Australian Government
Department of Industry and Science

Anti-Dumping Commission

INVESTIGATION 284

ALLEGED DUMPING OF

HOT ROLLED PLATE STEEL

EXPORTED FROM THE REPUBLIC OF KOREA (BY HYUNDAI IRON & STEEL CO LTD AND POSCO STEEL) AND TAIWAN

VISIT REPORT - EXPORTER

SHANG CHEN STEEL CORPORATION LTD

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

September 2015

CONTENTS

ABBREVIATIONS

ACBPS	Australian Customs and Border Protection Service
the Act	*Customs Act 1901*
ADN	Anti-Dumping Notice
AS/NZS	Australian Standard / New Zealand Standard
ASTM	American Society For Testing and Materials
AUD	Australian dollars
BlueScope	BlueScope Steel Ltd
CFR	Cost and freight
the Commission	the Anti-Dumping Commission
the Commissioner	the Commissioner of the Anti-Dumping Commission
CTM	cost to make
CTMS	cost to make and sell
EQR	exporter questionnaire response
FAS	Free alongside ship
FOB	Free on board
the goods	the goods the subject of the application (also referred to as the goods under consideration, GUC)
HRC	Hot Rolled Coil
JIS	Japanese Industrial Standard
MPa	Megapascal
NTD	New Taiwan Dollar
OCOT	ordinary course of trade
PAD	Preliminary Affirmative Determination
the Parliamentary Secretary	the Parliamentary Secretary to the Minister for Industry and Science
ROT	run on table
SEF	Statement of Essential Facts
SG&A	selling, general and administrative costs
Shang Shing	Shang Shing Steel Industrial Co Ltd

1 BACKGROUND AND PURPOSE

1.1 Background

On 26 February 2015, BlueScope Steel Ltd (BlueScope) lodged an application requesting that the Parliamentary Secretary to the Minister for Industry and Science (the Parliamentary Secretary) publish a dumping duty notice in respect of hot rolled plate steel (plate steel) exported to Australia from the Republic of Korea (by Hyundai Iron & Steel Co Ltd and POSCO Steel) and Taiwan.

BlueScope alleges that the Australian industry has suffered material injury caused by hot rolled plate steel exported to Australia from the Republic of Korea (by Hyundai Iron & Steel Co Ltd and POSCO Steel) and Taiwan at dumped prices. BlueScope alleges that the industry has been injured through:

- loss of sales volume;
- loss of market share;
- price depression;
- price suppression;
- reduced profits;
- reduced profitability;
- reduced capital expenditure;
- reduced return on investment;
- reduced capacity utilisation; and
- reduced employment.

Public notification of initiation of the investigation was made on 27 March 2015 in *The Australian* newspaper and Anti-Dumping Notice (ADN) No. 2015/40.

A search of the then Australian Customs and Border Protection Service (ACBPS) import database indicated that Shang Chen Steel Co Ltd (Shang Chen) exported plate steel to Australia from Taiwan during the investigation period (1 January 2014 to 31 December 2014). The Commission wrote to Shang Chen advising it of the investigation and requesting its co-operation by completing an exporter questionnaire.

Shang Chen completed an exporter questionnaire response (EQR) and provided relevant attachments. A non-confidential version of the EQR is available on the public record.

Having assessed the information provided in the EQR, it was determined that a verification visit was required.

1.2 Purpose of visit

The purpose of this visit was to verify information submitted by Shang Chen in its EQR. The EQR was supported by confidential appendices and attachments, including confidential spread sheets containing sales and costs data. A non-confidential version of the EQR was placed on the public record.

Prior to the visit, the visit team provided an agenda to Shang Chen.

Information verified during the visit has been used to make preliminary assessments regarding:

- like goods;
- who is the exporter and who is the importer;
- export prices;
- normal values; and
- dumping margins.

1.3 Meeting details

Company	Shang Chen Steel Co Ltd
Address	No.7, Daye South Road Xiaogang District, Kaohsiung City 812, Taiwan
Date of visit	22 – 24 July 2015

The following were present at various stages of the meetings:

Shang Chen Steel Co Ltd	
Mr Tsung-Ching Yu Mr Tony Shang Mrs Chun-Yu Chen Ms Vicky Lin Mr Ming-Hsing Chi Mr Weu-Che Lu	General Manager Purchasing – Raw Materials Accounts Assistant of Export Sales Accounts / Domestic Sales Manager Accounts / Domestic Sales
Consultants	
Ms Yu-Ju Liao Mr Sui-Yu Wu Mr John Bracic	Associate, Wu & Partners (Attorneys-at-Law) Senior Partner, Wu & Partners (Attorneys-at-Law) Director, J. Bracic & Associates Pty Ltd
Anti-Dumping Commission visit team	
Mr An Chew Mr Rhys Piper	Assistant Director, Operations 3 Assistant Director, Operations 1

1.4 Investigation process and timeframes

At the verification visit, the visit team advised Shang Chen of the following.

- The investigation period is from 1 January 2014 to 31 December 2014.
- The injury analysis period is from 1 January 2010 for the purpose of analysing the condition of the Australian industry.
- A preliminary affirmative determination (PAD) may be made no earlier than day 60 of the investigation (30 May 2015) and provisional measures may be imposed at the time of the PAD or at any time after the PAD has been made.
- The Statement of Essential Facts (SEF) for the review is due to be placed on the public record by 12 October 2015[1], or such later date as the Parliamentary Secretary allows under section 269ZHI of the *Customs Act 1901* (the Act).[2]
- The SEF will set out the material findings of fact on which the Commissioner intends to base his recommendations to the Parliamentary Secretary, and will invite interested parties to respond, within 20 days, to the issues raised therein. Interested parties are encouraged to make submissions within 20 days of the SEF's release.
- Following receipt and consideration of submissions made in response to the SEF, the Commissioner will provide his final report and recommendations to the Parliamentary Secretary. This final report is due no later than 25 November 2015, unless an extension to the SEF or the final report is approved by the Parliamentary Secretary.
- The Parliamentary Secretary has 30 days from receipt of the final report to make a decision on the report's recommendations.

1.5 Visit report

Shang Chen was advised that the visit team would prepare a report of the visit (this report) and provide it to Shang Chen for review of its factual accuracy and to identify those parts of the report that the company considers confidential. It was explained that, in consultation with Shang Chen, the visit team would prepare a non-confidential version of the report and place this on the public record.[3]

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[1] The SEF was originally due to be published by 20 July 2015; however, on 10 July 2015, the Parliamentary Secretary approved an extension (refer ADN No. 2015/86).

[2] References to any section or subsection of legislation are references to the *Customs Act 1901* unless otherwise specified.

[3] http://www.adcommission.gov.au/cases/Pages/CurrentCases/EPR284.aspx.

2 COMPANY INFORMATION

2.1 General

Shang Chen is a private, family owned company that was incorporated in 2004. Shang Chen subsequently purchased the assets of a pre-existing steel product manufacturer (which had been established in 1974) before production under the Shang Chen brand commenced in 2007.

Shang Chen operates a single production facility in Kaohsiung, Taiwan that manufactures hot rolled coil (HRC), hot rolled plate (HRP) and cold rolled coil (CRC) products for both domestic and export markets. Shang Chen supplies its HRC products in either coil form or sheared into steel sheets (HRS). The majority of Shang Chen's production volume is of HRC products, and the majority of its sales of all products are exported.

Shang Chen's accounts and its EQR have been reported in New Taiwan Dollars (NTD), the functional currency of Taiwan. Shang Chen achieved sales of NTD [redacted] million in 2014. Sales of the goods under consideration (including sales to third countries) represented [redacted] per cent of Shang Chen's total sales.

2.2 Corporate, organisational and ownership structure

Shang Chen provided a list of those shareholders which hold at least five per cent of the issued shares (**Confidential Attachment 1** refers). Shang Chen also provided a diagram of its corporate structure (**Confidential Attachment 2**) which is arranged along functional lines reporting to the General Manager, who in turn reports to the President of the company.

Shang Chen's financial statement indicates that it is a shareholder in two other entities:

- Shang Shing Steel Industrial Co Ltd (Shang Shing) produces painted HRC products in small thicknesses of up to 1.0 mm. Shang Chen's 2014 Financial Statement (**Confidential Attachment 3**) indicates that no sales were made to Shang Shing during the investigation period. In any event, as the description of the goods excludes painted and galvanised products and of thicknesses less than 4.75 mm, the visit team was satisfied that sales by Shang Shing are not the goods.
- Accept Happy Development Corporation Ltd is 100 per cent owned by Shang Chen – it is based in Samoa, [redacted] [***organisational arrangements***]

[redacted] [***details of organisational arrangements***].

