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Ms Candy Caballero
Director Operations
Anti-Dumping Commission
Ground Floor Customs House
1010 Latrobe Street
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Public File

Dear Ms Caballero,

Investigation into Rod In Coil exported from Indonesia, Taiwan and Turkey – Exporter Verification Report on Habas Sinai Ve Tibbi Gazlar Istihsal Endustrisi A.S

1.0 Introduction

I refer to the recently published Exporter Verification Report ("the report") for the Turkish exporter Habas Sinai Ve Tibbi Gazlar Istihsal Endustrisi A.S. ("Habas") in the investigation into rod in coils ("RIC") exported from Indonesia, Taiwan and Turkey (Investigation No. 240). The report has been prepared by the Anti-Dumping Commission ("the Commission") on the basis of information supplied and forwarded to the Commission by Habas. The Commission has not undertaken a visit to the exporter's premises to substantiate the financial information provided by the exporter.

The report raises a number of key concerns to OneSteel Manufacturing Pty Ltd ("OneSteel") that impact the Commission's preliminary dumping margin calculations for RIC exported to Australia by Habas. OneSteel requests the Commission to fully consider the following items and the consequential impact on findings in the Habas report.

2.0 The exporter – Habas

Habas is an industrial gas and steel producer. Habas' steel operations commenced in 1987, located in Izmir. Habas' steel plant has two electric arc furnaces, two ladle furnaces and two continuous billet casting machines. The report indicates "*Habas' melt shop is integrated with two rolling mills, one for reinforcing bars, the second for rod in coils. The steel billets used in production are produced from imported and domestically sourced scrap*."

The company and its affiliated operations are also involved in the provision of "*industrial and medical gases, steel, electrical energy, heavy machinery, business and banking services, and operations of a sea port.*"

3.0 Financial Statements

As a large, integrated producer of a range of diversified goods, Habas must account for the economic performance of its varied business interests. The Commission has confirmed that Habas' financial statements are audited annually and that Habas' auditor stated in the 2013 independent audit report that:

> "*In our opinion, the financial statements presented fairly, in all material respects the financial information of Habbas Sinai ve Tibbi Gazlar Istihsal Endustrisi A.S. as of 31 December 2013 and of its financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards*."

It is evident from this opinion that the declaration refers to Habas' "financial statements".

Habas uses a proprietary financial information management system (name deleted from Public File report) that "*collects data and reports for its various cost centres*[1]". The financial information system records values by cost centres as listed in the company's chart of accounts. However, Section 5.1 of the report confirms that Habas "*does **not** have a cost accounting system that is distinct from its financial accounting*" (emphasis added). A further comment relating to cost accounting detail is redacted from the Public File report.

It would appear from the commentary at Section 5.1 of the report that Habas operates spreadsheets that calculate the cost of data that are used in the company's financial management system.

An effective cost accounting system is an essential tool that accurately allocates costs associated with the manufacture of the goods under consideration ("GUC") and determines a unit cost of production for a particular cost item. Where an organisation does not utilise a cost accounting system for the accurate record of costs for a defined manufacturing process that are subsequently translated into the financial management system, reservations must be held as to the accuracy of a less than adequate alternate methodology. These reservations must be genuinely considered in the context of an anti-dumping verification visit, where a key consideration is the accurate assessment of the fully-absorbed cost-to-make-and sell ("CTM&S") goods.

OneSteel is alarmed that the Commission has accepted the exporter's costs for the purposes of verification that have been generated in spreadsheets that can be readily altered. The absence of a reliable cost accounting system and the subsequent accurate determination of unit costs for the GUC is fundamental to the exporter verification process.

The importance of a cost accounting system is of greater levity in what the Commission described as a "remote" verification (i.e. a 'desk-audit" of the exporter's financial data).

OneSteel does not consider that the Commission's determination of dumping margins for Habas for the GUC can be relied upon in the absence of the exporter utilising a cost accounting system.

4.0 Habas' EQR in rebar investigation

The Commission is aware that Habas is an exporter of reinforcing bar ("rebar") to Australia (Investigation No. 264). In its Exporter Questionnaire Response ("EQR") to the rebar investigation, the exporter has redacted information about the management accounting system that it uses, with a reference[2] "*Thus the company's cost accounting, such as it, [redacted]*". This comment further suggests that Habas utilises a less than adequate internal system for cost allocation.

5.0 Allocated costs

The inadequate system applied by Habas in respect of cost allocation undermines a definitive outcome as to the correct CTM&S for the GUC. OneSteel does not consider that the Commission can accept Habas' approach to cost allocation for the GUC as "reasonable" for the designated purposes. Serious doubt must also arise as to the correct allocation of all costs (particularly shared costs allocated as part of factory overheads) in the Habas "spreadsheet" data. Additionally, as the Habas steel operation is a fully integrated steel manufacturing process, a recognised cost accounting system is critical for the accurate allocations of costs incurred in the manufacturing process.

