by the company are in accordance with the generally accepted accounting principles of Singapore.

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

### **2.1 Production Process**

NatSteel describes itself as an integrated manufacturer, with upstream and downstream operations. The process for the production of the goods is summarised as follows:

- scrap material is liquefied and refined such that on solidification, it is transformed into a different grade of steel. Melting is carried out by an electric arc furnace;
- molten steel is further refined in the ladle furnace and subsequently cast into billet at the continuous casting machine;
- billet is then directed to the rolling mill, where it is reheated and passed through a series of rolling strands to create sections; and
- sections are ribbed at the final stand and cut to size or coiled.

NatSteel’s production of the goods takes place at its mill in Singapore.

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

NatSteel provided sales and cost data in its response to the exporter questionnaire in accordance with the model control code (MCC) structure detailed in Anti-Dumping Notice No. 2020/020.

### **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
Prime/Non Prime	Reconciliation to: <ul style="list-style-type: none"> <li>• product code information in NatSteel's sales systems;</li> <li>• purchase orders;</li> <li>• commercial /tax invoices;</li> <li>• packing lists;</li> <li>• mill certificates; and</li> <li>• bill of lading (where relevant).</li> </ul>
Minimum yield strength	
Form	
Nominal Diameter	
Length	
Threaded and non- threaded	

**Table 1 - MCC sub-category determination**

### **2.4 The goods exported to Australia**

The verification team were satisfied that NatSteel produced and exported the goods to Australia with the following MCCs during the inquiry period:

Australian Export MCCs	
1	P-C-C-A-C-N
2	P-C-C-B-C-N
3	P-C-S-B-1-N
4	P-C-S-B-2-N

Australian Export MCCs	
5	P-C-S-C-2-N
6	P-C-S-D-2-N

**Table 2 – MCCs exported to Australia**

## 2.5 Like goods sold on the domestic market

The verification team were satisfied that NatSteel sold like goods on the domestic market. During the inquiry period, the like goods sold domestically by NatSteel were either manufactured in its production facilities or imported. The verification team has found that NatSteel’s accounting system does not distinguish between manufactured and imported products at the time goods are recorded as inventory or at the point of sale. NatSteel also demonstrated that imported products for domestic sale are produced to meet the same standards and physical specifications as the goods that it manufactures. Further details in this respect are contained at **Confidential Attachment 1** to this report.

The verification team considers that the goods (whether manufactured by NatSteel or imported) sold for domestic consumption are identical to, or have characteristics closely resembling, the goods exported to Australia, as:

- the goods exported to Australia and the 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 models are comparable;
- for NatSteel’s manufactured products, they are produced at the same facilities, using the same raw material inputs and manufacturing processes;
- they compete in the same market sector and are interchangeable; and
- they can be considered functionally alike, as they have similar end uses.

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

Domestic sales MCC	
1	P-B-C-A-C-N
2	P-B-C-B-C-N
3	P-C-C-A-C-N
4	P-C-C-B-C-N
5	P-C-S-A-1-N
6	P-C-S-A-2-N
7	P-C-S-B-2-N
8	P-C-S-C-2-N
9	P-C-S-C-3-N
10	P-C-S-D-2-N
11	P-C-S-D-3-N
12	P-D-S-B-2-N
13	P-D-S-C-2-N
14	P-D-S-C-3-N
15	P-D-S-D-2-N

Domestic sales MCC	
16	P-D-S-D-3-N

**Table 3 – MCCs for domestic sales**

## **2.6 Like goods – assessment**

The verification team considers that the goods sold by NatSteel in its domestic market 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).<sup>1</sup>

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

### 3 VERIFICATION OF SALES 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 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 export and domestic sales listings provided in the Response to the Exporter Questionnaire (REQ) by reconciling these to audited financial statements in accordance with ADN. No 2016/30.