2.3 Relationship with suppliers and customers

2.3.1 Suppliers

Shang Chen's only raw material is steel slab, which is imported from a range of international suppliers variously based in Russia, Brazil, Korea, Japan and the Middle East. Shang Chen advised that it is not related to any of these suppliers, and that prices paid reflect competitive market prices.

The visit team found no evidence of any relationship other than a commercial relationship between Shang Chen and its suppliers.

2.3.2 Customers

Shang Chen's export customers are primarily steel trading houses with a presence in multiple markets; competition is primarily on the basis of price. Approximately [redacted] per cent of all Shang Chen's sales are exported, with the largest markets by volume being [redacted]. Shang Chen advised that it is not related to any of its export customers.

Shang Chen's domestic customers are both traders and end users.

Apart from Shang Shing (which did not purchase any product from Shang Chen during the investigation period), Shang Chen advised that it is not related to any of its domestic customers.

The visit team found no evidence of any relationship other than a commercial relationship between Shang Chen and its unrelated customers.

2.4 Accounting structure and details of accounting system

Shang Chen advised that its financial year is the calendar year (1 January to 31 December). In its EQR and during the verification visit, Shang Chen provided the following accounting documents:

- audited, consolidated financial statements for the years ended 2013 and 2014 (**Confidential Attachment 3**);
- internal Income Statement for 2014 (**Confidential Attachment 4**); and
- chart of accounts (**Confidential Attachment 5**).

Shang Chen stated that it uses Wenzhong accounting software as its primary financial accounting system. This is complemented by other systems, including a bespoke system that the company calls "Cobol" (which records orders and the matching production of HRC) and MS Excel workbooks (used to manage HRP and CRC). During the verification visit, the visit team sighted numerous reports being extracted from these systems. Shang Chen explained that a great deal of manual data entry was required to complete the EQR accurately.

Shang Chen only has three cost and profit centres, being the HRC, CRC and HRP product groups.[4] Accordingly, this report uses the terms HRC, CRC and HRP to refer to those centres and to each of those product groups in general, and uses the term "plate steel" to refer to all Shang Chen product that meets the description of "the goods" (see below, at section 3.5).

Shang Chen stated that its financial statements are audited annually by Jiang Shen & Co., Certified Practising Accountants. The report of the auditors indicates that the audit was conducted in accordance with the generally accepted accounting standards prevailing in Taiwan. Shang Chen advised that it has used the same auditor for several years.

The visit team was therefore satisfied as to the accuracy of the audited financial statements for the purpose of conducting the upwards verification of the information provided by Shang Chen.

[4] A fourth centre ("GI") is no longer used because the company has ceased to produce galvanised products; any product required to be pickled and oiled or galvanised is subcontracted to third parties.

3 THE GOODS

3.1 Description

BlueScope described the goods subject of the application (the goods) as being:

> flat rolled products of:
>
> - iron;
> - non-alloy steel; or
> - other alloy steel;
>
> of a width greater than 600 millimetres (mm), with a thickness equal to or greater than 4.75mm, not further worked than hot rolled, not in coils, with or without patterns in relief.
>
> Goods excluded from this application are:
>
> - 250 megapascal (MPa) grades of plate steel with a thickness greater than 150mm;
> - 350 MPa grades of plate steel with a thickness greater than 100mm;
> - Q&T greenfeed grades of plate steel (Q&T Greenfeed is supplied only in the “non heat-treated” condition); and
> - heat treated Q&T grades of plate steel.

There are a number of relevant international standards for plate steel products that define specific grade designations, including the guaranteed properties of each of these product grades. These standards and further descriptions regarding the goods can be found in *Consideration Report 278*.[5]

3.2 Tariff classification

The application states that the goods are typically classified to the following subheadings in Schedule 3 of the *Customs Tariff Act 1995*.

- 7208.40.00 statistical code 39;
- 7208.51.00 statistical code 40;
- 7208.52.00 statistical code 41; and
- 7225.40.00 statistical codes 22 and 24.

The goods imported from Korea and Taiwan classified to 7208.40.00, 7208.51.00 and 7208.52.00 are free of duty.

The goods classified under 7225.40.00 attract a 5 per cent rate of duty for Taiwan.

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[5] http://www.adcommission.gov.au/cases/Documents/ERP284/002-ConsiderationReport.pdf

3.3 Production facilities and production process

As noted earlier, Shang Chen has a single production facility. Shang Chen advised that it only manufactures to order, but that it operates three shifts over the course of each day, seven days a week.[6]

During the verification, the visit team conducted an inspection of the facility and observed the manufacturing process as follows (which is also represented graphically in the company brochure, **Confidential Attachment 6**):

- Steel slab is selected, based on its chemical composition and other physical properties, and enters the reheating furnace;
- After reaching the appropriate temperature, the slab is removed from the furnace and de-scaled, before passing through a reversing rougher several times to flatten (and lengthen) the slab.
- The slab passes into a coiling box where it is coiled to ensure a consistent temperature throughout its length. It is then uncoiled and de-scaled again.
- From the de-scaling process the steel moves through a crop shear where the length of steel is trimmed at the start and end.

At this point, the steel will be moved into differing processes depending on what product is desired.

For HRP:

- The length of steel will pass through a series of hot levellers, be x-rayed (to test for stresses) and cooled in the run on table (ROT) spray before being sheared into intermediate lengths.
- The intermediate lengths then pass across a cooling bed before moving through a cool leveller and a further inspection process. They are then cut to the desired dimensions and marked.
- HRP can be produced by Shang Chen in thicknesses of >12 mm to 32 mm.

For HRC:

- The length of steel will pass through a series of finishing mills, be x-rayed (to test for stresses) and cooled in the ROT spray before dropping into the down coiler to produce Hot Rolled Band (HRB).
- HRB can be produced in thicknesses ranging between 1 mm and 12 mm.
- HRB in thicknesses of between 1 mm and 6 mm will be uncoiled through a temper mill (a process known as skin passing to improve the surface of the steel) and then re-coiled to form HRC.
- HRB in thicknesses of greater than 6 mm and 12 mm is not skin passed. This HRB is used to produce HRS of the same thicknesses.

[6] A video presentation of the main steps in the production process can be found on the Shang Chen website: www.sssteel.co.tw.

For HRS:

- A coil of HRC (thicknesses from 1 mm to 6 mm) or a coil of HRB (thicknesses of greater than 6 mm to 12 mm) will be uncoiled and flattened before being sheared into the desired dimensions of HRS.
- HRS produced from HRB can then be skin passed if so desired.

For CRC:

- CRC products are outsourced to an independent third party and involves HRC being further rolled at “room temperature” and worked (pickled and annealed) to produce specific physical properties in the coil. For example, a rough roller can produce a matt finish on the steel, which is more suitable for painting. Alternatively, a smooth finish is more suitable for electroplating.

All production is quality tested. If the product does not meet the specification of the customer (e.g. on the basis of errors in the desired physical dimensions or surface quality) it becomes downgrade product. Downgrade product is only generated from the HRP production process (HRC has been skin-passed, so the required quality has already been achieved).

For its own product categorisation purposes, Shang Chen uses “plate” to refer to steel sheet with a thickness of more than 12 mm and up to and including 32 mm, and “sheet” to refer to HRC that has been sheared into sheets of a thickness between 1 mm and 12 mm. After observing the production process (and by the conclusion of the verification process) the visit team was satisfied that no alloy steel products are produced or sold by Shang Chen, and that it does not manufacture quenched and tempered steel.

3.3.1 Packaging

HRC is strapped with metal straps to prevent it from uncoiling, and is delivered to the customer in that format. The finished HRP and HRS products are packed flat for delivery (and shipping, if exported) according to the requirements of the customer.

Of the products exported to Australia, the plates or sheets are stacked in combined weights of approximately 2 to 4 metric tonnes (as specified by the customer), strapped, and then wrapped in a waterproof paper to form a bundle. Bundles are then able to be stacked on top of each other, separated by either timber or steel pallets (depending on the length of the bundle). When exported, these bundles can be in either “break bulk” (as is) or stuffed into shipping containers; Shang Chen explained that the shipping terms in its export sales listing correspond to these packing arrangements (FAS or FOB CY, respectively).

Products sold domestically are not wrapped, but are still strapped and placed onto pallets.

3.4 Like goods

3.4.1 General

Like goods (as defined in s.269T of the Act) are goods that are identical in all respects to the goods under consideration, or that although not alike in all respects to the goods under consideration have characteristics closely resembling those of the goods under consideration.

The determination of like goods is used, among other things, to define the goods sold on the exporter's domestic market. Of particular relevance is s.269TAC(1) of the Act which states that the "the normal value of any goods exported to Australia is the price paid or payable for like goods sold in the ordinary course of trade for home consumption in the country of export…".