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[1] Habas Exporter Verification Report, P.9.

[2] Habas Exporter Questionnaire Response, Investigation No. 264, P.39.

OneSteel urges the Commission to reconsider its acceptance of Habas costs based upon internal allocations that are inadequately supported in a formal cost accounting system.

6.0 Canadian rebar investigation

OneSteel has noted the recent findings[3] of CBSA in respect of Reinforcing Bar exported from China, Korea and Turkey to Canada. Of particular relevance are the comments of CBSA in respect of Habas that "*the dumping RFI was substantially complete*". However, CBSA could not use domestic sales for normal values as many of these were found to be unprofitable. Where profitable sales could be identified, these were used for normal values. Where there were insufficient profitable sales, CBSA used a constructed methodology based upon production costs, an amount for S,G&A and an amount for profit.

CBSA determined a preliminary dumping margin for Habas of 15.2 per cent.

CBSA appears to have some reservations as to the completeness of information supplied by Habas. Importantly, however, CBSA has found that many of Habas' domestic sales were unprofitable. OneSteel submits that the incidence of "many" unprofitable sales on the domestic market for Habas would translate to unprofitable sales for rod in coil, as to the products are not too dissimilar and there is often a correlation in pricing for the two products.

The CBSA preliminary finding of a dumping margin of 15.2 per cent for rebar exported to Canada during the same overlapping 2013 investigation period raises doubts as to the validity of the Commission's negative 0.6 per cent dumping margin for Habas' exports of RIC to Australia over the 2013 calendar year. Additionally, the Commission's finding that sufficient volumes of sales were made in the ordinary course of trade for Habas is inconsistent with the CBSA preliminary finding that there existed "many" domestic sales by Habas that were unprofitable.

7.0 Port and handling expenses

Habas has confirmed that it operates the sea port from where the GUC are exported to Australia. It is stated in the report that domestic sales and export sales are at the "ex-works" point and no adjustments were made for fair comparison purposes (even though Habas had sought adjustments for export transportation expenses, export handling, loading and ancillary expenses, export packing costs, export inspection expenses, import duty drawback, level of trade, domestic transportation and domestic packing).

OneSteel queries whether the costs associated with the transportation from Habas' steel mill to the port, handling and loading expenses at the port, etc could reasonably have been accepted by the Commission on the basis that:

- (i) the services were supplied by a related entity;
- (ii) no validation as to whether the expenses were consistent with market rates appears to have been conducted; and
- (iii) the company does not operate a recognised cost accounting system that could be relied upon for appropriate costs to be apportioned across all goods (on a reasonable basis).

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[3] Refer CBSA Statement of Reasons Concerning the Preliminary Determinations with respect to the dumping and subsidisation of certain concrete reinforcing bar originating in or exported from The People's Republic of China, The Republic of Korea and The Republic of Turkey, 26 September 2014.

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The willingness of the Commission to accept any transportation and loading expenses incurred by Habas must be questioned given the relationship between the producer of the GUC and the supplier of the port facilities in Turkey.

Conclusion

OneSteel is not challenging whether Habas' financial statements are accurate. Rather, OneSteel has grave concerns as to the accuracy and validity of costs accepted by the Commission as relating to the GUC in the absence of a formal cost accounting system operated by Habas. The preliminary dumping margin estimated for Habas in the Exporter Remote Verification Report for rod in coil exported to Australia cannot be relied upon. Habas does not operate a recognised cost accounting system to prepare unit costs on a reasonable basis. Allocations are performed in spreadsheets that are susceptible to alteration and cannot be relied upon for the purposes of a valid exporter verification process.

OneSteel has observed the recent CBSA preliminary finding in respect of Habas exports of rebar to Canada (with an overlapping investigation period similar to that in this RIC inquiry). CBSA preliminarily determined dumping margins of 15.2 per cent and found that "many" rebar domestic sales by Habas were "unprofitable". OneSteel would anticipate a similar outcome (in both levels of profitability and dumping margins) for Habas' RIC domestic sales and export sales to Australia.

It is also recognised that Habas operates the port through which the GUC are exported to Australia. It does not appear from the report that the Commission has validated whether the expenses charged by the related entity for transportation and port handling services are reflective of market rates.

OneSteel is seeking the Commission to reject Habas' costs for the GUC as unreliable. Further doubts are apparent due to the remote nature of the validation of Habas' costs. Normal values for Habas must be determined under s.269TAC(6) utilising best available information, which includes the domestic selling prices supplied by OneSteel in its application that provided a weighted-average dumping margin for RIC exports to Australia from Turkey of 9.3 per cent.

If you have any questions concerning this letter please do not hesitate to contact OneSteel's representative Mr John O'Connor on (07) 3342 1921 or Mr Matt Condon of OneSteel on (02) 8424 9880.

Yours sincerely

Matt Condon
Manager – Trade Development
OneSteel Manufacturing Pty Ltd