



**Australian Government**

**Australian Customs and  
Border Protection Service**

**Folio No. 291**

**INVESTIGATION INTO THE ALLEGED DUMPING OF  
GALVANISED STEEL AND ALUMINIUM ZINC COATED  
STEEL**

**EXPORTED FROM**

**THE PEOPLE'S REPUBLIC OF CHINA, THE REPUBLIC OF  
KOREA AND TAIWAN**

**AND**

**INVESTIGATION INTO THE ALLEGED SUBSIDISATION OF  
GALVANISED STEEL AND ALUMINIUM ZINC COATED  
STEEL**

**EXPORTED FROM THE PEOPLE'S REPUBLIC OF CHINA**

**EXPORTER VISIT REPORT**

**UNION STEEL CHINA CO., 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 Customs and Border Protection**

**JANUARY 2013**

**PUBLIC RECORD**

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### 2 BACKGROUND

#### 2.1 Background to the current investigation

On 3 August 2012, applications were lodged on behalf of BlueScope Steel Limited (BlueScope) requesting that the Minister for Home Affairs (the Minister) publish dumping duty notices in respect of galvanised (zinc coated) steel and aluminium zinc coated steel exported to Australia from the People's Republic of China (China), the Republic of Korea (Korea) and Taiwan. These products are jointly referred to as coated steel in this report. Refer to the full description of the goods in section 4 of this report.

On 17 August 2012 and 27 August 2012 additional information and data was received in respect of the applications. As a result, Customs and Border Protection restarted the 20 day period for considering the applications. On 5 September 2012, following consideration of the applications, the Chief Executive Officer of Customs and Border Protection (Customs and Border Protection) decided not to reject the applications and initiated investigations in the alleged dumping of coated steel from China, Korea and Taiwan. Customs and Border Protection is treating these as two separate investigations, but is examining them together because BlueScope advised that many of the importers and exporters deal in both products.

On 18 October 2012, BlueScope lodged an application for countervailing duties in respect of coated steel exported from China. On 2 November 2012 additional information and data was received in respect of the applications. As a result, Customs and Border Protection restarted the 20 day period for considering the applications. On 26 November 2012, following consideration of the applications, the Chief Executive Officer of Customs and Border Protection decided not to reject the applications and initiated investigations in the alleged subsidization of coated steel from China.

The applications identified Union Steel China Co., Ltd (USC) as an exporter of aluminium zinc coated steel from China. A search of Customs and Border Protection's import database also indicated that USC exported aluminium zinc coated steel from China to Australia during the investigation period (July 2011 to June 2012). Customs and Border Protection wrote to USC advising it of the initiation of the investigations, requesting co-operation with the investigations and provided copies of the exporter questionnaire for USC to complete.

USC completed the anti-dumping exporter questionnaire, providing details regarding the company, exports, domestic sales and cost to make and sell (CTMS) expenses for coated steel. USC also completed a Subsidy Exporter Questionnaire and provided relevant spreadsheets and supporting documentation.

#### 2.2 Events after date of visit

On 6 February 2013, the delegate of the CEO gave notice of a preliminary affirmative determinations (PADs) and there appears to be sufficient grounds for the publication of dumping duty notices in respect of:

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- galvanised steel exported to Australia from China, Korea and Taiwan; and
- aluminium zinc coated steel exported to Australia from China, Korea and Taiwan.

In reaching these preliminary decisions, the CEO was satisfied that dumped goods appear to have caused material injury to the Australian industry producing like goods.

The decision to make PADs was based on the information available to the delegate at the time of making the PADs. The preliminary findings, including dumping margins may change between the time of the publication of the PADs and the publication of the statements of essential facts in respect of both investigations.

At the time of making the PADs, the delegate further determined that securities should be required and taken under section 42 of the Act in respect of interim dumping duty that may become payable in respect of certain goods from China, Korea and Taiwan, being satisfied that it is necessary to require and take securities in order to prevent material injury occurring to the Australian industry while the investigations continue.

Dumping securities will be taken in respect of any interim dumping duty that may become payable in respect of the goods entered for home consumption on or after 6 February 2013.

No PAD was made in respect of the alleged subsidisation of exports of galvanised steel or aluminium zinc coated steel from China.

Further details of the PADs are contained in ACDN 2013/11 and the report, PAD 190. Both can be found on the electronic public record for the investigations.