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

- the audited financial statements consolidated for NatSteel and its subsidiaries for the period ended 31 March 2019 were reconciled to workpapers prepared for audit purposes which had disaggregated revenue by entity in the same period;
- the total revenue attributable to NatSteel for the audited period as captured in the workpapers was reconciled to NatSteel's trial balance. As such, the verification team were broadly satisfied of the integrity and propriety of NatSteel's trial balance and the accounting system from which it was generated;
- NatSteel's trial balance differentiated revenue by product types and country;
- sales summary reports by product type and market were created from NatSteel's accounting system, with which the sales values were matched to NatSteel's trial balance;
- detailed sales listings by product types and markets in respect of the inquiry period were extracted from NatSteel's accounting system with which sales values and quantities were traced to the sales summary reports with immaterial discrepancies identified;
- NatSteel demonstrated by way of the application of product code, sales country and customer parameters, its ability to distinguish sales of the goods to the domestic and Australian market; and
- transactions identified as being domestic and Australian in the detailed sales listing from the process described above were reconciled (sales value and volume) to the domestic and Australian sales listing submitted by NatSteel in its REQ.

#### ***Date of Sale***

In its Australian sales listing, NatSteel had provided two dates:

- shipment date; and
- the date in which NatSteel recognises the sale in its accounting system.

NatSteel claims that for its Australian export sales, the date in which the sale is recognised in its accounting system most appropriately reflects the date of sale. Each of the dates was validated by the verification team to source documents. The verification team observed that the shipment date preceded the recognition of a sale, with the time period varying in extent.

From the verification team's analysis of the information available, it considers the shipment date to best reflect the date of sale for NatSteel's Australian export sales for the following reasons:

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- unit prices, being a material term of sale are established at the time of shipment;
- terms pursuant to supply arrangements between NatSteel and its Australian customers provide for the demand of payment and other penalties if volumes of a shipment are not taken at a specified time after the shipment date; and
- the adoption of the shipment date as the date of sale is aligned with the Commission’s current practice as set out in its *Dumping and Subsidy Manual (November 2018)*.<sup>2</sup>

Issues identified during the verification of the completeness and relevance of NatSteel’s sales are tabulated below. Details of this verification process are contained in the verification work program and its relevant attachments, at **Confidential Attachment 1**.

**3.1 Exceptions during verification of sales completeness and relevance**

No.	Exception	Resolution
1	<p>NatSteel compiled its Australian sales listing for the inquiry period based on when it considered the goods to have been sold to the Australian customer, being the point at which it recognises revenue in its financial accounting system. NatSteel considered this to be in accordance with the instruction in the Exporter Questionnaire.</p> <p>The verification team observed that there was a material time lapse between shipment and the recognition of the sale by NatSteel. The verification team considers that the shipment date best reflects the establishment of the material terms of sales and should be applied as the date of sale for NatSteel’s Australian exports.</p>	<p>NatSteel provided an updated Australian sales listing, which captured goods exported to Australia during the inquiry period.</p> <p>The relevance and completeness of this revised dataset was assessed to independent import databases, in conjunction with data compiled by NatSteel.</p>
2	<p>The exporter had excluded goods that appeared to satisfy the criteria set out in the goods description as it did not consider such products to be similar or like the goods exported to Australia. NatSteel commented that products of this kind are not subject to certain processes which characterise products that it considers to be like goods.</p> <p>The verification team recognises that while products of such kind may not be identical to the goods exported to Australia, which have undergone other processes, they are not specifically excluded as ‘like goods’ by the goods description. Further the verification team considers that the manufacturing processes between products the exporter considers ‘like goods’ and the products in question are substantively comparable.</p>	<p>At the request of the verification team, NatSteel had provided a revised domestic sales listing which had assimilated sales of these products which satisfied the goods description. The verification team reconciled the additional data to detailed sales listings generated from NatSteel’s accounting system.</p>

**Table 4 Exceptions during verification of completeness and relevance of sales data**

<sup>2</sup> Page 66 of the *Dumping and Subsidy Manual* refers.



### **3.2 Sales completeness and relevance finding**

The verification team is satisfied that the sales data provided by NatSteel, including any required amendments as outlined in the exception table above, is complete and relevant.

