29 April 2021

The Director, Investigations 2
Anti-Dumping Commission
GPO Box 2013
Canberra ACT 2600

BY EMAIL:
investigations2@adcommission.gov.au

Dear Director,

Review of Measures No. 566 concerning Steel reinforcing bar exported from Korea, Singapore, Spain (except Nervacero S.A.) and Taiwan (except Power Steel Co. Ltd.)

AUSTRALIAN INDUSTRY SUBMISSION – RESPONSE TO EXPORTER VERIFICATION REPORT

InfraBuild (Newcastle) Pty Ltd (**InfraBuild Steel**), the applicant and a member of the Australian industry producing like goods to the goods the subject of this review, refers to the *Exporter Verification Report* for Daehan Steel Co. Ltd (**Daehan**) recently placed on the electronic public record[1] and makes the following observations and comments in response.

"Daehan's 2019 audited financial statements"

We observe that the verification team indicates that it conducted verification from 5 January 2021 to 29 March 2021,[2] and that for the purpose of satisfying itself of the relevance and completeness of the exporter's financial information contained in its response to exporter questionnaire, relied on … *Daehan's 2019 audited financial statements (period from 1 January 2019 to 31 December 2019)*.[3] We understand that during the verification team's verification period, the exporter published its 2020 audited financial statements.[4]

[1] EPR 566/016 (23 April 2021)
[2] EPR 566/016, p. 1.
[3] EPR 566/016, p. 9 refers in the context of verification of revenue, and EPR 566/016, p. 14 refers in the context of verification of costs.
[4] https://www.wsj.com/market-data/quotes/KR/084010/financials/annual/income-statement (accessed 26 April 2021) refers.

InfraBuild Steel seeks to understand whether the exporter offered to the verification team its most recent audited financial statements?

With a current review period capable of being verified entirely back to audited financial statements, it is clearly preferable for the verification team to seek to satisfy itself of all trial balances back to audited accounts (where available). This exercise is particularly pertinent to this exporter who was previously unable to satisfy the Commissioner of:

- *the completeness, relevance and accuracy of a portion of Daehan's sales of like goods on the domestic market; and*
- *the completeness, relevance and accuracy of Daehan's CTMS in respect of the goods and like goods.*[5]

Furthermore, we observe significant changes in the exporter's financial position between the 2019 and 2020 fiscal periods, such as, a near 20% decline in interest expense, and 80.47% growth in EBITDA. With such significant changes in key financial metrics between the two audited periods, it is important to ensure that the trial balances within the FY 2020 period agreed with the final audited results.

Therefore, we ask the verification team to seek to obtain the exporter's 2020 audited financial statements and verify the relevance and completeness of the exporter's revenue and cost information from the trial balances within the review period to the corresponding audited financial statement.

"Domestic barter sales"

In *Inquiry No. 452*, and before that, *Investigation No. 264*, the Commission found that a significant volume of domestic coil sales were made under a barter sale arrangement where Daehan sold deformed bar in coil (**DBIC**) to certain customers and received other like goods, such as deformed bar in lengths (**DBIL**), in return. In both the earlier inquiry and investigation, the Commission correctly excluded the barter sales from the calculation of the normal value consistent with the view that such sales may not be deemed to be in the ordinary course of trade, *"as they are based on a notional price rather than an actual price for which payment can be verified"*.[6]

In this review, the verification found that *…a portion of like goods sold on the domestic market were made under a barter arrangement where Daehan sold DBIC and DBIL to its customers in exchange for commodity products*.[7] InfraBuild Steel agrees with the verification team's preliminary conclusion that *…consistent with the Commission's previous findings, Daehan's barter trades in the review period are not taken by the verification team to be arms length transactions*.[8]

However, any conclusion regarding the classification of transfers of like good as "barter sales" should be tested to ensure these are in fact sales of goods that are not on-sold to arms length customers with no further or minimal (i.e. cutting DBIC to DBIL lengths) processing. InfraBuild Steel finds it difficult to reconcile the exporter's claimed absence of any domestic sales of 20 mm diameter DBIC, given their recent upgrade to their vertical compact coiler (for DBIC) in 2019 to produce larger coils.[9] When one considers that the

[5] REP 546, p. 38.
[6] EPR 264/008, p. 28.
[7] EPR 566/016, p. 10.
[8] EPR 566/016, p. 10.
[9] https://www.sms-group.com/press-media/press-releases/press-detail/daehan-pyeongtaek-modernizes-existing-vccr-mill-with-new-sms-group-billet-welder-and-vccr-line-to-produce-50-ton-coils-1017/ (accessed 28 April 2021)

exporter reportedly produces 450,000 tonnes of DBIC annually in diameters of 10 to 25mm, and yet there are no domestic sales of DBIC in nominal diameters of greater than 16 mm, but likely significant production of DBIC up to 25 mm nominal diameter). It may be that all the large diameter DBIC is being processed into lengths of DBIL. If this is so, then how are the processing costs being allocated/separated from the CTM for the "as-rolled" goods.