Given the making of the PADs following the visit, this report serves both as an account of the verification conducted as well as providing details of the dumping margin calculated based on the preliminary determinations contained in PAD 190.

### **2.3 Purpose of visit**

The purpose of the visit was to verify information submitted by USC in its exporter questionnaire responses. The exporter questionnaire responses were supported by confidential appendices and attachments, including confidential spread sheets containing sales and costs data requested in the exporter questionnaire. Non-confidential versions of the exporter questionnaire responses were placed on the public record. Customs and Border Protection will use the verified information to make preliminary assessments of:

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

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### 2.4 Meeting dates and attendees

Verification meetings were held at USC's office from Wednesday 23 January 2013 to Friday 25 January 2013 and Monday 28 January 2013. The following representatives were present at various stages of the verification meetings:

<b>COMPANY:</b>	<b>Union Steel China Co., Ltd</b>
<b>ADDRESS:</b>	3F, No 5 Sugang Road Xiagong District Jiangyin Jiangsu Province China
<b>DATES:</b>	23-25, & 28 January 2013
<b>ATTENDEES: Union Steel China Co., Ltd</b>	
Mr. Gary Sohn Mr. Nohhun (Peter) Park Mr. Seungpyo (Scott) Hong Mr. Zhe Song Liu Mr. Wen Xue Cui Mr. Min Xiao Wu Ms. Xiao Xiu Zhu Mr. Hwanok Kim	CEO and President General Manager/Trade Department Deputy Manager/Trade Department Manager/Domestic Sales Department Manager/Domestic Sales Department Manager/Financial Department Supervisor/Financial Department Strategic Management Group of Dongkuk Steel  And other Union Steel China staff as temporarily needed
<b>ATTENDEES: Consultants</b>	
Mr. Chae Won (CW) Jung Mr. Jae Yong (JY) Lee Mr Daniel Moulis Mr Charles Zhan	CPA/Senior Consultant, The International Trade Consulting CPA/Senior Consultant, The International Trade Consulting Moulis Legal Moulis Legal
<b>ATTENDEES: Customs and Border Protection</b>	
Mr Tom O'Connor Ms Rebecca Higgins	Manager, Operations 1 Supervisor, Operations 3

### 2.5 Preliminary issues

Prior to the meeting, we forwarded USC an exporter visit agenda that included sales transactions and costs selected for detailed verification. See **confidential attachment GEN 1**. USC cooperated with the verification of the exporter questionnaire responses and provided further information when requested.

We commenced the verification introduction and were advised by USC's legal representative this was not necessary; however for the record the verification team confirms the following.

#### 2.5.1 Investigation timeframes

The following key dates pursuant to this investigation.

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- The investigation period is July 2011 to June 2012.
- Customs and Border Protection will examine the Australian market from July 2007 for the purpose of analysing the condition of the Australian industry.
- A preliminary affirmative determination can be made at any time after day 60 of the investigation. Provisional measures may be imposed at the time of the preliminary affirmative determination or at any time after the preliminary affirmative determination has been made. (Refer to section 2.2 above for details of the PADs made in relation to dumping.) Anti-dumping investigation - A statement of essential facts was due to be placed on the public record by 24 December 2012. The Minister approved an extension to the SEF, consequently it is now due on or before 16 March 2013. Australian Customs Dumping Notice ACDN 2012/63 refers.
- Countervailing investigation - A statement of essential facts is to be placed on the public record on or before 18 March 2013.
- The statements of essential facts will set out the material findings of fact on which Customs and Border Protection intends to base its recommendations to the Minister.
- Interested parties will be provided with 20 days from the release of the statements of essential facts to response to the preliminary findings and issues contained in the statement of essential facts.
- Submissions received in response to the statements of essential facts will be considered when compiling the report and recommendations to the Minister.
- Anti-dumping investigation - Customs and Border Protection's final report to the Minister is due no later than 30 April 2013.
- Countervailing investigation - Customs and Border Protection's final report to the Minister is due no later than 30 April 2013.
- The Minister's decision is due within 30 days from the date of receipt of the final reports.

### 2.5.2 Implementation of measures

For anti-dumping measures to be implemented, the Minister responsible for Customs and Border Protection must be satisfied that the goods were dumped or subsidised and the dumped or subsidised goods had caused or were threatening to cause material injury to the Australian industry.