## 4 VERIFICATION OF SALES ACCURACY

The accuracy of data is verified by reconciling selected data submitted "downwards" to source documents. This part of verification involves the process of agreeing the volume, value and other key information fields within the sales data down to source documents. This verifies the accuracy of the data.

The verification team verified accuracy of the export and domestic sales listings submitted in the REQ by reconciling these to source documents in accordance with ADN. No 2016/30.

The verification team identified the issues outlined below 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 Exceptions during verification of sales accuracy

No.	Exception	Resolution
3	NatSteel advised that it initially misunderstood the intended meanings within the MCC subcategory of "Deformation pattern along Length", incorrectly assigning 'threaded' to its Australian and domestic sales, when such products were in fact, non-threaded.	NatSteel provided the verification team an amended Australian and domestic sales listings to reflect that sales of the goods during the period were 'non-threaded'
4	In its Australian sales listing, NatSteel had designated ocean freight expenses to transactions in its Australian sales listing in the manner automated in its accounting system. The verification team observed that while such method accurately reflected the ocean freight costs of a particular shipment, it gave rise to variable unit ocean freight expenses at the product/model level for a shipment.	NatSteel had already provided as part of its REQ, weighted average (WA) monthly ocean freight calculations for the inquiry period in respect of different shipping methods. These calculations were based on ocean freight expenses and shipment quantities of all products sold to its Australian customers. The verification team considers that the application of a monthly weight average unit ocean freight expense to NatSteel's Australian sales results in less variability in ocean freight expenses at the product/model level. As such ocean freight expenses in the Australian sales listing were revised by the verification team to reflect the monthly weighted average expenses. The inputs for a portion of NatSteel's calculations were verified to its accounting records without issue.
5	The verification team identified discrepancies in port and handling charges submitted by NatSteel in its Australian sales listing and the commercial invoices examined during the verification.	The Australian sales listing was revised by the verification team to accurately reflect port and handling charges for the inquiry period as substantiated by commercial invoices
6	In NatSteel's calculation of a weighted average unit inland transport expense for its September 2019 domestic sales, the verification team identified by way of examining NatSteel's accounting records, that NatSteel had applied the incorrect sales volumes of relevant products. The verification team notes that this error was confined to the month of September 2019 and did not affect NatSteel's calculations for other months of the inquiry period.	NatSteel provided a revised sales listing, accurately reflecting the September 2019 sales volumes of relevant products (as validated by the verification team), which formed the basis of its WA unit inland transport expense calculation in that month.
7	NatSteel incurs costs directly related to the factoring of its domestic sales receivables. In its domestic sales listing, NatSteel had assigned a monthly unit WA factoring cost to each	NatSteel amended the domestic sales listing to correct the WA unit factoring cost calculated for June 2019, appropriately excluding sales data in respect of the customer not subject to factoring of its domestic sales.

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No.	Exception	Resolution
	<p>transaction. These monthly unit costs in respect of the goods are derived from the sales value of the goods as a proportion of the domestic sales of all products.</p> <p>In its calculation of a unit WA factoring cost for the month of June 2019, NatSteel had included in error, sales data in respect of a domestic customer of the goods whose receivables were not subject to factoring.</p>	
<b>8</b>	<p>NatSteel identified that it had omitted credit insurance, a component of factoring costs incurred in its calculation for the months of January 2019 to June 2019.</p>	<p>NatSteel provided a revised domestic sales listing to correct the monthly unit WA factoring costs for the months from January 2019 to June 2019.</p> <p>For a sample of the affected months, the verification team reconciled the credit insurance included by NatSteel to relevant accounting ledgers and commercial invoices.</p>

**Table 5 Exceptions during verification of accuracy of sales data**

## **4.2 Sales accuracy finding**

The verification team is satisfied that the sales data provided by NatSteel, including any required amendments as outlined in the exception tables above, is accurate. Details of this verification process are contained in the verification work program and its relevant attachments, at **Confidential Attachment 1**.