"Exceptions during verification of sales accuracy"

"6. – 8. …Billing adjustments"

We are concerned by the recurrent exceptions that arose from the "allocation" of a billing adjustment. It is not clear to us from the various treatments applied by the verification team whether there was a commercial or trading basis for the making of the billing adjustments. This is particularly evident when the treatment applied in exception "6" resulted in "negatives sales values" in exception "7", which then appears to be treated by a "value" based allocation methodology rather than a "volume" based one. Again, it is not clear to us whether there is any commercial or trading basis to either approach.

In turn, the errors or unreliability of the exporter's sales records generate further exceptions in "8", where there was an identified "over-allocation" and "credit notes". The exception and its treatment remains unclear to us, and our confidence in the treatment is not restored by the statement that *…Daehan was asked to identify all misallocations of a similar kind and amend affected transactions within the domestic sales listing...* and that a single additional *…domestic sale subject to a reallocation of a billing adjustment was selected as a further test of the appropriateness of Daehan's revisions*… does not resolve the uncertainty for us.[10]

Accordingly, InfraBuild Steel requests further clarification of the nature of the billing adjustments, and a reasonable understanding of the contractual, commercial or legal conditions under which they arose.

"Verification of Cost to Make and Sell (CTMS) completeness and relevance

It is not clear to InfraBuild Steel whether the exporter not only demonstrated *…the differentiation of CTM for DBIL* [sic., DBIC] *and DBIL from that of other products…* but also the differentiation of CTM for *DBIC* <u>from that of</u> *DBIL*. This is an extremely relevant point of CTMS differentiation because of the distinction between the product category (DBIL or DBIC) and mill/place of manufacture.

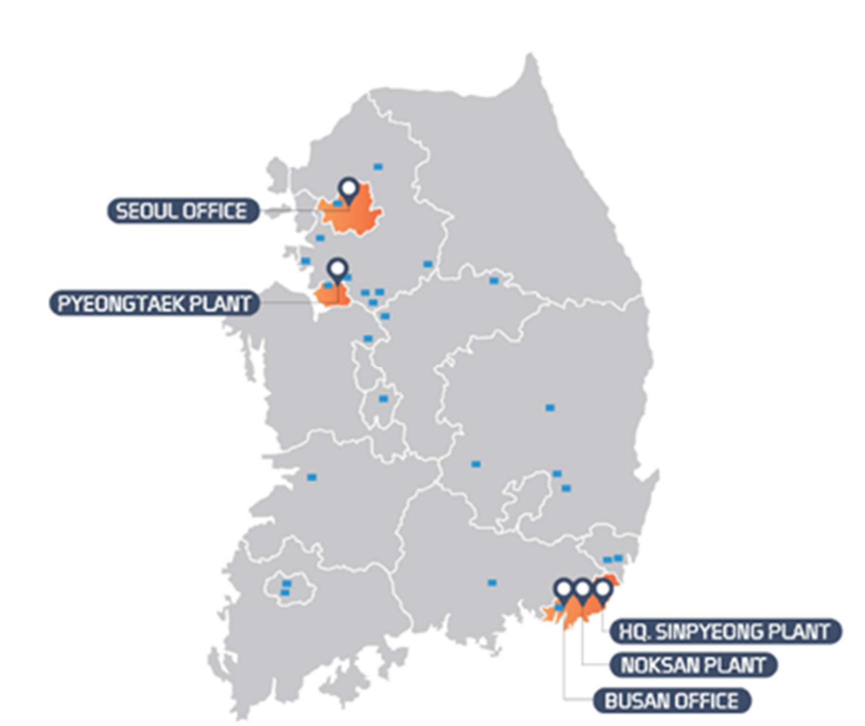
DBIC is manufactured at the exporter's Pyeongtaek plant, which has no steelmaking facilities. Therefore, steel billet must be freighted approximately 300 kilometres from the exporter's steelmaking facilities where the DBIL is also produced (Sinpyeong and Noksan); unless of course the source of billet for the manufacture of DBIC is either from another domestic billet supplier or imported. The verification report at section 7.3.1 (*Raw materials*) considers costs of scrap procured from related and non-related suppliers but there is no mention of billet as a raw material to be sourced for the Pyeongtaek operation (rolling and processing only).