The visit team has therefore examined whether the steel products produced by Shang Chen can be defined as being "like goods", taking into account their physical, commercial, functional and production likeness.

3.4.2 Production process

The visit team is satisfied that the production process (outlined in 3.3 above) used to produce both plate steel exported to Australia and plate steel sold on the domestic market is identical.

3.4.3 Physical properties

Shang Chen explained that most customers tend to order products which are manufactured to meet the standard specific to the customer's market. Shang Chen's brochure (**Confidential Attachment 6**) shows that the company offers a wide range of standards of steel, including the Australian Standards AS1594 and AS3678.

Shang Chen explained that the standards themselves are based on both the chemical composition of the steel and the performance characteristics of the finished product (in terms of its yield strength and / or tensile strength), and that the chemical composition is not affected by the manufacturing process. Shang Chen provided the visit team with a copy of its Technical Specification Protocol (**Confidential Attachment 7**), which showed the differing grades of slab available, how Shang Chen classifies those slab grades within its production systems and which grade is required to achieve each steel standard.[7]

The producer of the steel slab certifies its chemical composition and therefore the particular grade of slab; Shang Chen explained that, as it makes to order, it will negotiate to purchase the grade (or grades) it requires to fulfil those orders if it has not already ordered slab in anticipation of likely demand. The chemical composition indicates the *maximum* amount of the relevant elements present in the slab; accordingly, a standard which sets a higher threshold for these elements provides Shang Chen with greater flexibility to determine which slab to use in the production process (and also adjust its purchasing behaviours to take account of the availability of differing slab grades in the market).[8] Shang Chen explained that the price for steel slab is usually the same regardless of the slab grade, but that occasionally cheaper slabs are available where the dimensions of the slab are atypical. Shang Chen advised that approximately [redacted] per cent of its steel slab purchases are from Russia, with a delivery time of around 1 week (from Vladivostok to Kaohsiung).

[7] Shang Chen's grade classification system has also been used in the EQR response, and the visit team also inspected the raw material purchase ledger (see discussion below).

[8] For the same reason, finished product which meets the Australian standard (for example) may be sold into the Taiwan domestic market if the product also meets or exceeds the relevant specified standard.

Shang Chen uses its own internal categorisation of steel slab grades (being SC1 to SC6, as can be seen in the Technical Specification Protocol). The visit team observed that in many cases each grade of steel slab can be used to produce steel products which meet several differing standards (e.g. SC4 can be used to produce several types of product falling under standards JISG3101, JISG3106, JISG3116 and ASTMA570).

Shang Chen explained that the applicable standards for the goods exported to Australia are AS1594 and AS3678; AS1594 relates to plate steel manufactured from HRC while AS3678 relates to plate steel manufactured directly from slab. Shang Chen advised that plate steel manufactured from HRC is considered to be fit for end uses that involve laser cutting, and has a smoother surface finish than that manufactured directly from slab. For this reason, this type of plate steel generally attracts a price premium when compared to the AS3678 product.

3.4.4 Commercial and functional properties

Building on the physical analysis, the products exported to Australia and the products sold on the domestic market are, subject to satisfying the chemical composition and performance characteristics required by the applicable standard, capable of being put to identical end uses. The products are essentially marketed in the same way; furthermore, no parties to the investigation have indicated that the exported goods and the goods sold on the domestic market by Shang Chen are in any way not alike.

3.5 Like goods – preliminary assessment

As outlined above, the goods description classifies plate steel for the purposes of this investigation to be hot rolled steel not in coil form, not further worked, and in widths greater than 600 mm and in thicknesses greater than or equal to 4.75 mm.

Accordingly, the visit team considers that the description of the goods:

- <u>excludes</u> all of Shang Chen's sales of HRC and CRC;
- <u>includes</u> all of Shang Chen's sales of HRP; and
- <u>includes</u> *some* of Shang Chen's sales of HRS, being sales of steel sheets with a thickness of at least 4.75 mm.

To summarise:

Product Group	Min. Thickness	Max. Thickness	Like Goods?
HRP	> 12 mm	32 mm	Yes
HRC	1 mm	6 mm	No
HRS	1 mm	12 mm	Partial (only if ≥ 4.75 mm)
CRC	0.2 mm	1.6 mm	No

For the reasons outlined above, the visit team considers that the plate steel produced and sold domestically by Shang Chen has characteristics closely resembling those of the goods exported to Australia and are therefore "like goods" in terms of subsection 269T(1) of the Act.

3.5.1 Product control numbers

As the goods are essentially identical, Shang Chen allocated product control numbers (PCNs) to the goods exported to Australia and the like goods sold on the domestic market for the purpose of responding to the EQR. This is intended to enable a reasonable comparison of the different products for the purpose of calculating an accurate dumping margin.

Each PCN is based first on the broader product group aligning to the goods (being either HRP or HRS), and then a second product specification based on yield strengths (in terms of either 250 MPa ("A1") or 350 MPa ("A2")). A further designation ("XX") was used to identify the downgrade product. This classification is illustrated by the following table:

	HRS	**HRP**
250 MPa	HRS A1	HRP A1
350 MPa	HRS A2	HRP A2
Downgrade	**-**	HRP XX

Because of the nexus between slab grade, the tensile strength of the finished product and the use of tensile strength as a key performance requirement in the relevant standards, the visit team is satisfied that Shang Chen's approach to allocating PCNs using the above methodology is reasonable.

3.5.2 Model matching

As noted below (section 4.1.2), Shang Chen has a list of price extras for both domestic and export sales. It advised that these price extras did not change during the investigation period. Accordingly, the visit team considered it appropriate to model match based on the PCNs proposed by Shang Chen, but adjusting for differences in the extras, if required, as they pertained to each transaction.

In comparing export and domestic prices, the visit team compared the matching PCNs. The visit team observed that the HRS A1 designation did not take into account a price extra for sales of HRS above a specific thickness; accordingly, the visit team created an additional PCN to take into account the price extra.

In comparing export models to domestic models, the visit team first attempted to match identical domestic models with the export models. Where there were insufficient sales of the identical model, the visit team first matched another model beginning with the different thickness range then yield strength. In matching a model that is not identical, the visit team had regard to the price extras and made specification adjustments accordingly (see section 8.1.3 below).

4 SALES TO AUSTRALIA

4.1 General

Shang Chen explained that all of its sales of the goods to Australia during the investigation period were to three customers, all of which are international steel trading houses. Shang Chen advised that, for the purpose of this investigation, it was able to identify which sales were ultimately made to Australian customers on the basis of the destination port.

Shang Chen also exported steel products to Australia which were not the goods. Shang Chen advised that it manually prepared the export sales listing in the EQR, owing to the differing systems used to manage sales of the differing products.

All sales to Australia were of prime quality (that is, there were no sales of downgrade product).

4.1.1 Ordering process

Shang Chen advised that most orders are received via a broker, which acts as an intermediary between the customer and Shang Chen. All prices are negotiated directly with the customer, though the broker receives a commission from Shang Chen if their service are utilised.

When the customer places an order, Shang Chen issues a contract. Once the contract is signed by the customer and their letter of credit is sighted, Shang Chen will schedule the production of the ordered goods and the ocean shipping. Production of the goods generally occurs around six to eight weeks after the order has been received.

4.1.2 Price negotiations

Shang Chen explained that it establishes a base price for all of its products, which is based on a price for HRC; this price moves from month to month by reference to Shang Chen's raw material costs and the prevailing market conditions. As steel products are commodity products and traded internationally, Shang Chen explained that the prices paid in different export markets are very similar.

Shang Chen explained that it has an "extras" price list (**Confidential Attachment 8** (export) and **Confidential Attachment 9** (domestic) refer) which sets out the prices charged by Shang Chen for particular product characteristics as they deviate from HRC. For example, a "slitting" charge is applied to sales of product where the ordered width is narrower than the standard HRC width. These charges largely reflect the additional costs incurred by Shang Chen in modifying the HRC to satisfy the order, and are reviewed annually. Some of the price extras are specifically relevant to exports, such as a "mounted cabinets" charge for the additional costs involved in packing the goods into containers.

4.1.3 Inland transport

Shang Chen advised that it arranges export inland transport through a range of unrelated freight suppliers. Shang Chen records each transaction in its freight ledger, and has therefore used the source documents to align (or allocate) the order-specific freight costs to each line in the export sales listing.

4.1.4 Currency

All export sales were invoiced in [redacted] [***currency***]. Shang Chen converted its sales value (which was invoiced in [redacted]) to NTD in the export sales listing using the Taiwan Customs exchange rate (published every ten days) prevailing on the date of the commercial invoice.

