

ADRP Conference Summary

2018/95 Zinc Coated (Galvanised) Steel & Aluminum Zinc Coated Steel exported from the People's Republic of China the Republic of Korea and Taiwan &

2018/96 Aluminum Zinc Coated Steel exported from the People's Republic of China and the Republic of Korea

Review of Measures

Panel Members	Paul O'Connor & James Pople
Review type	Review of Minister's Decisions – Zinc Coated (Galvanised) Steel exported from the People's Republic of China, the Republic of Korea and Taiwan and Aluminum Zinc Coated Steel exported from the People's Republic of China and the Republic of Korea
Date	29 August 2018
Participants	Mr Rhys Piper and Mr Roman Maevsky, Anti-Dumping Commission (Commission)
Time opened	10:00 AEST
Time closed	11:00 AEST

Purpose

The purpose of this conference was to obtain further information in relation to the Reviews before the Anti-Dumping Review Panel (Review Panel) in relation to Zinc Coated (Galvanised) Steel exported from the People's Republic of China, the Republic of Korea and Taiwan and Aluminum Zinc Coated Steel exported from the People's Republic of China and the Republic of Korea.

The Conference was held pursuant to section 269ZZHA of the *Customs Act 1901*¹ (the Act).

In the course of the Conference, the Anti-Dumping Commission Representatives (Commission Representatives) were asked to clarify an argument or specific detail contained in the applications to the Review Panel or in Commission Reports 456 and 457 (REP 456 and 457). The Conference was not a formal hearing of the review.

¹ Unless otherwise stated, all statutory references are to the *Customs Act 1901*.

Regard will only be had to information provided at this Conference as it relates to relevant information (within the meaning of section 269ZZK(6) of the Act). Any conclusions reached at this Conference are based on that relevant information. Information that relates to some new argument not previously put in an application is not something that the Review Panel has regard to, and is therefore not reflected in this Conference summary.

Background

1. Anti-Dumping Review Panel (Review Panel) Reviews 95 and 96 both derived from the Minister's decisions emanating from ADN No. 2018/94 and involved similar goods, a common review period and the same ground for review: namely,
 - “the Minister erred in comparing normal values and export prices of Synn Industrial Co. Ltd (Synn) and Jiangyin Zongcheng Steel Co Ltd (Zongcheng) using quarterly time periods which distorted the dumping margins due to the significant fluctuations and a volatility of costs and prices across the review period.”
2. In proffering and submitting their respective responses to the Exporter's Questionnaires, Synn and Zongcheng provided the Commission with detailed monthly Cost to Make and Sell (CTMS) data for each individual type of domestic and exported goods sold during the common review period. Synn's cost data was provided on a monthly basis because it:
 - prepared and maintained monthly cost accounts which recorded the relevant monthly material purchases and consumption along with scrap steel recovery values;
 - reviewed and adjusted its selling prices on a monthly basis given the short-term fluctuations in Hot Rolled Coil (HRC) and Cold Rolled Coil (CRC) prices, which are the main raw material inputs and drivers of total production costs; and
 - export sales to Australia during the review period occurred infrequently and in single months within corresponding quarters, unlike domestic sales which tended to occur regularly and across all months of the review period.
3. Zongcheng's cost data was provided on a monthly basis because it:
 - orders and purchases its HRC and CRC based on monthly quoted prices;
 - allocates zinc costs on the basis of monthly production volumes and total monthly zinc costs; and
 - the Commission has determined the benchmark HRC prices on a monthly basis and substituted those prices for actual monthly coil costs in each previous review and duty assessment.

4. Notwithstanding the above, the Commission relied upon quarterly periods in:
 - testing whether Synn and Zongcheng's domestic sales were sold in the Ordinary Course of Trade (OCOT);
 - identifying the relevant costs of production for constructed normal values; and
 - comparing normal values with corresponding export prices.