In turn, DBIC sales are made from the Pyeongtaek (Seoul) region but DBIL sales are made from the Busan region (where they are produced). Unless, there is a process of straightening and then cutting to length straight (DBIL) sections from the coiled (DBIC) form, and then selling them as *DBIL* from the Pyeongtaek plant. Either way, there are significant delivery and/or further processing costs costs that must be included in the CTMS expenses of the goods. These possible practices may explain the "exceptions" identified by the

[10] EPR 566/016, p. 12.

verification in relation to sales reported (and then reworked) as "as delivered" to "EXW". Furthermore, these intra-company transfers may contribute to the exporter's "barter sales". The below graphic illustrates the logistical challenges to the exporter of supplying DBIL in regions serviced by its DBIC production facilities.

HQ. Sinpyeong Plant	Noksan Plant	Pyeongtaek Plant
Production(billet, deformed bar), quality control	Production(billet, deformed bar), quality control	Production(bar in coil), SMG
Address: 69 Hasinbeonyeong-ro, Saha-gu, Busan, Korea	**Address:** 333 Noksan Saneop Book-ro, Gangseo-gu, Busan, Korea	**Address:** 268-39 Pyeongtaek Hang-ro, Poseung-up, Pyeongtaek-si, Gyeonggi-do,Korea
Tel: +82-1670-3300	**Tel:** +82-1670-3300	**Tel:** +82-1670-3300
Fax: +82-51-220-3398	**Fax:** +82-51-330-9298~9	**Fax:** +82-31-650-0099
Size of business workplace: Around 66,000m²	**Size of business workplace:** Around 68,500m²	**Size of business workplace:** Around 49,600m²
Annual production capacity: Steel making production of 600,000 tons & rolling mill production of 600,000 tons	**Annual production capacity:** Steel making production of 800,000 tons & rolling mill production of 500,000 tons	**Annual production capacity:** Rolling mill production of 450,000 tons
Main products: Billet & steel bar for reinforced concrete	**Main products:** Billet, steel bar for reinforced concrete	**Main products:** Bar in coil



Source: https://www.idaehan.com/en/aboutus/network/domestic, accessed 28 April 2021.

"Adjustments"

"Domestic inland transport"

We are unclear as to why a deduction of an amount for domestic inland transport was made to the normal value, when the verification team earlier indicated that the domestic sales were made on *…Ex-Factory (EXW) terms…* (exception 5, section 5.1 refers), and that they *…tested profitability by comparing the price at ex-works against the relevant cost for each domestic sales transaction…* for the purpose of performing the ordinary course of trade test (section 9.2 refers).

If a portion of the domestic sales were in fact assessed at Free-into-Store (FIS) terms, then any deduction for domestic inland transport should only be made to those transactions. However, this also raises an issue with respect to the quantum of such a deduction.

At section 2.2.1, the verification team recorded that *…[d]uring the review period, Daehan's wholly owned subsidiary (based in Korea) was the provider of logistical services (inland transport, port handling and freight) in respect of Daehan's Australian export and domestic sales of steel reinforcing bar… [t]he related supplier served as a conduit between Daehan and unrelated third parties, whom ultimately rendered the services*. Then at section 7.3.2, the verification team concluded that *…the provision of logistical services by related party suppliers to Daehan during the review period reflected competitive prices and were arms length transactions*. To the extent that the logistical service expenses reflect the expenses *…charged by independent third parties…* then this may be said to be arms length. However, this conclusion may not be extended to the *…amount for profit…* included in that charge, which was credited to the account of the *…wholly owned subsidiary of Daehan*. Such "profit" should at best reflect the fully absorbed administrative and general expenses of that entity for the purpose of calculating an amount for a *domestic inland transport* adjustment applicable to FIS domestic sales.

Furthermore, to the extent that the normal value for the domestic sales of the goods were derived based on EXW delivery terms, then we disagree with the assessment of the verification team that *logistical service expenses* … are not captured in CTMS (section 7.3.2 refers). These costs should be captured in the exporter's domestic CTMS expenses and included in the verification team's ordinary course of trade test of the profitability and recoverability of the exporter's domestic sales of like goods.

"Domestic credit terms"

The verification team indicates that it calculated the domestic credit terms adjustment amount based on *…on the average of rates applicable to publicly issued corporate bonds of various short term maturities*.[11] On the basis of the exporter's 2020 audited financial statements, this should be an amount no greater than 3.50%.[12] This is significantly less than the exporter's average credit interest rate in FY 2019, 5.08%.[13] It is noted that the review period overlapped the two fiscal periods by two quarters each.

The verification team is correct to calculate the credit interest days period based on amounts no greater than those agreed between the exporter and domestic customers.