4.1.5 Terms of trade

All export sales to Australia were listed as being at either Free Alongside Ship (FAS) or Free on Board – Container Yard (FOB CY).

Shang Chen explained that transactions at FOB CY were all packed into containers, based on the customer-stipulated packing arrangements. All transactions at FAS were packed on pallets and in break bulk lots. The visit team observed that these explanations were supported by the verified source documents (discussed below), and that Shang Chen's prices are inclusive of all inland freight and other charges required to satisfy the relevant export terms.

4.1.6 Discounts, rebates and allowances

Shang Chen stated that it did not provide any of its Australian customers with discounts, rebates or allowances during the investigation period and that the price on the invoice is the price paid. The visit team did not find any evidence of rebates or discounts when examining the source documents or the accounts of Shang Chen.

Shang Chen advised that there was a single warranty claim during the investigation period for a series of transactions involving goods both subject and non-subject to this investigation. Shang Chen advised that the customer issued a debit note, which was paid by Shang Chen; the amount has been allocated on the basis of weight and the amounts relevant to the goods appear in the export sales listing.[9]

4.1.7 Trade promotion fee

Shang Chen advised that all exports from Taiwan attract an additional tax, a trade promotion fee, which is equivalent to 0.04 per cent of the FOB value of the goods (as shown on the export declaration).

4.1.8 Date of sale

Shang Chen advised that invoices are issued when the goods leave the factory. It considers that the invoice date should be used as the date of sale. The visit team agreed that the invoice date best represents the date on which the material terms of the sale have been established.

[9] This transaction was one of the selected transactions that was verified during the visit.

4.1.9 Packaging

Shang Chen has allocated its packing costs, based on a calculation of total packing costs (covering wooden stands, packing paper, steel strip etc.) divided by the quantity of total packed goods by weight (worked out by reference to the specific preferences of customers in each market, noting that all goods exported to Australia were packed and that the goods exported to Australia represented 80 per cent of all packed goods). The visit team reviewed this methodology and were satisfied that it was reasonable.

4.2 Verification of sales to audited financial statements

As part of its EQR, Shang Chen provided:

- line by line Australian export sales listings (Appendix B-4) and line by line domestic sales listings (Appendix D-4) (**Confidential Attachments 10, 11**);
- audited financial statements for 2013 and 2014 (**Confidential Attachment 3**);
- internal income statement for 2014 (**Confidential Attachment 4**); and
- a turnover spreadsheet covering the investigation period (Appendix A-6) (**Confidential Attachment 12**).

The visit team matched the net sales value in the internal income statement for the 12 months ending December 2014 to the audited financial statements. The visit team was also able to match the total operating revenue in the Appendix A-6 to the internal income statement.

Shang Chen further provided a Sales Reconciliation Document (**Confidential Attachment 13**) which was derived from the three sales ledgers for HRC, CRC and HRP. The visit team observed that each sales ledger showed line by line both the volume (in metric tonnes) and the value (in NTD) of all export sales; Shang Chen provided both the first and last pages of each ledger print out, which showed that the total combined values matched the internal income statement. The visit team also examined the sales discount ledger (**Confidential Attachment 14**), which also matched the internal income statement.

The visit team then sought to confirm that the domestic and export sales listings were complete and included only relevant sales. Shang Chen explained that the Wenzhong system does not identify which sales are for export or domestic markets. Shang Chen therefore manually examined its ledgers for HRC and HRP to identify which country the goods were sold (to distinguish sales to Australia and third countries from domestic sales). Shang Chen then examined the specification (in terms of the applicable standard and the thickness) of the products sold to Australia and on the domestic market in order to determine which sales were of “the goods”. Shang Chen produced the sales listings in the EQR on that basis.

4.2.1 Domestic sales – completeness, relevance

Shang Chen demonstrated that the quantity of sales of HRS in the domestic sales listing aligned with the quantity reported in the HRS ledger. Shang Chen then demonstrated that the quantity of HRP that was reported in the domestic sales listing aligned with the HRP ledger, but for a single entry.[10] The visit team then identified that the quantities of prime and downgrade product recorded in the sales listing did not align with the quantities in the ledger, concluding that some sales had been categorised incorrectly.

The visit team examined the unit prices for the domestic sales and determined that the downgrade product was typically sold at lower prices than the prime product. The visit team therefore obtained the commercial invoices for the transactions which appeared to be outliers; where errors were identified, the sales listing was corrected to match the commercial invoice. By this method, the visit team was able to be satisfied that any remaining goods which were still miscategorised were a very small proportion of the overall sales quantity (less than 1 per cent), and therefore had no significant impact on the calculation of normal values.

As a result, the visit team was satisfied that the domestic sales listing for the goods was complete and relevant.

4.2.2 Export sales – completeness, relevance

Using Shang Chen's ledger, the visit team was able to sort the sales listing to establish that certain models and thicknesses were not the goods and had been excluded from the export sales listing. The visit team were also able to align the quantity and value of the goods in the ledger to the sales listing after taking into account any returns.

The visit team observed that all export sales in the HRS ledger were correctly recorded in the export sales listing, but that a small quantity of sales from the HRP ledger were missing from the listing. The visit team were able to identify one unusual transaction and obtained the commercial invoice for it, which confirmed that it had been recorded as a sale of HRC rather than of HRP. After being corrected, the visit team was satisfied that the difference between the ledgers and the export sales listing was again of a small proportion (less than 1 per cent), and therefore had no significant impact on the calculation of export prices.

As a result, the visit team was satisfied that the export sales listing for the goods was complete and relevant.

[10] Subsequently, the visit team confirmed that the error was a result of a transaction being recorded in the wrong ledger; the visit team corrected the data.

4.3 Verification of export sales to source documents

4.3.1 General

In its EQR, Shang Chen provided a detailed Australian export sales listing for the goods on a line by-line basis. The export sales listing included the following information:

- customer name;
- level of trade;
- model, product code and standard;
- product name (either “plate” or “sheet”);
- quality, and PCN;
- invoice number, invoice date / date of sale and order number;
- shipping terms;
- payment terms;
- quantity (in metric tonnes);
- dimensions (thickness, width and length in millimetres);
- gross and net invoice value (in USD and NTD respectively);
- packing costs;
- inland transport costs;
- handling and other costs;
- warranties;
- commission expenses;
- export charges (such as harbour service fees, terminal handling charges etc.);
- trade promotion fee; and
- bank charges.

As part of its EQR, Shang Chen provided source documentation for two Australian export sales transactions (**Confidential Attachments 15, 16**). Prior to the visit, the visit team reconciled these source documents to the Australian export sales listings.

The visit team selected an additional 12 export transactions for verification to source documents at the visit, requesting that Shang Chen provide the following commercial documents in relation to each selected export sales transaction:

- purchase order;
- order confirmation;
- commercial invoices;
- proof of payment of commercial invoice (accounts receivables and bank statements/confirmation);
- packing list;
- discount and rebate source documents (where applicable);
- inland freight invoices;
- bill of lading; and
- associated port, handling, FOB and clearance charges invoice.

These source documents (and other relevant documents) were provided to the visit team and are included at **Confidential Attachment 17**.

Shang Chen explained that in some cases a single cost or charge (for customs brokage, for example) applied to more than one line in the sales listing and may also be applicable to exports of both the goods and other products. In those cases, Shang Chen allocated the single amount amongst the relevant lines in the export sales listing according to the quantity (that is, the weight) of the goods.

Shang Chen advised that, as export sales are paid for via a letter of credit at the time of export, no credit costs are incurred as no credit is provided to export customers. However, Shang Chen does incur banking charges as a result of utilising this facility; these charges have also been allocated to each line in the sales listing according to the quantity of the goods.

4.3.2 Verification

Using the source documents, the visit team verified the customer names, product codes, invoice dates, currency, invoice values, shipping terms, quantities and export charges (including the trade promotion fee) of each selected export sale transaction to the corresponding Australian export sales listing. Almost all data in the sales listing aligned precisely with the source documents, with some minor variances in commission fees because of the timing of the currency exchange.

The visit team observed an abnormally high amount for the bank charges associated with a single line in the listing; Shang Chen advised that the amount ought to have been allocated (as it pertained to multiple transactions, some of which may not have been the goods), but declined to adjust the listing due to the immaterial effect on the overall outcome of its dumping margin.

The sales verification analysis is at **Confidential Attachment 18**.

4.3.3 Accuracy of Australian export sales – conclusion

Accordingly, the visit team was satisfied with the accuracy of the information presented in Shang Chen’s Australian export sales listing, and considers that it is an accurate record of Shang Chen’s Australian sales of hot rolled plate steel during the investigation period.