## 5 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 (COGS) 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 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 audited financial statements consolidated for NatSteel and its subsidiaries for the period ended 31 March 2019 were reconciled to workpapers prepared for audit purposes which had disaggregated COGS by entity in the same period;
- the COGS attributable to NatSteel for the audited period as captured in the workpapers was traced to the amounts captured in NatSteel's trial balance without discrepancy;
- the COGS was reconciled to NatSteel's cost to make (CTM) for all finished products (the goods and non-goods) through changes in finished goods inventory and other inventory;
- NatSteel provided the verification team with its CTM for all finished goods (encompassing the goods and non-goods), with which data was sourced from its production system;
- NatSteel demonstrated its ability to differentiate CTM of the goods from non goods and by markets, primarily through the application of product code information recorded in its production systems. NatSteel had compiled detailed workings in this respect, extracted from its production systems; and
- the production costs and production quantity within the CTM for Australian and domestic goods from the dataset above was reconciled to the Australian and domestic CTM provided in the REQ.

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

- NatSteel's profit/loss results as captured in its income statement were matched to its trial balance for the inquiry period;
- the total of selling and administrative expenses as reported in NatSteel's income statement was reconciled to that of NatSteel's SG&A calculation worksheet;
- NatSteel had calculated an amount of SG&A in respect of its domestic sales on the basis of discrete cost centres within its accounting system which capture expenses specifically for its export and domestic sales teams (with some costs being shared across both markets types). The differentiation of certain costs by market was tested by the verification team; and
- account codes and balances in NatSteel's trial balance were evaluated to identify expenses which may be relevant to the domestic SG&A calculation.

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The verification team identified the issues outlined below during this process. Details of this verification process are contained in the verification work program and its relevant attachments, at **Confidential Attachment 1**.

### 5.1 Exceptions during verification of completeness and relevance of CTMS data

No.	Exception	Resolution
9	The verification team observed that costs of production for material/product codes associated with third country export markets had been assimilated within NatSteel's domestic CTM in error for certain months of the inquiry period.	NatSteel compiled an amended domestic CTM listing to remove costs not associated with the production of domestic models of the goods for the affected months.
10	As described at Section 3.1, the exporter had excluded certain products that satisfied the goods description from its domestic sales listing.  The verification team requested that domestic CTM data in relation to these products be provided.	NatSteel provided domestic CTM data in respect of the products in question.
11	For the MCC model P-C-S-A-1-N-D, the exporter had inadvertently omitted the cutting costs associated with its production.  The verification team notes that only small quantities of this MCC model were manufactured by NatSteel during the inquiry period.	In the context of the insignificant production quantities of this MCC model, the verification team obtained an average of the relevant unit cutting costs for February 19 and October 2019 and adjusted the CTM of the model P-C-S-A-1-N-D by the resultant amount for all quarters of the inquiry period.
12	Domestic CTM data was not compiled by NatSteel in respect of the MCC model P-D-S-B-2-N, which was sold on the domestic market in insignificant quantities during the inquiry period.  NatSteel explained that this model was not produced during the inquiry period and products for sales were taken from inventory.	The verification team revised NatSteel's domestic CTM to include costs associated with the production of P-D-S-B-2-N.  The verification team applied what it considered to be the best available information, relying on costs for a surrogate MCC model that was produced during the inquiry period that had exhibited the closest physical characteristics under the MCC hierarchy (P-D-S-D-2-N). To derive a cost for P-D-S-B-2-N, an adjustment was made for differences in physical characteristics between the MCC in question and the surrogate, with reference to two other MCC's exhibiting the same physical differences.
13	From its verification of production quantities of domestic models during the inquiry period, it was identified that CTM data in respect of one MCC model (straights) had been excluded from NatSteel's domestic CTM for the quarter ended September 2019.  The verification team observed that the omitted data represented an insignificant proportion of NatSteel's total domestic CTM for the inquiry period.	NatSteel had provided the verification team with production records which demonstrated that costs in respect of this MCC model should be included in its domestic CTM.  The verification team revised NatSteel's domestic CTM to incorporate the data for the relevant MCC model.
14	The exporter had excluded from its SG&A calculation, interest expenses from loans and the right to use certain assets.  The verification team considered that these items were relevant to the derivation of an appropriate amount of SG&A in respect of NatSteel's domestic goods.	NatSteel provided the verification team with further calculations, with which it had ascertained an amount of interest expense applicable to its domestic sales of the goods on the basis of assets for its domestic operations (as a proportion of its total assets). NatSteel supported its allocation with balance sheet and trial balance records from its accounting system.