### 2.5.3 Visit report

Following our visit the verification team will prepare "For Official Use Only" and "Public Record" versions of the visit report. The classification "For Official Use Only" replaces the classification "Commercial in Confidence". Following the visit the verification team will provide the company with a draft of the report to review its factual accuracy and to identify those parts of the report it considered confidential. Following consultation about confidentiality, the verification visit team would prepare a non-confidential version of the report for the public record.

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### 2.6 Correction worksheets

At the commencement of the visit USC advised that it had identified a number of minor discrepancies recorded in its exporter questionnaire response. USC provided a corrections package which included supporting source documentation. See **confidential attachment GEN 2**.



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### 3 COMPANY INFORMATION

#### 3.1 Company information

Union Steel China Co Ltd (USC) is a subsidiary of DongKuk Steel Mill Co., Ltd (DSM) which can trace its beginnings in the Republic of Korea back to 1954.

As at 31 December 2011, DSM is comprised of 18 Korean companies and 16 overseas companies with Union Steel's operations being described in its 2011 annual report as a manufacturer of cold-rolled coated plates and colour coated plates. DSM's shareholding as at 31 December 2011 was;

Name	Shareholding
Jang Saeju [REDACTED]%	[CONFIDENTIAL TEXT DELETED]
Jang Saewook	[CONFIDENTIAL TEXT DELETED] [REDACTED]%
JFE Steel International Europe B.V.	[CONFIDENTIAL TEXT DELETED] [REDACTED]%
Other	[CONFIDENTIAL TEXT DELETED] [REDACTED]%

Being part of DSM, USC's direct ownership is via a number of entities whereby DSM has the majority of share ownership. Direct ownership of USC is through Union Steel Korea Co Ltd with [CONFIDENTIAL TEXT DELETED] [REDACTED] % shareholding and the remaining [CONFIDENTIAL TEXT DELETED] [REDACTED] % being owned by Intergis, a logistics company, again being majority controlled by DSM. DSM owns [CONFIDENTIAL TEXT DELETED] [REDACTED] % of Union Steel Korea Co Ltd.

Wuxi Changjiang Sheet Metal Co Ltd (Wuxi Changjiang) provides the full hard metal to USC that is manufactured into the goods under consideration (GUC). Union Steel Korea Co Ltd controls Wuxi Changjiang, which is domiciled in China, with a 100% shareholding. USC and Wuxi Changjiang have the same board of directors.

USC provided a diagram representing its ownership structure and Appendix A-2 [CONFIDENTIAL ATTACHMENT] to the Exporter Questionnaire Response (EQR) is the internal organisational structure of USC. It has [CONFIDENTIAL TEXT DELETED] - [REDACTED] number [REDACTED] divisions:

[REDACTED]  
[CONFIDENTIAL TEXT DELETED – details of company structure]

USC produces and sells galvanised and aluminium zinc coated steel, in coated and pre-painted form. USC's factory is located near Jiangyin city in Jiangsu province. USC only sold aluminium zinc coated steel to Australia during the period of investigation. USC advised that it did not sell galvanized steel into the Australian market during the period of investigation.

USC presented a short film on the DSM group history and the goods manufacturing process at **See confidential attachment GEN 3.**

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### 3.2 Accounting

USC uses [CONFIDENTIAL TEXT DELETED] [REDACTED] software manufactured by [CONFIDENTIAL TEXT DELETED] [REDACTED] to capture the financial data. A processing costing accounting methodology is used calculate the unit cost of the goods produced. The unit cost is based on [REDACTED] [CONFIDENTIAL TEXT DELETED – cost accounting method].

USC's financial year operates from January to December and in its EQR USC stated its accounting practices do not differ from General Accepted Accounting Principles.

USC advised that it is required to have the financial statements audited. At attachment 6 [CONFIDENTIAL ATTACHMENT] to their EQR is a copy of the auditor's statement confirming the 2011 financial statements comply with the requirements of the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises issued by the Ministry of Finance in the People's Republic of China.

In addition to the audit undertaken by the Chinese auditor, DSM is also audited by Samil Pricewaterhouse Coopers, which stated in the 2011 annual report;

In our opinion, based on our audit, the separate financial statements, referred to above, present fairly, in all material respects, the financial position of DONGKUK STEEL MILL CO., LTD. as of December 31, 2011, and its financial performance and cash flows for the year then ended in accordance with Korean-IFRS.