4.4 The exporter

The Commission will generally identify the exporter as:

- a principal in the transaction, located in the country of export from where the goods were shipped, who gave up responsibility by knowingly placing the goods in the hands of a carrier, courier, forwarding company, or their own vehicle for delivery to Australia; or
- a principal in the transaction, located in the country of export, who owns, or previously owned, the goods but need not be the owner at the time the goods were shipped.

For all export sales during the investigation period, the visit team considers Shang Chen to be the exporter of the goods because it:

- is the manufacturer of the goods;
- determines the price for the sale of the goods;
- owns the goods at the time prior to export;
- arranges delivery to the port of export (and is listed as the supplier on the bill of lading);
- arranges and pays for associated handling costs and other export expenses incurred in moving the goods to the FAS or FOB CY point at the port of export;
- is the principal in the country of export from where the goods are knowingly placed in the hands of a freight forwarder for delivery to Australia; and
- sent the goods for export to Australia and was aware of the identity of the purchaser.

4.5 The importer

We reviewed the documents provided in respect of the selected shipments and other material provided by Shang Chen during and after the verification visit.

We note that the Australian customers:

- negotiate with Shang Chen via brokers for the purchase of the goods;
- are named as the customer on supplier invoices;
- are named as the consignee on the bill of lading;
- have an insurable interest in the goods while they are on the water;
- arrange Customs clearance, logistics and storage of the goods after they are delivered to the Australian port; and
- retain ownership of the goods from the point of export until they are ultimately delivered to their own customers in Australia.

The verification team considers that the relevant customer listed in the export sales listing is the beneficial owner of the goods at the time of importation and therefore is the importer of the goods exported by Shang Chen during the investigation period.

4.6 Arms length

Section 269TAA of the Act outlines the circumstances in which the price paid or payable shall not be treated as being at arms length. These are where:

- there is any consideration payable for or in respect of the goods other than price;
- the price is 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
- in the opinion of the Parliamentary Secretary, the buyer, or an associate of the buyer, will, directly or indirectly, be reimbursed, be compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.

Further, where an importer subsequently sells the goods at a loss, the Parliamentary Secretary may treat those circumstances as indicating that the importer will be reimbursed, compensated or otherwise receive a benefit. If the goods are sold at a loss, the Parliamentary Secretary must have regard to the likelihood that the importer will recover both the price paid to the exporter and the costs necessarily incurred in the importation and sale of the goods within a reasonable time.

In respect of Shang Chen's export sales of plate steel to Australia during the investigation period, the visit team found no evidence that:

- there is any consideration payable for or in respect of the goods other than their price; or
- the price is 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, will directly or indirectly, be reimbursed, compensated or otherwise receive a benefit for, or in respect of, whole or any part of the price.

The verification visit team therefore consider that all hot rolled plate steel export sales to Australia by Shang Chen during the investigation period were arms length transactions.

4.7 Export price – preliminary assessment

In relation to the goods exported by Shang Chen to each of its customers in Australia, the verification visit team considers that:

- the goods have been exported to Australia otherwise than by the importer;
- the goods have been purchased by the importer from the exporter; and
- the purchases of the goods were arms length transactions.

The verification team recommends that the export price be determined under subsection 269TAB(1)(a) of the Act, as the price paid by the importer less transport and other costs arising after exportation.

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

5 COST TO MAKE AND SELL

5.1 General

In its EQR, Shang Chen provided quarterly cost to make and sell (CTMS) plate steel by PCNs. It advised that the same products sold in the domestic and Australian markets are assigned an identical cost to make (CTM), but with different direct selling expenses due to the different selling conditions and activities involved in the respective markets. These direct selling expenses are reported in the Australian and domestic sales spreadsheets. It further advised that selling, general and administration (SG&A) expenses have been apportioned based on turnover.

The CTM data provided was broken down into the following items:

- material costs (i.e. steel slab);
- direct labour; and
- manufacturing overheads.

Shang Chen stated that its costs accounting system is based on actual costs. It advised that its accounting system reports cost on an annual basis for each product group (i.e. HRC/HRS, CRC and HRP). In order to provide quarterly costs in its EQR, Shang Chen calculated monthly production costs and accumulated them into quarterly costs. In addition, in order to provide costs down to the PCN level, it calculated the aggregate raw material cost of the product group in that quarter into the different PCNs by reference to the respective slab cost and quantity used in the production for that quarter.

Shang Chen stated that, to calculate direct labour and manufacturing overheads, it used the aggregate labour and overhead costs of the relevant product group in the same quarter and allocated them by volume to the PCN.

Prior to the visit, the visit team requested, and Shang Chen provided, its cost calculation spreadsheet, which showed how it calculated quarterly costs based on monthly data and slab costs for different PCNs.

At the beginning of the verification visit, Shang Chen provided a revised cost spreadsheet. It stated that the revisions related to unit slab purchase costs and to include an offset for scrap revenue, which are further discussed in sections 5.3.1 and 5.3.3 below respectively.

The final version of the cost calculation spreadsheet, with amendments as detailed in sections 5.3.4 and 5.4.4 below (**Confidential Attachment 19**).

5.2 Verification of Shang Chen's costs up to audited financial statements

The visit team sought to verify the completeness and relevance of the CTM data provided by Shang Chen in its exporter questionnaire response by reconciling it to its audited financial accounts. As discussed in section 4.2, Shang Chen provided a copy of its detailed income statement, which reconciled to its audited financial accounts.

As stated in section 5.1 above, Shang Chen calculated costs for each PCN based on the aggregate cost of materials, direct labour and manufacturing overheads. Specifically, the calculations were based on the monthly costs as reported in its accounting system. While the sum of the monthly direct labour and manufacturing overheads matched the annual amounts reported in its income statement, there was a variance of less than 1 per cent for materials. Shang Chen advised that the variance was due to its application of the weighted average costing methodology and the different weighted average cost of steel slab over the year. The visit team considered the explanation reasonable and the variance to be immaterial.

The detailed income statement did not include further manufacturing expenditure other than materials, direct labour and manufacturing overheads and therefore the visit team considered that all costs relating to the manufacture of plate steel has been included in the cost spreadsheet.

Having reconciled the CTM data to audited financial statements, the visit team is satisfied that Shang Chen's CTM data is complete and relevant.

5.3 Verification of costs down to source documents

The visit team sought to verify the accuracy of Shang Chen's CTM data by reconciling it to source documents and selected production quantity, materials (accounting for the largest proportion of costs at [redacted] per cent of the CTM), scrap offset and manufacturing overheads (accounting for [redacted] per cent of CTM) for verification.

5.3.1 Production quantity

Shang Chen's accounting system reports the production quantity at the product group level. Shang Chen stated that as HRC is its main product, representing [redacted] per cent of its turnover, it tracks the daily production volume of HRC and provided copies of the production reports for the last day of each month, which includes a monthly cumulative figure (**Confidential Attachment 20**) and matches the monthly production volume figures for HRC in its accounts.

Shang Chen advised that for CRC and HRP, production quantity is the same as sales quantity. Shang Chen explained that as CRC and HRP are not its main products, it does not track related production. It provided a copy of its finished goods ledger for 2014 (**Confidential Attachment 20**), which demonstrated that, for accounting purposes, the production quantity matches the sales quantity for both CRC and HRP. Having regard to the volumes of CRC and HRP as a proportion of overall production volume, the visit team considered that any variance between the actual production and sales quantity of CRC and HRP on a quarterly basis would have an immaterial effect on weighted average costs.

In relation to HRS, which is a subset of HRC, Shang Chen's production report and accounts do not record the production quantity of HRS separately. Therefore, Shang Chen calculated the production quantity of HRS according to the ratio of HRS to HRC sales volumes for each quarter. The visit team considered this calculation reasonable although notes that the ratio has no bearing on the unit CTM.

In relation to the breakdown between the A1 and A2 models, Shang Chen used the ratio of A1 to A2 sales volumes for each quarter to calculate the production volumes. The visit team noted that this assumes that the ratio between A1 and A2 models were the same for sales and production for each quarter and considers that this approach is reasonable.

5.3.2 Raw Materials – Steel slab

Shang Chen stated that raw material costs consist solely of the cost of steel slab. To calculate the cost of steel slab for each model, Shang Chen first calculated the weighted average quarterly cost and freight (CFR) of steel slab for the A1 and A2 models. Shang Chen provided a listing of all its purchases of steel slab during the investigation period (**Confidential Attachment 21**), which reconciled to the weighted average steel slab cost calculation. The visit team then selected 10 transactions, for which Shang Chen provided the relevant source documents including the order confirmation, commercial invoice, letter of credit, ocean freight invoice (where the purchase was FOB) and import declaration (**Confidential Attachment 22**), which all reconciled.