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No.	Exception	Resolution
		The verification team revised NatSteel's domestic SG&A calculation to incorporate these expenses noting that it had also made amendments to NatSteel's workings to reflect that certain assets were not held for the whole of the inquiry period.

**Table 6 Exceptions during verification of completeness and relevance of CTMS data**

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

The verification team is satisfied that the CTMS data provided in NatSteel's REQ response, including any required amendments as outlined as an exception above, is complete and relevant.

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

### 6.1 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 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 7 below outlines the allocation method applied to each cost item.

Cost item	Method applied
Raw Materials	Raw material costs are allocated to the goods based on consumption quantity at both the finished product and billet level. The verification team validated raw material quantities consumed to production records and actual costs of raw materials to commercial invoices.
Raw material cost offset allocation	Raw material cost offsets included scrap sales/purchase adjustments as well as the sale of by-products yielded from the rolling mill. A monthly weighted average unit cost offset (by production quantity) was calculated by NatSteel. Cost offsets were traced to relevant sales ledgers and adjustment listings by the verification team.
Labour	<i>Finished goods</i> – actual labour costs were allocated to the goods on the basis of production hours, as supported by production records. <i>Billet</i> – actual labour costs were allocated on the basis of production quantity of the goods as supported by production records.
Depreciation	<i>Finished goods and billet</i> – on the basis of production hours. Depreciation costs were traced to production records and asset ledgers. Production hours were supported by production records.
Electricity	<i>Finished goods</i> - on the basis of an electricity activity rate as embedded in NatSteel's production systems. The electricity rate is a function of actual electricity costs and electricity consumption. Allocation inputs were reconciled to production records, cost ledgers and commercial invoices. <i>Billet</i> - actual electricity costs were allocated on the basis of production hours as supported by production records and commercial invoices.
Manufacturing Overheads	<i>Finished goods</i> – on the basis of production hours. Manufacturing costs and production hours were supported by production records. <i>Billet</i> - on the basis of production hours. Manufacturing costs and production hours were supported by production records. Specific consumables were allocated on a consumption quantity basis, which were traced to production records.
Variance	Manufacturing overheads are initially recorded at standard costs. Each month actual costs are recognised in NatSteel's production records and settled at the individual product level on the basis of production hours. The verification team has validated actual costs.

**Table 7 - Cost allocation method**

## 6.2 Verification of Accuracy of CTMS data

The accuracy of data is verified by reconciling selected data submitted "downwards" to source documents. This part of verification involves the process of agreeing the volume, value and other key information fields within the cost data down to source documents. This verifies the accuracy of the data.

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

The verification team identified the issues outlined below during this process. Details of this verification process are contained in the verification work program and its relevant attachments, at **Confidential Attachment 1**.