5. In their applications to the Review Panel, Synn and Zongcheng each argued:

“the preferred method of assessing OCOT, constructed normal values and weighting the respective export prices and normal values was on a monthly basis given the substantial fluctuations in the cost of key raw material inputs such as HRC and CRC, and corresponding prices of galvanised steel across the whole of the investigation period and within each of the quarters.”

6. Synn and Zongcheng noted that the Commission's *Dumping and Subsidy Manual* relevantly provides:

“determination of the domestic cost to make and sell (CTMS) for each model: the cost to make and sell (CTMS) of the domestic sales are verified for each model. The CTMS is generally calculated for each quarter of the investigation period. In some circumstances a monthly, or an annual domestic CTMS may be used. A monthly CTMS may be appropriate where there are significant variations in raw material costs, or a highly inflationary market”

and

“whilst weighted average unit normal values are typically calculated on a quarterly basis, the Commission may use monthly data where it determines that there are sufficient changes in costs and/or prices over short periods within the investigation period and the use of monthly unit normal values yields a more accurate dumping margin calculation.”

7. Therefore, Synn and Zongcheng each argued,

“relying on monthly periods for undertaking the necessary dumping calculations is the preferred approach where the exporter has submitted monthly cost and sales information, and there is evidence of significant cost variations during the review period.”

8. However, the Commission addressed each of Synn and Zongcheng's arguments in REPs 456 and 457. Having analysed Synn and Zongcheng's raw material costs over the review period the Commission concluded they had not varied significantly. Further, the Commission also stated, following an examination of Synn and Zongcheng's CTMS data, the Commission found there

were no “erratic” movements in costs and/or prices over short periods. Accordingly, the relevant calculations for both Synn and Zongcheng were undertaken on a quarterly basis.

9. The Panel Members undertaking Reviews 95 and 96 determined it would be appropriate to conduct a joint conference with the Commission to further consider the Commission’s decision to adopt quarterly rather than monthly calculations as argued by Synn and Zongcheng.
10. Prior to the conference, the Panel Members provided the Commission with a list of issues, for each review, to be explored in the joint conference.

Discussion

11. The Panel Members indicated, in undertaking their respective reviews they would consider whether the Commission (and Minister) had demonstrated an objective examination of the relevant issues and had come to reasoned conclusions.
12. The Commission Representatives were invited to make an opening statement and the following general comments were said to pertain to each of Synn and Zongcheng’s circumstances as they were said to be “very similar”:
 - the Commission’s quarter-to-quarter approach is the most preferred to that of a month-to-month comparison, acknowledging that in some circumstances a calculation or comparison on a 12-monthly basis may be appropriate;
 - the decision comes down to what time period is appropriate to reflect fluctuations that are invariably going to happen in any manufacturing process, in terms of raw material costs, the actual manufacturing costs and price competition that may be happening in the market;
 - it was acknowledged that too short a period may of itself introduce volatility as invariably there may be maintenance shutdowns, short-term fluctuations in the cost of raw materials due to particular purchase arrangements with particular suppliers and production errors which may give rise to a higher than average amounts of substandard product or scrap;
 - taking a quarterly approach smooths out some of those fluctuations that are already inherent in the manufacturing process and provides a sense of the big picture, like the broader trends associated with pricing and costs in the production of the goods and the export of goods;
 - another advantage of the quarterly approach is that when companies tend to approach the end of their financial year, they may also have accounting methodologies that encourage a higher level of cost being born in the month ending the financial year. So,

rather than taking a comparison of June to June, in taking the quarter ending June helps to minimise the unusual effect of some of those fluctuations; and

- a further advantage of quarterly comparison is that it picks up sales of particular models that might be infrequent. For example, if sales of the particular model occurred in month one, month seven and month 10, such sales will be reflected in three quarters.

