Exporter Briefing – Hyundai Steel Company

Questionnaire Response

Hyundai Steel Company ("Hyundai") provided the Anti-Dumping Commission ("the Commission") with an exporter questionnaire response in the hot rolled structural sections ("HRS") investigation.

It is stated that Hyundai manufactures HRS along with other products including reinforcing bar, H Section, angle, channel, HRC, heavy plate, stainless steel, and other steel products. It sells these products – including HRS – on domestic and steel markets. Hyundai produces HRS at two locations – Inchon and Pohang, Korea.

OneSteel notes that in the recent plate steel investigation (Investigation No. 198), Hyundai indicated that it manufactured plate steel at its Dangjin plant. Hyundai's costs of production for HRS therefore are for different plants to the plate steel investigation and involve two separately located production facilities.

Hyundai confirms that its production costs for domestic and export sales of HRS by product code are the same (however, the EQR references specification differences that may suggest not all domestic and export sales are the same).

Hyundai has a domestic sales force and export sales force. It is likely that Hyundai would therefore have separate domestic and export selling and administration expenses.

Specific Issues

Hyundai is a large, integrated steel manufacturer. The company manufactures steel billet for HRS production (from scrap steel). The Commission will need to examine the transfer prices for billet at each Hyundai production site to ensure that the price is at full cost recovery.

The Hyundai EQR indicates that all costs incurred by Hyundai are recorded in appropriate cost centres. This is consistent with the accounting recording process in Investigation No. 198. OneSteel notes Hyundai's comment in its EQR concerning indirect costs, namely:

> "*Shared costs including material, labor and overhead costs for indirect cost centres are allocated to direct costs centres based upon…… In accordance with Korean GAAP and considered to be the most appropriate ….*"

The above statement is also reflected at P. 24 of Hyundai's Exporter Verification Report in Investigation No. 198. OneSteel, however, is concerned by Hyundai's allocation methodology for indirect costs. It is observed in Hyundai's Plate Steel verification report that "Indirect costs were considered to be supporting processes that were considered to not fall to any one direct cost centre. These costs were allocated based on *various allocation* methods including production volume, and relative time (emphasis added). OneSteel seeks the Commission to be clear on ensuring all indirect costs associated with HRS production are identified (at both plants) and that clear explanations as to the allocation methodology for each indirect cost are fully understood.

Adjustments

OneSteel has observed that the Commission granted the following adjustments to normal value for Hyundai in Investigation No. 198:

- Positive: Export inland freight, export wharfage, loading and bank expenses, export credit charges.
- Negative: Domestic sales inland freight, domestic advertising, domestic warranty, domestic credit terms, domestic payment guarantee charge.

Following account of the adjustments, the dumping margin determined for Hyundai's exports of plate steel to Australia was minus 7.89 per cent. It is not clear from Hyundai's EQR in this HRS investigation whether similar claims for adjustment have been made by Hyundai. OneSteel considers that the adjustments made for domestic advertising and domestic warranty appear to be unusual in that it is not common industry practice for advertising to be associated with plate steel and that warranties would apply equally to both domestic and export sales.

OneSteel urges the Commission to verify that claimed advertising expenses that relate to domestic sales of HRS relate solely to HRS and not to any of the other steel products manufactured by Hyundai. Where a sufficient level of satisfaction cannot be obtained, the claimed adjustment must be rejected.

In respect of warranties, it is OneSteel's view that warranty expenses apply equally to domestic and export sales and no adjustment is required.

It was further observed in Investigation No. 198 that Hyundai identified export sales to Australia via a trader. The Commission sought to apply positive adjustments for selling and administration expenses and profit to Hyundai's normal value to account for these sales. The level of adjustment, however, was considered immaterial and no adjustment was made. OneSteel requests that the Commission to again examine whether any of Hyundai's export sales have been made via trader's that would therefore warrant appositive adjustment to account for a trader's selling, administration and profit expenses.

Tolerances

OneSteel understands that rolling of structural steel to comply with the AS/NZ 3679.1 (for export sales to Australia) involves tighter tolerances than HRS sold domestically in Korea (Korean Standard D 3502, P. 80 of Hyundai Catalogue). For example, goods that are less than 10mm in thickness, the AS/NZ 3679.1 minimum tolerance allowed is 2.5 per cent. OneSteel understands that for domestic sales sold in accordance with the domestic Standard a 5 per cent tolerance is permitted. For product that involves a thickness of 10mm and over, the AS/NZ 3679.1 tolerance is also 2.5 per cent, whereas the KS equivalent is 4 per cent.

It is likely that Hyundai would produce to the maximum tolerance as it is not within the company's economic interest to sell a higher weight of beam/channel at the same price as product "rolled light".

Accordingly, Hyundai's normal values (based upon domestic sales) require an upward adjustment of 2.5 per cent (for less than 10mm thick product), or 1.5 per cent for product with a thickness of 10mm or greater.

Hyundai would also incur additional rolling costs associated with HRS destined for Australia – refer OneSteel's comments in the SYS Exporter Briefing Notes.

The additional costs associated with changing rollers, etc for HRS produced to AS/NZ 3679.1 should be reflected in Hyundai's normal values.

<u>Other matters</u>

Grade differences

OneSteel understands that there are price differentials between HRS grades, including for Hyundai of Korea. The Leong Huat Exporter Questionnaire Response confirms that Taiwanese and Thai steel mills "charge a higher rate for AS3679.1 grade 300 compared to EN10025, ASTM or JIS Standard".

It is OneSteel's view that Hyundai's normal values will therefore require an upward adjustment to reflect the higher cost/price associated with the goods exported to Australia.

Pricing for Grades SS400 and SM400

Hyundai sells domestically Grades SS400 and SM400 which it is suggested are like goods to export sales to Australia of goods to AS/NZS 3679.1. OneSteel does not agree with this proposition. OneSteel is aware that the most comparable grade to meet the minimum yield tolerance for grade S/NZ 3679.1 is the JIS grade SM490.

In the event that normal values are based upon Hyundai's domestic sales of SS400 and SM400, these normal values will require an upward adjustment to reflect the cost/price differential to Grade SM490 – the equivalent grade for the exports to Australia to AS/NZ 3679.1.

The attached SBB extract confirms that Hyundai uses the SS400 grade beams to compete with the lower quality Chinese imports. Exports to Australia are for a higher quality beam, which returns a higher price to the manufacturer. The comment in the attached extract re other "small sized beams" returning a higher price is consistent with OneSteel's claims.