## 6.3 Exceptions during verification of accuracy of CTMS data

No.	Exception	Resolution
15	<p>NatSteel advised that it had incorrectly assigned 'threaded' within the MCC subcategory of 'Deformation pattern along Length' to its Australian and domestic CTM data, when its manufacturing processes only yield non-threaded products.</p>	<p>NatSteel provided the verification team with amended domestic and Australian CTM data to reflect that it only produces 'Non-Threaded' products.</p>
16	<p>NatSteel had compiled CTM data in accordance with the MCC structure with reference to its internal product and material codes.</p> <p>The verification team reviewed NatSteel's mapping of product codes to the MCC and identified that for one domestic product code, the MCC subcategory of nominal diameter had been incorrectly ascribed. This affected the coding of NatSteel's domestic CTM data to the MCC structure.</p>	<p>NatSteel's domestic CTM was revised by the verification team, such that cost data was appropriately mapped to the correct MCC with reference to NatSteel's internal product and material codes.</p>
17	<p>Labour costs were allocated monthly to certain subcategories of the goods (coil or straights) on the basis of the proportion of the total production hours for that subcategory of the goods relative to the total production hours for the relevant production cost centre (which manufactured a variety of goods).</p> <p>In its validation of labour costs the verification team found within NatSteel's detailed calculations (which underpin the CTM data submitted):</p> <ul style="list-style-type: none"> <li>• the incorrect application of the quantum of labour costs to be allocated across MCCs within a particular subcategory as a consequence of referencing incorrect production hours to derive this amount; and</li> <li>• at the MCC level, incorrect production hours had been inputted for certain product codes, such that labour costs were overstated on allocation.</li> </ul> <p>This affected March, September and October 2019 CTM data but the verification team notes that such errors were insignificant in their extent.</p>	<p>NatSteel provide revised calculations (and therefore revised Australian and domestic CTM data) to rectify the identified errors.</p> <p>Amendments in respect of the correct production hours were supported by production system records.</p>



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No.	Exception	Resolution
18	In its derivation of a domestic SG&A amount, NatSteel had allocated certain general expense items to domestic and export sales by sales quantity. The verification team considers that sales value more accurately reflects the allocation of such expenses.	The verification team revised the amount of general expenses allocated to domestic sales, applying the sales value as the basis of allocation.
19	NatSteel had separately identified SG&A for domestic sales. However, in its calculation of the domestic SG&A percentage to be applied to its domestic sales of the goods, it had referenced SG&A expenses in respect of all markets and its total revenue for the inquiry period.	NatSteel provided revised SG&A calculation which applied domestic SG&A expenses to domestic revenue to yield an appropriate percentage/rate for its domestic sales of the goods.

**Table 8 - Exceptions during verification of accuracy of CTMS data**

### 6.4 Related party suppliers

As previously discussed at section 1.2.1 of this report, NatSteel purchased scrap, the primary raw material input for the manufacture of the goods, exclusively from a wholly owned subsidiary.

The verification team are satisfied from its examination of information concerning pricing arrangements for the acquisition of scrap materials, the profit margins achieved by the related party on its sales of raw material to NatSteel and its assessment of the financial records of the related party supplier, that NatSteel's scrap purchases are arms-length transactions.

Further details are contained at **Confidential Attachment 1**.

### 6.5 Accuracy finding

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

## 7 EXPORT PRICE

### 7.1 The importers

The verification team considers NatSteel's Australian customers as listed in its Australian sales listing to be the beneficial owner of the goods at the time of importation and the importers of the goods because the customers were:

- 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;
- paid for all the importation charges; and
- arranged delivery from the port.

### 7.2 The exporter

The verification team considers NatSteel to be the exporter of the goods<sup>3</sup>, as NatSteel 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 were satisfied that for all Australian export sales during the period, that NatSteel was the exporter of the goods.

### 7.3 Arms length

In respect of NatSteel's Australian sales of the goods, of which all were made to 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 directly or indirectly reimbursed, compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.<sup>4</sup>

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

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<sup>3</sup> 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.

<sup>4</sup> Section 269TAA of the Act refers.

## **7.4 Export Price – assessment**

In respect of Australian sales of the goods by NatSteel, the verification team recommends that the export price be determined under paragraph 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**.

## 8 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).

### 8.1 Arms length

In respect of NatSteel's domestic sales of like goods during the period, all of which were made to unrelated customers, the verification team found no evidence that:

- there was any consideration payable for, or in respect of, the goods other than their 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.<sup>5</sup>

The verification team therefore considers that all domestic sales made by NatSteel to its customers during the period were arms length transactions.