13. In light of the above, the Commission Representatives stated, the Commission has generally preferred to make a quarter-to-quarter comparison on the basis that it is the most indicative point of comparison and, once sales are weighted by reference to volumes, then any fluctuations within a quarter are largely taken into account.
14. The Commission Representatives acknowledged that for both Synn and Zongcheng, over the review period, their respective costs of HRC and CRC had increased and the cost of manufacturing the goods is largely driven by movements in HRC and CRC costs.
15. The Commission Representatives claimed whilst the Commission had observed raw material costs did rise over the review period, the Commission did not view such observations as being “significant.” The Commission Representatives agreed the Manual does not define what a significant variation may look like. The Commission Representatives argued the Manual, in using such descriptors as “significant”, connotes an erratic, irregular or volatile cost, rather than variations indicative of a trend, either up or down.
16. The Commission Representatives agreed that variations over a period, such as the usual 12-month investigation or review period, are simply indicative of ebbs and flows of the market operating rationally. In the course of the two reviews, the Commission Representatives recalled reviewing spreadsheets reflecting a comparison of the per tonne cost to make on a monthly basis and expressed the view that the spreadsheets did not reveal anything out of the ordinary, just the ebbs and flows of these costs from month-to-month over the course of the review period.
17. The Commission Representatives were asked to comment on the following proposition: if there were significant differences in the cost of raw materials over the review period but that such differences were trending up or down, would the Commission agree that although the differences or variations over time were statistically significant they nevertheless may not have been erratic or volatile and therefore were not such as would be required by the Manual to warrant the use of monthly rests. The Commission Representatives responded, HRC costs have been generally flat (as observed in REP 400), but there are fluctuations from time to time. A long term trend (either up or down) would be captured regardless of methodology (i.e. month to month vs quarter to

quarter). However, the weighting of the relative sales that might occur in any given month might impact on the calculation. That said, the Commission Representatives noted that some corresponding change in prices from the start to the end of each quarter had been observed.

18. Each of Synn and Zongcheng's applications to the Review Panel contained a Table which was said to contain an analysis of Synn's and Zongcheng's costs, express on a monthly and a quarterly basis, over the review period. It was said this Table highlighted significant variances. The Tables were based upon data pertaining to each of Synn's and Zongcheng's largest-selling export model and largest-selling domestic model. The Commission Representatives acknowledged that Synn and Zongcheng submitted those Tables in response to the SEF.
19. Reference was made to one of the Tables. It was suggested the movement in raw material costs in both consecutive months and consecutive quarters appeared to be statistically significant. Nevertheless, in the context of relative variations in costs from month to month, the Commission Representatives stated such variations were normal in the senses that they were not considered to be atypical of a production process and reflected the ebb and flow of normal or usual commerce and as such would not viewed as being erratic. Movement from month-to-month might be affected by a whole range of factors, but if such movement is indicative or typical of the operation of the market, that would not necessarily warrant adoption of a monthly rather than quarterly rest. Further, the Commission Representatives queried the basis upon which the applicants had calculated the percentage movements as the figures quoted did not align with the Commission's observations made of data submitted by the applicants.
20. In relation to Synn, reference was made to an example in which quarterly rests had been adopted and where export prices in May and June were lower than prevailing costs in the month of April. It was said that by adopting quarterly rests, and relying on costs taken for the June quarter, the corresponding normal values are overinflated as they include the higher domestic selling prices made in April which reflect the higher associated costs of those goods. The Commission Representatives suggested that such an outcome reflected the adoption of a particular methodology (quarterly rests) and was not of itself indicative of error.
21. In reference to the argument that had the Commission adopted monthly rests, a greater number of transactions would have been profitable and therefore satisfied the OCOT test, the Commission Representatives stated that the test might go either way depending on the circumstances of the particular exporter. The Commission noted the outcome would be dependent upon the characteristics of the relevant model. Before the Commission could respond to the argument that monthly rests would have given rise to a large number of transactions which

would have met the OCOT test, it would need to conduct further analysis. It was indicated such an analysis would form part of the Commission's written submission.

Paul O'Connor and James Popple

Panel Members

Anti-Dumping Review Panel

11 September 2018