Shang Chen then calculated a raw material adjustment, which is the percentage difference between the total raw material purchase cost (i.e. weighted average purchase price multiplied by quantity) and the total cost of raw material as reported in its accounts for each product group. Shang Chen explained that the difference represented the post-CFR costs, such as import duties, port charges and delivery. The visit team considered this calculation reasonable, and sought to verify the cost of raw materials.

Shang Chen provided copies of its 2014 raw material inventory ledger (**Confidential Attachment 23**) and 2014 raw material purchase ledger (**Confidential Attachment 24**). The visit team reconciled:

- the raw material consumption values from the cost calculation spreadsheet to the raw material inventory ledger;
- the raw material consumption values from the raw material inventory ledger to the detailed income statement; and
- the raw material purchase values from the raw material inventory ledger to the raw material purchase ledger.

The visit team then selected one of the ten raw material purchase transactions that were previously reconciled and asked Shang Chen to demonstrate that the importation and delivery costs were included in the raw material purchase ledger. Shang Chen provided copies of the relevant accounting voucher and invoices (**Confidential Attachment 24**), which reconciled to the specific transaction in the raw material purchase ledger.

Having reconciled the raw material steel slab costs to source documents, the visit team was satisfied that the cost of raw materials in its CTMS spreadsheet is accurate.

5.3.3 Scrap offset

As discussed in section 5.1 above, Shang Chen revised its cost spreadsheet to include an offset for scrap revenue generated during the investigation period. It advised that in preparing for the verification, it discovered that it inadvertently omitted the scrap revenue offset in the cost spreadsheet provided in the exporter questionnaire response.

Shang Chen calculated scrap offset per tonne by dividing the total scrap revenue by the total production volume of all products manufactured by Shang Chen during the investigation period. It provided copies of its scrap income ledger and other income ledger (**Confidential Attachment 25**). It stated that the scrap income ledger contained revenue for sales of scrap generated during the production process. It also stated that the other income ledger included sales of rollers used in the rolling process and only included the revenue from the sales of rollers in the scrap offset calculation. Shang Chen advised that the cost of rollers are included in manufacturing overheads – other expenses, and is discussed further in section 5.3.4 below.

The visit team selected five transactions in the scrap revenue ledger and three roller transactions in the other income ledger. Shang Chen then provided the relevant source documents (**Confidential Attachments 26, 27**), including the commercial invoice and proof of payment, which matched the selected transactions.

The visit team then asked Shang Chen to provide evidence that the scrap revenue only included the price of scrap and not delivery costs. Shang Chen advised that all scrap sales are sold on an ex-works basis and therefore delivery is not included in the price. The visit team then selected one scrap transaction and Shang Chen provided warehouse notes (**Confidential Attachment 26**) that indicated that the scrap was picked up by the customer.

The visit team noted that Shang Chen calculated the scrap offset at NTD [redacted] per kg, which represented less than 1 per cent of the CTM.

5.3.4 Manufacturing overheads

In its cost calculation spreadsheet, Shang Chen calculated its quarterly manufacturing overheads by summing its monthly manufacturing overheads as reported in its accounts. The visit team noted that the manufacturing overhead costs for each month was equally allocated to the product groups by production quantity, therefore, the manufacturing overheads per unit was the same for each product group within the month, but varied between the months. As the product mix varied from month to month, this resulted in different quarterly unit manufacturing overheads for each product group. Considering that Shang Chen allocates manufacturing overheads equally across the product groups for each month, it was agreed that the same approach (i.e. allocation by weight) should be used when calculating quarterly manufacturing overheads and as such, the cost spreadsheet was revised accordingly.

The visit team noted that the previous Shang Chen verification visit report made an amendment to the manufacturing overhead due to different throughputs for plate steel compared with coil. Shang Chen argued that a significant proportion of the manufacturing overhead costs are the same for all products manufactured by Shang Chen. For example, fuel costs, which account for [redacted] per cent of manufacturing overheads, relates to the fuel powering the reheating furnace, which has a fixed processing time regardless of the product manufactured. Shang Chen suggested that only utility fees and depreciation are relevant to different throughput speeds between plate steel and HRC, which accounts for [redacted] per cent and [redacted] per cent of manufacturing overheads respectively. Shang Chen also argued that although the previous visit found differences in throughput between plate steel and HRC, the throughput speed differences have since narrowed and are similar for both plate steel and HRC. However, Shang Chen was unable to provide any evidence to support this claim, which was based on the experience of its production staff.

The visit team considered whether an adjustment to the manufacturing overheads from the amounts recorded in Shang Chen's accounting system is required. As discussed in section 3.3 above, HRC and HRP are manufactured using the same production line and a significant proportion of the manufacturing process is the same before splitting into different processes with different machinery. For example, HRC goes through an additional coiler, HRS goes through an additional cutting process and CRC goes through an additional rolling process. Furthermore, certain processes can be undertaken concurrently; for example, the HRS cutting line is separate to the main production line and can be operated independently, whereas the HRC coiler is on the main line and therefore HRC and HRP cannot be manufactured concurrently.

Accordingly, the use of throughput speed may not result in a superior allocation of manufacturing overheads. The visit team considered that any recalculation methodology would be fraught with assumptions and may place an onerous burden on Shang Chen. The visit team also noted that Shang Chen's manufacturing overheads allocation methodology by production quantity is not inherently unreasonable and that it is relied upon by Shang Chen's management to make decisions. In addition, manufacturing overheads represent [redacted] per cent of the CTM and of that, utility and depreciation account for [redacted] per cent; in practice, any reallocation would therefore only affect [redacted] per cent of the CTM and likely have an immaterial impact on the overall outcome of the dumping margin calculation. Accordingly, the visit team decided not to undertake an adjustment of the manufacturing overheads.

As stated in section 5.2 above, the total manufacturing overheads matched the detailed income statement, which also listed the breakdown of manufacturing overheads into the following:

- Repair costs
- Packaging charges
- Utility fees
- Insurance
- Fuel costs
- Processing fees
- Depreciation
- Meals
- Consumption charges
- Overtime
- Other expenses
- Pension

The visit team selected packaging, utilities, fuel, depreciation and other expenses for further verification.

5.3.4.1 Packaging

Shang Chen provided a copy of its 2014 packaging ledger (**Confidential Attachment 28**) which reconciled to the detailed income statement. The visit team then selected one transaction and Shang Chen provided the relevant journal entry and invoice (**Confidential Attachment 28**).

5.3.4.2 Utilities

Shang Chen provided a copy of its 2014 utilities ledger (**Confidential Attachment 29**) which reconciled to the detailed income statement. The utilities ledger contained the costs of electricity and water. The visit team then selected one electricity transaction and one water transaction and Shang Chen provided the relevant journal entries and invoices.

The journal entry showed that utility costs have been expensed to both manufacturing overheads and SG&A. Shang Chen advised that it apportioned [redacted] per cent to manufacturing overheads and [redacted] per cent to SG&A. It explained that these ratios were used following advice from its auditor, who based these on the average ratio of employees accounted for in the production and administration departments during 2013.

The visit team considered the application of these ratios reasonable and noted that the total utility costs have been allocated to the CTMS either through manufacturing overheads or SG&A (**Confidential Attachment 29**).

5.3.4.3 Fuel

Shang Chen provided a copy of its 2014 fuel ledger (**Confidential Attachment 30**) which reconciled to the detailed income statement. The fuel ledger included the costs of forklift fuel, diesel and pipeline fees. The visit team then selected one diesel transaction and one pipeline fee transaction and Shang Chen provided the relevant journal entries and invoices (**Confidential Attachment 30**).

5.3.4.4 Depreciation

Shang Chen provided a copy of its 2014 depreciation ledger (**Confidential Attachment 31**) which reconciled to the detailed income statement. The visit team then selected a particular item of machinery and Shang Chen provided the relevant journal entries and depreciation schedule (**Confidential Attachment 31**).

5.3.4.5 Other expenses

Shang Chen provided a copy of its 2014 other expenses ledger (**Confidential Attachment 32**) which reconciled to the detailed income statement. As stated in section 5.3.3 above, other expenses included the cost of rollers. The visit team then selected two roller transactions and Shang Chen provided the relevant journal entries and invoices (**Confidential Attachment 32**). Shang Chen explained that the rollers were imported, therefore it also provided invoices relating to the cost of importing and delivering the rollers to enable the reconciliation to the ledger.