### 8.2 Ordinary course of trade

Section 269TAA(1) states that domestic transactions are not in the 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:

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<sup>5</sup> See section 269TAA(1)(c).

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 period

**Table 9 - OCOT details**

### 8.3 Volume of relevant domestic sales

Section 269TAC(2) provides alternative methods for calculating the normal value of goods exported to Australia where there is an absence, or low volume, of relevant sales of like goods in the market of the country of export. An exporter’s domestic sales of like goods are taken to be in a low volume where the total volume of sales of like goods for home consumption in the country of export by the exporter is less than five per cent of the total volume of the goods under consideration that are exported to Australia by the exporter (unless the Minister is satisfied that the volume is still large enough to permit a proper comparison for the purposes of assessing a dumping margin).

The verification team assessed the total volume of relevant sales of like goods as a percentage of the goods exported to Australia and found that the volume of domestic sales was five per cent or greater and therefore was not a low volume.

When calculating a normal value under section 269TAC(1), in order to ensure a proper comparison between the goods exported to Australia and the goods sold on the domestic market, the Commission considers the volume of sales of each exported MCC on the domestic market. Where the volume of domestic sales of an exported model is less than five per cent of the volume exported, the Commission will consider whether a proper comparison can be made at the MCC level. In these situations, the Commission may consider whether a surrogate domestic model should be used to calculate normal value for the exported model.

This analysis is detailed in the table below and at **Confidential Appendix 3**.

Export MCCs	Is volume of domestic sales of same MCC 5% or greater as a proportion of export volume?	Treatment of normal value
P-C-C-A-C-N	Y	
P-C-C-B-C-N	Y	
P-C-S-B-1-N	N	Surrogate model identified (P-C-S-B-2-N), with a specification adjustment pursuant to 269TAC(8).
P-C-S-B-2-N	Y	
P-C-S-C-2-N	Y	
P-C-S-D-2-N	Y	
All sales	Y	

**Table 10 Domestic volumes**

As outlined in table 10 above, the verification team found domestic sales volumes of the identical MCC to be 5% or greater for 5 MCCs exported to Australia.

For 1 MCC model exported to Australia where the domestic sales volume of the identical MCC was less than 5%, the verification team found a surrogate model based on the MCC exhibiting the closest physical characteristics under the MCC hierarchy structure. In relying on the surrogate model, the verification team considered that a specification adjustment

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under 269TAC(8) is warranted to ensure fair comparison between the export model and surrogate domestic model.

## 9 ADJUSTMENTS

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).

### 9.1 Rationale and Method

Adjustment type	Assessment for adjustment	Calculation method and evidence	Claimed in REQ?	Adjustment required?
Domestic and export credit terms	NatSteel had different payment days for Australian and domestic sales of the goods.	<p>A weighted average interest rate to be applied to domestic and Australian export sales was calculated with reference to the interest rate and loan principal on all short term borrowings during the inquiry period. The short term borrowings list relied on for NatSteel's calculation was verified to accounting records.</p> <p>Domestic payment days were as indicated on NatSteel's invoices with its domestic customers.</p> <p>Weighted average payment days were determined for Australian export sales, applying the shipment date as the date of sale.</p>	Y	Y
Domestic inland transport costs	NatSteel incurred inland transport costs for goods delivered to its domestic customers. These costs differ to the inland transport expenses for its Australian export customers.	<p>Monthly unit inland transport costs were assigned to NatSteel's domestic sales of the goods.</p> <p>Inland transport expenses in respect of NatSteel's local sales of certain types of products was aggregated and allocated to domestic sales of the goods on the basis of sales volume. Inputs for NatSteel's calculation methodology were corroborated by accounting ledgers, sales listings and commercial invoices.</p>	Y	Y
Domestic factoring costs	NatSteel incurred costs associated with the factoring of its accounts receivables for domestic sales of the goods.	<p>Monthly unit factoring costs were assigned to NatSteel's domestic sales of the goods.</p> <p>Factoring costs were aggregated and allocated to domestic sales of the goods on the basis of sales value. Inputs for NatSteel's calculation methodology were supported by accounting ledgers and invoices.</p>	Y	Y
Domestic selling costs	<p>NatSteel claimed in the REQ that it had identified differences in selling costs relevant to the domestic and export market. Such costs are captured in discrete cost centres for the relevant market.</p> <p>The exporter considered that export prices and domestic sales of like goods upon which normal value will be based are modified by different circumstances reflected in the different selling costs. An adjustment is thought to be merited</p>	<p>Chapter 15 of <i>The Dumping and Subsidy Manual</i> states that adjustments will be made if there is evidence that a particular difference affects price comparability.</p> <p>NatSteel had demonstrated there to be differences in the selling expenses incurred for domestic and export sales. However, an analysis of its domestic sales undertaken at the time of the verification was unable to establish the manner in which higher domestic selling costs were reflected in higher</p>	Y	N