"Ordinary course of trade"

As indicated above, to the extent that the normal value was determined by the EXW selling price of domestic sales, then the verification team wrongly excluded *direct selling expenses* from the *weighted average cost* calculation for domestic sales transactions.

[11] EPR 566/016, p. 23.

[12] Based on total interest expense of KRW (mn) 1,680 and short term and current portion long term debt plus total long-term debt of KRW (mn) 47,990 (Source: https://www.wsj.com/market-data/quotes/KR/084010/financials/annual/balance-sheet, accessed 26 April 2021).

[13] Based on total interest expense of KRW (mn) 2,088 and short term and current portion long term debt plus total long-term debt of KRW (mn) 41,123 (Source: https://www.wsj.com/market-data/quotes/KR/084010/financials/annual/balance-sheet, accessed 26 April 2021).

"Specification adjustments"

The verification team indicates that the specification to the surrogate MCC model *…was calculated based on the normal value differences of two other MCCs (with reference to the MCC hierarchy) which displayed the same physical differences in the relevant MCC subcategory of nominal diameter*. Unfortunately, the verification does not specify the *two other MCCs* which form the basis of this calculation to permit us a reasonable understanding of the approach and engage with the Commission in a meaningful way on this matter.

Furthermore, greater detail of the timing adjustment approach for those quarters where normal value data was not available is also sought to the extent necessary to permit a reasonable understanding. Details such as the reference MCCs relied upon are required.

"Domestic technical

Clarification is required of whether the verification *accepted… the claimed adjustment*, when the discussion preceding the "conclusion" suggests that it did not, and the summary of adjustments indicates that it did not (section 10.2 refers).

InfraBuild Steel submits that in *Inquiry No. 452*,[14] and *Review Nos. 486 and 489* the Commission correctly refused to allow an adjustment to the normal value for technical support services, in spite of an earlier incorrect decision in *Investigation No. 264* to allow such an adjustment. The nature of this claimed expense by Daehan is that it provides specific domestic customers with technical support services free of charge and incurred additional costs (in the form of employees who visit the customer's premises to provide a technical support service to customers who lease coil processing equipment) in doing so.

In its pre-exporter visit briefing to the Commission in *Inquiry No. 452*, the Australian industry indicated that this 'service' was *"unlikely to apply to (unprocessed) rebar coil domestic sales"* and *"[m]ore likely to apply to processed rebar solutions for application in construction".*[15] The Commission at verification in *Inquiry No. 452* correctly concluded that:

> *the technical support services are linked indirectly to the sale of coils but are provided in relation to further processing the like goods (to produce downstream products which are not like goods) …*
>
> *the technical support services cost does not appear to be factored into pricing of like goods, therefore does not affect price comparability between export sales and domestic sales. This was supported by the visit team's pricing analysis which compared the selling prices Daehan charged to the customers receiving the services with the selling prices charged to other customers*.[16]

InfraBuild Steel considers that the Commission's treatment of this claimed adjustment was the correct and preferable conclusion, and should be applied in the current review. The verification team is correct to highlight in this case that *…services of this nature were provided to customers who leased coil processing equipment and therefore, the associated expenses were more relevant to fabricated products which are not like goods*… therefore, the nexus between the service and price comparability cannot be established for sales of the goods and like goods, compared with the provision of a fee for service.

[14] EPR 452/008, p. 13.
[15] EPR 452/006, p. 28.
[16] EPR 452/008, p. 13.

"Domestic inventory carrying costs"

An adjustment for domestic inventory carrying costs was claimed in *Investigation No. 264* and *Inquiry No. 452*. Although granted in the former, it was refused in the latter on the basis that *"the evidence provided did not demonstrate differences in the costs and any consequential impact on price comparability"*.[17]

The Australian industry considers that the evidentiary standard applied by the Commission in *Inquiry No. 452* was both correct and preferable, and that a similar standard of proof should be applied in these reviews. The Commission must in these reviews carefully consider whether or not any inventory carrying costs do in fact affect price comparability between export and domestic sales.

Daehan's distribution and marketing model is understood to be different to that of other Korean rebar producers. Daehan has sought to differentiate themselves by not only producing the like goods but also moving downstream and processing the rebar internally. As such Daehan have branded this as "Sta-z solution" or "Framework".[18]

Therefore, any claimed downward adjustments for the domestic marketing and inventory costs should be resisted as they more accurately are associated with the selling and marketing of the downstream processed products and related construction solutions.[19]

Please do not hesitate to contact your InfraBuild Steel representative on record with any questions.

FOR AND ON BEHALF OF THE

AUSTRALIAN INDUSTRY APPLICANT

[17] EPR 452/008, p. 14.
[18] EPR 452/006, p. 27.
[19] EPR 452/006, p. 27.