#### 3.2.1 Depreciation

In the notes to USC's financial statements, and listed below, are the depreciation rates for fixed assets. It identifies that there are two methods of depreciation; straight line depreciation, and units of production method for some of the production lines.

	Useful life yrs	Rate
Plant and buildings	40	2.25%
Machinery and equipment	15	6%
Motor vehicles	5	18%
Electro and other equipment	5	18%

### 3.3 Production facilities and process

USC's production facility is located at Xiagong district, Jiangyin, Jiangsu Province. To produce the goods, USC procures the full hard metal from Wuxi Changjiang. The full hard is transported by barge to USC. Approximately [CONFIDENTIAL TEXT DELETED] [REDACTED] % of the full hard metal is sourced in this manner. [CONFIDENTIAL

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**TEXT DELETED – proportion of other full hard procurement]** [REDACTED]

full hard metal and cold rolled coil was purchased in case of shortages.

Wuxi Changjiang typically purchases hot rolled coil from third party suppliers which is put through a Pickling Line, Reduction Mill, Electrolytic Cleaning, Annealing, Temper Rolling, Recoiling and then Shearing line. Following these processes the metal is considered Full Hard Metal and it is then transferred to USC in this state.

USC indicated it does not produce any joint products or co products following the manufacture of the goods. A small volume of steel scrap is generated which is subsequently sold and the value is applied to the cost of production.

USC's manufacturing facility operates [**CONFIDENTIAL TEXT DELETED – number of continuous galvanising lines (CGL)**] [REDACTED] and [**CONFIDENTIAL TEXT DELETED – number of continuous coating (painting) lines**] [REDACTED]. Despite the name CGL, USC informed the verification team that the GUC is passed through one of these lines using aluminium zinc as the coating rather than zinc only. Production capacity is measured at the end of the CGL lines.

The full hard metal is passed through [**CONFIDENTIAL TEXT DELETED – number of continuous galvanising lines (CGL)**] [REDACTED] USC's [REDACTED] continuous galvanizing [REDACTED] and then may be put through [REDACTED] [**CONFIDENTIAL TEXT DELETED – number of continuous coating (painting) lines**] [REDACTED] continuous painting [REDACTED].

During the period of investigation (POI) USC produced [**CONFIDENTIAL TEXT DELETED**] tonnes of the goods which represents approximately a [**CONFIDENTIAL TEXT DELETED**] [REDACTED]% capacity utilization rate. This volume includes both goods under consideration (GUC) and those out of scope.

### 3.4 On-site verification

During the verification visit an on-site inspection of USC's coated steel production facilities was not considered necessary, as supported by the investigation case management team, reflecting the;

- logistics involved in undertaking a plant tour;
- limited timeframe to conduct the verification visit and need to allocate sufficient time to ensure adequate verification of substantial complex accounting system and records;
- USC's detailed explanation (including video presentation) and supporting evidence provided to illustrate and verify production processes.

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### 4 GOODS UNDER CONSIDERATION AND LIKE GOODS

#### 4.1 Aluminium zinc coated steel

The imported goods the subject of this application are:

*flat rolled products of iron and non-alloy steel, of a width equal to or greater than 600mm, plated or coated with aluminium-zinc alloys, not painted, whether or not including resin coating.*

The amount of aluminium zinc coating on the steel is described as its coating mass and is nominated in g/m<sup>2</sup>.

##### *Product treatment*

The aluminium zinc coated steel application covers aluminium zinc coated steel whether or not including any (combination of) surface treatment, for instance; whether passivated or not passivated, (often referred to as chromated or unchromated), resin coated or not resin coated (often referred to as Anti Finger Print (AFP) or not AFP), oiled or not oiled, skin passed or not skin passed.

##### *Goods excluded from investigation scope*

Following the release of ACDN 2012/62 painted aluminium zinc coated steel and pre-painted aluminium zinc coated steel are not covered by the application and subsequent investigation.

##### **Tariff classification**

Aluminium zinc coated steel is classified to tariff subheading 7210.61.00 (statistical codes 60, 61 and 62) of Schedule 3 to the *Customs Tariff Act 1995*. The general rate of duty is currently 5%, the DCS duty rate is free and the DCT rate is 5%. Imports from Korea are subject to the DCT duty rate.