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Adjustment type	Assessment for adjustment	Calculation method and evidence	Claimed in REQ?	Adjustment required?
	by NatSteel because export sales are not set having regard to higher domestic selling costs, whereas domestic sales are.	domestic selling prices or how the claimed differences influenced price comparability. As such the claimed adjustment was not accepted by the verification team. Refer to <b>Confidential Attachment 1</b> and <b>Confidential Attachment 2</b> .		
Export inland transport costs	NatSteel incurred inland transport expenses for the delivery of goods for export to Australia from its factory to the port.	A monthly weighted average unit inland transport expense was assigned to Australian sales transactions according to the shipment method.  Unit weighted average expenses were derived with reference to applicable trucking rates stated in commercial invoices and monthly shipment quantities for the relevant shipment method.	Y	Y
Export handling and other charges	NatSteel incurred handling and other charges for its export sales to Australia.	A monthly weighted average unit handling and other charges was assigned to Australian sales transactions according to the shipment method.  Unit weighted average charges were derived with reference to applicable rates stated in commercial invoices and monthly shipment quantities for the relevant shipment method.	Y	Y
Export service fee charges	NatSteel incurred certain service fee charges in relation vessel sourcing and management of its Australian export sales of the goods.	Calculated as a percentage of the relevant ocean freight costs. The applicable percentages were verified to commercial invoices in the inquiry period.	Y	Y
Specification adjustment	As described at section 8.3 of this report, there was one Australian export MCC where the domestic sales volume of the identical MCC was less than 5% and a surrogate domestic MCC was applied for the purposes of determining normal value under 269TAC(1).	The specification adjustment was calculated based on the normal value differences of two other MCCs (with reference to the MCC hierarchy) which displayed physical differences in the relevant MCC category.	N	Y

**Table 11 Assessment of adjustments**

## 9.2 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
Specification adjustment	
Domestic credit terms	Deduct domestic credit costs
Domestic factoring costs	Deduct the cost of domestic accounts receivables factoring



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<b>Adjustment Type</b>	<b>Deduction/addition</b>
Domestic inland transport	Deduct the cost of domestic inland transport
Export inland transport	Add the cost of export inland transport
Export handling and other charges	Add the cost of handling and other charges
Export service fee charges	Add the cost of service fee charges incurred for Australian export sales
Export credit terms	Add export credit costs

**Table 12 Summary of adjustments**

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

## 10 NORMAL VALUE

The verification team found that there were 5 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).

As stated in chapter 8, for 1 MCC exported to Australia where the domestic sales volume of the identical MCC was less than 5%, the verification team has had regard to model matching and found a surrogate model. 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 and 9 above.

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

## 11 DUMPING MARGIN

The dumping margin was assessed by comparing weighted average Australian export prices to the corresponding quarterly weighted average normal value for the investigation period under section 269TACB(2)(a).

The dumping margin for the goods exported to Australia by NatSteel for the period is **0.6 per cent**

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

## **12 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>	Adjustment claim analysis