

HRC Investigation – Exporter Visits to Taiwan

Taiwanese industry outline

Three manufacturers of hot rolled coil (“HRC”) in Taiwan have indicated that they will cooperate with Customs and Border Protection in the current investigation. These are:

- China Steel Corporation (“CSC”);
- Chung Hung Steel Corporation (“Chung Hung”); and
- Shang Chen Steel Co., Ltd (“Shang Chen”).

Chung Hung is a subsidiary of CSC, the largest steel manufacturer in Taiwan. Chung Hung purchases steel slab from CSC for the manufacture of HRC. Shang Chen also purchases steel slab for production of HRC. The only fully-integrated producer of HRC in Taiwan is CSC.

The cooperative exporters each have the following HRC production capacities:

- CSC – 7.86 million metric tonnes;
- Chung Hung – 2.6 million metric tonnes;
- Shang Chen – 2.0 million metric tonnes.

Please refer to Non-Confidential Attachment 1 for a further breakdown on steel and HRC production capacities for all Taiwanese producers.

In 2011, Taiwanese HRC producers had increased exports to 2.826 million tonnes – an increase of 23 per cent on 2010 levels. Overall demand in Taiwan for HRC is not published, as available data deduces consumption based upon difference between production capacity and internal consumption plus exports.

In excess of 60 per cent of HRC production in Taiwan is sold for fabrication. Other applications include transportation, general machinery and construction.

Exporter Questionnaire Responses

CSC

CSC is a public company – annual report is a public document. As CSC is an integrated steel manufacturer, C&BP will be able to trace the costs of producing HRC from raw material iron ore and coal to liquid steel, steel slab and HRC production. It is likely that CSC will maintain separate cost records for each stage of manufacture.

CSC sells steel slab to its subsidiary company Chung Hung. C&BP will be able to verify whether CSC’s selling price to Chung Hung is affected by the relationship and whether it is at full cost recovery. C&BP will be able to compare and contrast CSC’s selling price to Chung Hung with sales to unrelated parties.

It is noted that CSC exported HRC in coil and sheet form to Australia during the investigation period. A cost associated with the cutting of sheets will be required to be included in CSC’s cost of production.

At Section C of CSC’s exporter questionnaire response it is stated that the “comparison between export prices and domestic prices can thus be carried out on the basis of identifying the same model numbers of domestic sales”. This suggests that the exported goods are alike to goods sold domestically. However, at Section E-2 of CSC’s response, comments relating to adjustments for physical characteristics to enable fair comparison (between domestic and export sales) have been omitted. What are the so-called differences between the domestic and exported goods if the model numbers are the same?

It is further observed that CSC has prepared its cost information on the basis of standard costs. CSC states that there were "no significant or unusual cost variances that occurred during the IP". C&BP is requested to include any variances in CSC's cost of production.

Chung Hung

As indicated above, Chung Hung is a subsidiary company of CSC. C&BP is requested to have regard to Chung Hung's purchase price for steel slab from its parent company supplier and to test whether the price reflects full cost recovery.

Chung Hung also uses standard costs in its financial reporting. C&BP is requested to verify variances from standard costs and bring these to account.

Shang Chen

Shang Chen purchases steel slab for HRC production. The company's exporter questionnaire response does not indicate whether the steel slab purchases are from a related party.

It is noted that Shang Chen considers the exported goods and the domestic goods are alike. It is further noted that Shang Chen has not sought to claim any differences for fair comparison purposes related to credit, commission, rebates, warranties or any other factors.

C&BP should seek to identify packing costs associated with HRC – Shang Chen claims it cannot report an actual packing cost.

Steelmaking & HRC Production Capacity

Unit: '000MT

Company	Location	Mill Name	Start-up	Latest Upgrade	Capacity (kt)	Inner Furnace Capacity (m ³)	Remarks
China Steel, CSC	Kaohsiung	#1 BF	1977	Oct-10		2,434	
		#2 BF	1982	Jan-06	12,110	3,276	
		#3 BF	1987	Apr-09		3,400	
		#4 BF	1996	2013		3,400	
			CSC Total		12,110		
Dragon Steel	Taichung	#1 BF	Feb-10		2,500	n/a	Subsidiary of CSC, started in Feb 2010
		#2 BF	target end 2012/early 2013			n/a	design capacity is 2.5m/year
			Dragon Total		2,500		
			Grand Total		14,610		

Unit: '000MT

Company	Location	Mill Name	Start-up	Latest Upgrade	Capacity (kt)	Size availabilities (mm)	Remarks
China Steel, CSC	Kaohsiung	#1 HSM	1997		7,860	1.2-20 x 720-1855	capacity from CSC's website is 7m
		#2 HSM	1997		7,860		
		CSC Total			7,860		
Dragon Steel	Taichung	#1 HSM	2010		3,000		Subsidiary of CSC, to be expanded to 4m in Dec 2012
		Dragon Total			3,000		
Chung Hung	Kaohsiung	#1 HSM	1997		2,600	1.2-12.7 x 900-1560	Subsidiary of CSC, design capacity from Chung Hung's website is 2.4m
		Chung Hung Total			2,600		
Shang Hsin	Kaohsiung	#1 HSM	1998		2,000	1.5-6.0 x 900-1550	capacity from Shang Shing's profile is 1.5mt
		Shang Shing Total			2,000		
			Grand Total		15,460		