#### 4.2 Thickness

The thickness of aluminium zinc coated steel can be described in two ways – base metal thickness (BMT) or total coated thickness (TCT). BMT refers to the thickness of the base steel (substrate) only, whereas TCT refers to the steel base thickness plus the metallic coating thickness. Most international standards refer to the products in terms of BMT. References to thicknesses in this report are to the BMT.

#### 4.3 Like goods

At attachment 3 to the EQR, USC provided a copy of its company brochure. In this brochure it identifies two categories of products; *unilume* and *colorlume*. Unilume is described as;

Unilume steel is the result of an ideal alloy and zinc. It consists of aluminium (55% in weight ratio but 80% in surface volume ratio) zinc (43.3% in weight),

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and silicone (1.65 in weight ratio) so it has both aluminium – unique corrosion – resistance and heat resistance and zinc-unique galvanic behaviour

Colorlume is described in the brochure as;

Color painted Unilume

In the company brochure surface treatments include;

- Chromated
- Anti-finger printed
- Oiled
- Cleanflume
- Lubricant Unilume
- Transparent; and
- Pre-painted Unilume

USC sells both galvanized steel and aluminium zinc coated steel on the domestic market in China, however only sells aluminium zinc coated steel to Australia. In its EQR, USC indicated that all of its exports to Australia of aluminium zinc coated steel falls within the scope of the goods specified in the initiation notice. Unilume is the brand name used by USC for its aluminium zinc coated steel products.

The company brochure indicates that USC manufactures the goods with thicknesses between 0.3mm and 1.2mm (BMT) and coil weights of between 3mt and 25mt. Aluminium zinc coated steel widths range from 700mm to 1,270mm.

During the investigation period USC exported **[CONFIDENTIAL TEXT DELETED]** different models to Australia. At attachment 14 to its EQR **[CONFIDENTIAL ATTACHMENT]**, USC identified five broad characteristics to assist identifying the goods. The characteristics are;

- Steel grade
- Width (mm)
- Thickness (mm)
- Metallic coating type (Zinc, or Zinc & aluminium)
- Metallic coating mass (two sides) in g/m<sup>2</sup>

USC also provided at attachment 15 in its EQR **[CONFIDENTIAL ATTACHMENT]** a comparison between the exported models to the domestic models. Apart from **[CONFIDENTIAL TEXT DELETED - number]** models, the other **[CONFIDENTIAL TEXT DELETED - number]** models were considered identical. The typical difference was

**[CONFIDENTIAL TEXT DELETED – details of product sold].**

USC indicated that

**[CONFIDENTIAL TEXT]**

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**DELETED – details of cost and cost accounting]** However USC did indicate that not all of the goods sold on the domestic market were sold to the Australian export market.

The verification team considers that [REDACTED] **[CONFIDENTIAL TEXT DELETE – details of product sold]**, excluding pre painted, aluminium zinc coated steel sold domestically by USC during the investigation period has characteristics closely resembling those of the goods exported to Australia.

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### 5 SALES TO AUSTRALIA

#### 5.1 Export sales process

##### 5.1.1 Distribution channels

During the POI USC sold the goods to **[CONFIDENTIAL TEXT DELETED – number]** importers in Australia. It defined the levels of trade as **[CONFIDENTIAL TEXT DELETED – level of trade]**. The verification team could not differentiate between these two groups. During the period it sold approximately **[CONFIDENTIAL TEXT DELETED - number]** tonnes with a value of USD**[CONFIDENTIAL TEXT DELETED - number]**.

All sales to its Australian customers are made

**[CONFIDENTIAL TEXT DELETED –details of sales terms, payment terms and currency]**.

USC described the sales process as:

A prospective customer approaches USC with an initial inquiry. From that initial inquiry,

Following receipt of the purchase order,

**[CONFIDENTIAL TEXT DELETED]**. Once production is completed, USC notifies the customer to initiate shipping. A commercial invoice and packing list will be prepared at this point.

The verification team was informed that it takes approximately **[CONFIDENTIAL TEXT DELETED]** the time the purchase order is received to the time the goods are ready for shipping. **[CONFIDENTIAL TEXT DELETED – details of sales process]** USC indicated that price lists were not used during the POI for sales to Australia and that no sale to Australia was to a related party.

We were advised **[CONFIDENTIAL TEXT DELETED – distribution channel]**.

We reconciled USC's sales to its Australian customers and with Customs and Border Protection's import data base.