5.4 Selling, general and administration (SG&A) expenses

Shang Chen stated that it allocated SG&A expenses as a proportion of turnover over the investigation period based on figures in its detailed income statement (**Confidential Attachments 19, Confidential Attachment 33**). The calculation showed that Shang Chen excluded the following expenses from the calculation:

- Delivery – direct selling expenses relating to domestic inland transport expense are reported in the domestic sales spreadsheet;
- Commission expense – direct selling expenses relating to certain export sales are reported in the Australian sales spreadsheet;
- Export operating expenses – direct selling expenses relating to inland freight, port and handling expenses are reported in the Australian sales spreadsheet; and
- Other non-operating income and expense.

The visit team considered Shang Chen's SG&A allocation methodology reasonable and noted that as direct selling expenses have been excluded, the remaining SG&A amount relates to indirect selling expenses and therefore is the same for domestic and export sales.

The visit team selected depreciation, utilities, domestic delivery and export operating expenses, export commissions, and other non-operating expenses for further verification.

5.4.1 Depreciation

The journal entry provided for the verification of deprecation in manufacturing overheads (**Confidential Attachment 31**) split the expense between manufacturing overheads and SG&A. The visit team was able to match the depreciation for SG&A in the journal entry to the detailed income statement.

5.4.2 Utilities

Shang Chen provided a copy of its 2014 SG&A utilities ledger (**Confidential Attachment 29**) which reconciled to the detailed income statement. It advised that it usually expenses electricity to its utility account, however, for the month of November, it expensed electricity to another account code (which it does not normally use) by mistake. Shang Chen provided a copy of that ledger which showed a single entry for electricity in November and also appeared on the detailed income statement.

As stated in section 5.3.4.2 above, [redacted] per cent of utility expenses are allocated to SG&A. The visit team was able to reconcile the allocation of utility expenses to SG&A from the journal entries already provided for the verification of utilities in manufacturing overheads (**Confidential Attachment 29**) to the SG&A utilities ledgers.

5.4.3 Domestic delivery & export operating expenses

Shang Chen provided copies of its 2014 delivery and export operating expenses ledgers (**Confidential Attachments 34, 35**) which reconciled to the detailed income statement. The visit team then selected one domestic sales transaction and one Australian sales transaction from the selected sales listing. Shang Chen was able to identify the related transactions in the relevant ledgers.

5.4.4 Export commissions

Shang Chen provided a copy of its 2014 export commission ledger (**Confidential Attachment 36**) which reconciled to the detailed income statement. The visit team then selected one Australian sales transaction that included a commission expense from the selected sales listing and Shang Chen was able to identify the related transaction in the export commission ledger.

The visit team selected another transaction from its export commission ledger and Shang Chen provided the relevant journal entry and source documents. Shang Chen advised that this commission relates to the purchase of steel slab. The visit team noted that commissions have been excluded from the SG&A as it has been reported as a direct selling expense in the Australian sales spreadsheet. However, commissions relating to the purchase of steel slab have not been included in the cost of raw materials. Shang Chen agreed that commissions relating to steel slab purchases should be included and identified all relevant commission transactions from the ledger (**Confidential Attachment 37**). The visit team then calculated a unit commission expense and adjusted the costs upwards by that amount.

5.4.5 Other non-operating expense

Shang Chen provided a copy of its 2014 other non-operating expense ledger (**Confidential Attachment 38**) which reconciled to the detailed income statement. It advised that this account relates to warranties and rounding, where invoices are rounded down. The visit team noted that the smaller amounts relate to rounding, and the large amounts relate to warranties. Shang Chen was able to identify a warranty transaction in the ledger which reconciled to the selected export sales transaction.

5.5 Cost to make and sell – summary

Having verified Shang Chen's CTMS data for plate steel to audited financial accounts and to source documents, the visit team was satisfied that Shang Chen's CTMS data is complete, relevant and accurate.

Shang Chen's verified CTMS spreadsheet is at **Confidential Appendix 2**.

6 DOMESTIC SALES

6.1 General

Shang Chen explained that the market in Taiwan tends to use the Japanese Industrial Standard (JIS) to define the required performance characteristics of steel products.

Shang Chen explained that domestic demand for steel has been variable recently, and its chief competitor is China Steel Corporation, also based in Kaohsiung. Shang Chen has focused its offer to market on [redacted] [***factors relevant to sales strategy***] where it considers it has a greater competitive advantage. Shang Chen also indicated that there is strong competition in the domestic market from products imported from China, Korea and India, which tend to be lower in price and are perceived – by Shang Chen – as being of a lower quality.

Shang Chen indicated that the Taiwan market has an appetite for some lower quality plate steel, which enables it to sell downgrade product in the domestic market.

6.2 Domestic sales process

Shang Chen advised that it employs a number of salespeople who are based mainly in the southern and central regions of Taiwan, and who negotiate directly with the customer. Orders are collated centrally, and the production schedule is updated accordingly (noting that all products are made to order). Sales of downgrade product are opportunistic but occur regularly.

6.2.1 Pricing and payment

All domestic sale prices are established monthly and are specific to each customer (although the pricing information is confidential). As noted in 4.1.2, there are additional charges for specific product characteristics. If delivery is required, the price offered is inclusive of those costs.

All domestic customers are on [redacted] payment terms.

6.2.2 Discounts, rebates and allowances

Shang Chen stated that no discounts, rebates or allowances are applied to sales to domestic customers. The visit team found no evidence to suggest otherwise.

6.2.3 Packing

Shang Chen's plate steel products are not wrapped for the domestic market.

6.2.4 Transport

The goods are delivered by a single unrelated transport provider, or are occasionally collected by the customer from the warehouse. Shang Chen provided evidence of the per tonne delivery cost charged by its transport provider to specific destinations in Taiwan (**Confidential Attachment 39** refers).

6.2.5 Date of sale

Shang Chen advised that invoices are issued when the goods leave the factory. It considers that the invoice date should be used as the date of sale. The visit team agrees that the invoice date best represents the date on which the material terms of the sale have been established.

6.3 Domestic sales verification

6.3.1 General

In its EQR, Shang Chen provided a detailed domestic sales listing for the goods on a line by-line basis. The export sales listing included the following information:

- customer name;
- level of trade;
- model, product code and standard;
- product name (either "plate" or "sheet");
- quality, and PCN;
- invoice number, invoice date / date of sale and order number;
- payment terms;
- quantity (in metric tonnes);
- dimensions (thickness, width and length in millimetres);
- gross and net invoice value (in NTD);
- inland transport costs; and
- credit costs.

As part of its EQR, Shang Chen provided source documentation for two domestic sales transactions (**Confidential Attachments 40, 41**). Prior to the visit, the visit team reconciled these source documents to the domestic sales listings.

The visit team selected an additional 12 domestic transactions for verification to source documents at the visit, requesting that Shang Chen provide the following commercial documents in relation to each selected domestic sales transaction:

- sales agreement / purchase order;
- commercial invoices;
- mill test certificates;
- proof of payment of commercial invoice (accounts receivables and bank statements / confirmation); and
- inland freight invoices (where applicable).

These source documents (and other relevant documents) were provided to the visit team and are included at **Confidential Attachment 42**.

Shang Chen explained that in some cases a single cost or charge (for inland transport, for example) applied to more than one line in the sales listing and may also be applicable to sales of both the goods and other products. In those cases, Shang Chen allocated the single amount amongst the relevant lines in the domestic sales listing according to the quantity (that is, the weight) of the goods.

6.3.2 Credit costs

Shang Chen explained that for most customers there are multiple invoices issued in each selling month, and these could be issued on any day during the selling month. Accordingly, its payment terms (being [redacted]) results in varying payment periods. To calculate credit costs for domestic sales, Shang Chen therefore took [redacted] [***calculation methodology***] to arrive at an average credit period of 25 days. The actual credit cost applicable to each line in the domestic sales listing was therefore calculated as being:

- the average short-term borrowings interest rate (**Confidential Attachment 43**);
- multiplied by the average credit period (25 days);
- multiplied by the net invoice value;
- divided by 365 days.

The visit team considers that the domestic credit costs have been calculated on a reasonable basis.

6.3.3 Verification

As noted above in section 4.2.1, the visit team was satisfied that the domestic sales listing was complete and relevant.

Using the source documents, the visit team verified the customer names, product codes, invoice dates, currency, invoice values, and quantities of each selected domestic sale transaction to the corresponding domestic sales listing. All data in the sales listing aligned precisely with the source documents, and any allocations (including for credit costs) were completed correctly.

The sales verification analysis is at **Confidential Attachment 44**.

As a result of the verification analysis, the visit team considers that the domestic sales listing provided as part of the EQR is an accurate record of Shang Chen's sales of plate steel on the domestic market in Taiwan.

6.4 Arms length

In respect of Shang Chen's domestic sales of plate steel during the investigation period, the visit team found no evidence that:

- there is any consideration payable for or in respect of the plate steel other than their price; or
- the price is 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, will directly or indirectly, be reimbursed, compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.