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### 5.1.2 Shipping

[REDACTED] [CONFIDENTIAL TEXT DELETED – details of sales terms] however, depending on the customer request the goods may either be shipped break bulk or containerised. USC indicated

[REDACTED] [CONFIDENTIAL TEXT DELETED – shipping method]

### 5.1.3 Packing

The packing process is undertaken by a non-related third party, [CONFIDENTIAL TEXT DELETED – name of unrelated third party] The goods are wrapped in a plastic bag before shipping. Metal strapping is supplied by USC which is used to fix the goods securely for transport. Should the coil be exported in a vertical position, which is rare, it is usually packed with a pallet.

The shipping port is [REDACTED] [CONFIDENTIAL TEXT DELETED – sales term] generally the goods are shipped from either from Shanghai or Changshu.

### 5.1.4 Discounts, rebates and allowances

USC stated that it

[REDACTED] [CONFIDENTIAL TEXT DELETED – details of arrangement with unrelated third party]. At confidential attachment EXP 1

[REDACTED] [CONFIDENTIAL TEXT DELETED – details of arrangement with unrelated third party].

[REDACTED] [CONFIDENTIAL TEXT DELETED – details of arrangement with unrelated third party] [REDACTED] [CONFIDENTIAL TEXT DELETED – details of discount, rebates and allowances arrangement]

[REDACTED]. We considered this [REDACTED] [CONFIDENTIAL TEXT DELETED – details of arrangement with unrelated third party] in the context of anti-dumping reasonable and have used the adjusted export price.

### 5.1.5 Date of sale

USC reported two dates in the Australian Sales spread sheet. It identified the invoice date and a second date [CONFIDENTIAL TEXT DELETED – details of date of sales].



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The verification team considers the invoice date of to be the date of sale. USC disagree with this approach and will make a submission to this effect.

### 5.2 Export sales - reconciliation to financial statements

USC prepared documents reconciling export sales to the financial statements. See **confidential attachment EXP 2**. The verification team traced export sales figures from the income statement at attachment 7 **[CONFIDENTIAL ATTACHMENT]** of USC's EQR through to USC's audited profit and loss statement for the year ended 31 December 2011. USC printed off their entire sales listing from which the verification team confirmed the exports sales transactions were included. USC provided summaries of the sales listing to trace to the Appendix A-8 turnover in its EQR. From the information provided the verification team was also able to trace the export sales of the goods to the management accounts for the POI.

The total value of the Australian sales spread sheet was correctly transferred to the Appendix A-8 Turnover. Although the sales to Australia were denominated in USD, USC used a relevant exchange rate to convert the USD into Chinese RMB based on the Bank of China monthly exchange rate. The verification team compared these rates to the RBA exchange rates and found a negligible difference. See **confidential attachment EXP 3**. The verification team considers the exchange rates used by USC for currency conversion from USD to RMB and vice versa are satisfactory.

USC demonstrated how they identified products that were not included in the GUC to exclude from the figure provided in the exporter questionnaire response. USC included copies of commercial invoices showing non-GUC merchandise and traced these amounts through to accounting vouchers and the general ledgers to the general ledger income statement.

A small quantity difference was identified between the GUC sales volume and the sector sales volume in Appendix A-8 Turnover of the EQR. USC provided a reconciliation to demonstrate the volume referred to was not GUC sales. USC provided a detail listing of the sales data whereby the verification team identified the specific sales description and volume and confirmed the volume of these sales agreed to the difference identified at Appendix A-8. See **confidential attachment EXP 4**.

The verification team are satisfied that the export sales data is complete and accurate.

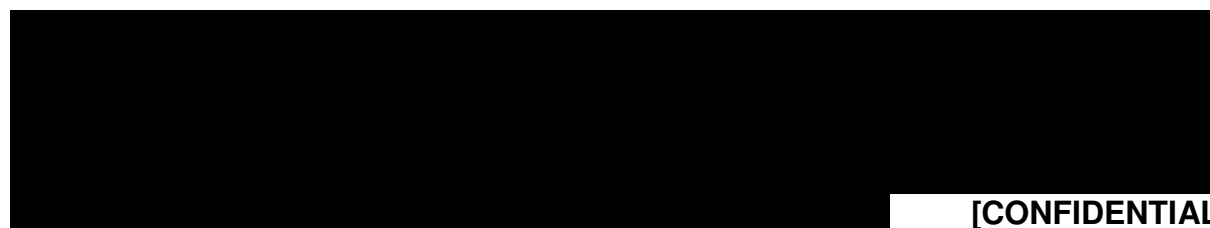
### 5.3 Export sales – verification to source documents

In its EQR USC provided two sets of commercial documents. We traced these documents to the Australian sales spread sheet and found the information to match. At the commencement of the verification, USC provided a revised Australian sales spread sheet. The revised spread sheet corrected some of the **[CONFIDENTIAL TEXT DELETED – sales arrangement with unrelated third party]** identified as incorrect in the original version.