The visit team therefore considers that all domestic sales by Shang Chen during the investigation period were arms length transactions.

6.5 Ordinary course of trade

Section 269TAAD of the Act provides that if like goods are sold in the country of export at a price less than the cost of such goods and are unrecoverable within a reasonable period, they are taken not to have been paid in the ordinary course of trade (OCOT).

The visit team compared the quarterly domestic CTMS to the net invoice price of the matching model during the same quarter to test whether domestic sales were profitable.[11] Where the volume of unprofitable sales exceeded 20 per cent for the product category, the team then tested the recoverability of the unprofitable sales by comparing the unit selling price to the corresponding weighted average CTMS over the whole of the investigation period. Those sales found to be unrecoverable were deemed not to be made in the OCOT.

6.6 Volume of domestic sales

Section 269TAC(2) of the Act provides that certain domestic sales may be unsuitable for use in determining normal values because of factors in the market. One such factor is where there is an absence, or low volume, of sales of like goods in the domestic market. Low volume is defined in s.269TAC(14) of the Act as less than 5 per cent of the total volume of goods under consideration that are exported to Australia.

The visit team first compared the volume of like goods sold in the OCOT on the domestic market to the volume of the goods export to Australia over the investigation period and found that there were sufficient sales.

The visit team then tested individually whether the volumes of domestic sales made in the OCOT for each model was at least 5 per cent of the total volume of the comparable model exported to Australia, using the model matching methodology outlined in section 3.5.2 above. The visit team found there were sufficient volumes of identical models for three PCNs and comparable models for three other PCNs sold in the OCOT on the domestic market for all export models.

6.7 Domestic sales – conclusion

The verification team found sufficient volumes of domestic sales of plate steel by Shang Chen that were arms length transactions and at prices that were in the OCOT. Based on the information provided and the verification processes conducted on site, the verification team are satisfied that prices paid in respect of domestic sales of HSS are suitable for assessing normal values under section 269TAC(1) of the Act.

The domestic sales spreadsheet is at **Confidential Appendix 3**.

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[11] That is, the analysis excluded sales of downgrade product.

7 THIRD COUNTRY SALES

In its EQR, Shang Chen provided a summary of steel plate sold to third countries during the investigation period. This summary did not contain a line by line listing. However, during the upwards export sales verification to audited financial statements, Shang Chen provided a report from its sales system with a complete list of all export sales during the review period (section 4.2 above refers).

The visit team considers that it is in possession of sufficient verified information from the EQR and the visit to calculate normal values for plate steel using domestic sales or costs. For this reason, the visit team did not undertake a detailed verification of third country sales.

8 ADJUSTMENTS

8.1 General

To ensure that the normal value was comparable to the Australian export price at FOB terms, the following adjustments were made.

8.1.1 Domestic credit terms

The visit team consider a downward adjustment for domestic credit terms is required to ensure fair comparison to the export price. A downward adjustment for domestic credit terms was made based on the average credit term provided by Shang Chen to its domestic customers and Shang Chen's average short-term borrowing rate from its short term borrowings as discussed in section 6.3.2.

8.1.2 Domestic inland freight

The visit team considers that a downward adjustment for domestic inland freight is required to ensure fair comparison to the export price. The visit team applied a downwards adjustment based on the actual domestic inland freight relevant to each transaction.

8.1.3 Specification adjustment

As discussed in sections 3.5.2 and 6.6 above, there were insufficient domestic sales of identical export model for three PCNs and the visit team matched the next closest matching domestic model and applied an adjustment, either upwards or downwards if required, based on the export price extras.

8.1.4 Export packaging

The visit team consider an upwards adjustment for export packaging cost is required to ensure fair comparison to the export price. The visit team applied a weighted average upwards adjustment over the investigation period based on the packaging expenses shown in the export sales listing.

8.1.5 Export inland freight, handling and port charges

The visit team consider an upward adjustment for export inland freight, handling and port charges (including the trade promotion fee) is required to ensure fair comparison to the export price. The visit team applied a weighted average upwards adjustment over the investigation period based on actual export inland freight, handling and port charges listed for each transaction as discussed in section 4.1.

8.1.6 Export credit terms

As discussed in section 4.2, export sales are at cash payment terms. Therefore, the visit team does not consider an adjustment for export credit terms is required.

8.2 Adjustments – conclusion

The visit team is satisfied that there is sufficient and reliable information to justify the following adjustments, in accordance with subsection 269TAC(8) of the Act, and considers these adjustments are necessary to ensure a fair comparison of normal values and export prices:

Adjustment Type	Deduction/addition
Domestic credit terms	**Deduct** cost for domestic credit terms
Domestic inland freight	**Deduct** cost for domestic freight
Specification adjustment	**Add <u>or</u> deduct** price extras for model differences
Export packaging	**Add** cost for export packaging
Export inland freight, handling and port charges	**Add** cost of export inland freight, handling and port charges

Table 1: Adjustment to normal value to ensure comparability to export price

9 NORMAL VALUE

The visit team found sufficient volumes of domestic sales of like goods by Shang Chen that were arms length transactions and at prices that were sold in the OCOT over the investigation period. The visit team is therefore satisfied that prices paid in respect of domestic sales of plate steel are suitable for assessing normal values under section 269TAC(1) of the Act.

In using domestic sales as the basis for normal values, the visit team considers that certain adjustments, in accordance with section 269TAC(8) of the Act, are necessary to ensure comparability of normal values with export prices as outlined in Chapter 8 above.

The normal value calculations are at **Confidential Appendix 4**.

10 DUMPING MARGIN

The dumping margin has been assessed by comparing the weighted average export prices to the corresponding weighted average normal values for the investigation period.

The dumping margin in respect of plate steel exported to Australia by Shang Chen for the investigation period is **-0.6 per cent**.

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

11 APPENDICES AND ATTACHMENTS

Confidential Appendix 1	Export sales
Confidential Appendix 2	Cost to make and sell
Confidential Appendix 3	Domestic sales
Confidential Appendix 4	Normal value
Confidential Appendix 5	Dumping margin

Confidential Attachment 1	List of Shareholders
Confidential Attachment 2	Corporate Structure
Confidential Attachment 3	2013, 2014 Audited Financial Statements
Confidential Attachment 4	Internal Income Statement 2014
Confidential Attachment 5	Chart of Accounts
Confidential Attachment 6	Company Brochure
Confidential Attachment 7	Technical Specification Protocol
Confidential Attachment 8	Extras Price List – Export
Confidential Attachment 9	Extras Price List – Domestic
Confidential Attachment 10	Australian Export Sales Listing (EQR Appendix B-4)
Confidential Attachment 11	Domestic Sales Listing (EQR Appendix D-4)
Confidential Attachment 12	Turnover Spreadsheet for Investigation Period (EQR Appendix A-6)
Confidential Attachment 13	Sales Reconciliation Document
Confidential Attachment 14	Sales Discount Ledger
Confidential Attachment 15	Source Documents: Export Invoice #AB01898429
Confidential Attachment 16	Source Documents: Export Invoice #CL01916067

Confidential Attachment 17	Source Documents: 12 Selected Export Transactions
Confidential Attachment 18	Export Sales: Verification Analysis
Confidential Attachment 19	Cost Calculation Spreadsheet
Confidential Attachment 20	Production Quantity
Confidential Attachment 21	Slab Purchase List
Confidential Attachment 22	Slab Purchases – Source Documents
Confidential Attachment 23	Raw Material - Inventory Ledger
Confidential Attachment 24	Raw Material – Purchase Ledger
Confidential Attachment 25	Scrap Apportionment
Confidential Attachment 26	Scrap Revenue – Source Documents
Confidential Attachment 27	Roller Revenue – Source Documents
Confidential Attachment 28	Packaging Ledger
Confidential Attachment 29	Utilities Ledger
Confidential Attachment 30	Fuel Ledger
Confidential Attachment 31	Depreciation Ledger
Confidential Attachment 32	Other Expenses Ledger
Confidential Attachment 33	SG&A Calculation
Confidential Attachment 34	Delivery Expenses Ledger
Confidential Attachment 35	Export Operating Expenses Ledger
Confidential Attachment 36	Export Commission Ledger
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Confidential Attachment 38	Other Non-operating Expenses Ledger
Confidential Attachment 39	Inland Freight Schedule
Confidential Attachment 40	Source Documents: Domestic Invoice #CG10963356

Confidential Attachment 41	Source Documents: Domestic Invoice #AS10963307
Confidential Attachment 42	Source Documents: 12 Selected Domestic Transactions
Confidential Attachment 43	Short Term Borrowings: Interest Rate Calculation
Confidential Attachment 44	Domestic Sales: Verification Analysis