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As part of the verification visit we selected an additional nine transactions to verify. USC provided the relevant commercial documents for all nine transactions selected. Again the values in the documents agreed with the values in the revised Australian sales spread sheet. At **confidential attachment EXP 5** is the nine invoices together with the;

- purchase order
- packing list;
- bill of lading;
- bank charges
- inland freight
- terminal handling charges; and
- evidence of payment



[CONFIDENTIAL  
TEXT DELETED – additional verification in relation to sales arrangement with  
unrelated third party]See confidential attachment EXP 6

The verification team was satisfied the revised Australian spread sheet was accurate.

### 5.4 The exporter

For sales from USC directly to its Australian customers, we consider USC was the exporter. USC:

- manufactured the goods to the specific order of the Australian customer;
- was listed as the supplier on the bill of lading;
- invoiced the Australian customer for the goods;
- arranged and paid the inland freight;
- was the principal in the transaction located in the country of export from where the goods were shipped that gave up responsibility by knowingly placing the goods 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 of the goods.

### 5.5 The importer

From commercial documents provided, we consider USC's Australian customers to be the beneficial owner of the goods at the time of importation. Consequently we consider these customers to be the importers.

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### 5.6 Arm's length

The verification team asked USC if it was aware of any relationship other than a commercial relationship of buyer and seller and it indicated no. However only recently, USC's legal representative became aware there is a very distant relationship with one of USC's customers. Although not specific, the verification team was informed that the parent company of its customer in Australia held a minor (understood to be less than 3%) share ownership in Union Steel Korea Co., Ltd.

In respect USC's sales of aluminium zinc coated steel to its Australian customers during the investigation period, we found no evidence that:

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

Despite the advice of the small indirect shareholding, the investigation team consider all of USC's export sales to Australia during the investigation period were arm's length transactions.

### 5.7 Export price – preliminary assessment

For export sales to Australia by USC, we consider:

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

Therefore, we consider that export price for direct export sales from USC to its customers in Australia can be established under section 269TAB(1)(a) using the invoiced price less any part of the price that represents a charge in respect of transport of the goods or in respect of any other matter arising after exportation.

A summary of export prices is at **confidential appendix 1**.

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### 6 COST TO MAKE & SELL

#### 6.1 Introduction

USC's EQR contained cost to make and sell (CTMS) spread sheets for aluminium zinc coated steel produced and sold domestically in China and exported to Australia during the POI. USC reported the costs on a monthly basis in the cost to make work sheets. The CTMS work sheet identified the following cost categories;

- Full hard metal cost;
- Aluminium zinc cost
- Labour and overhead
- Electricity
- Water, fuel, gas
- Roll
- Chemicals
- Other
- Packing
- Depreciation
- Repair
- Consumables
- Selling
- Administration Financial
- Delivery
- Extraordinary gains losses

The verification team noted that some models had a zero production quantity however a cost had been calculated for that period. USC advised us that the production costs for these items were the CTM from the previous month or the closest model in that month. The verification team asked USC to provide a list of models where this had occurred. At **confidential attachment CTM 1** is a list which identified a small number of occurrences.

USC advised that it used surrogate costs if there was no production in the month of sale. The first preference was to use the cost for a previous month. If there was no production in a previous month the surrogate cost was the average for the POI. Finally, if there was no production in the POI the cost for a similar model was used. We noted that the majority of costs were actual costs.

We emphasised that we wanted to reconcile the cost data upwards to audited financial statements and management reports to ensure completeness of the data and also downwards to supporting source documentation to ensure accuracy and reliability of the data.

#### 6.2 Inclusion of Wuxi Changjiang for verification purposes

Although Wuxi Changjiang is not the exporter and does not make the GUC, the verification team considers its relationship to USC for the purposes of the cost to make and sell to form part of the cost to make and sell of USC. Following

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verification, the verification team found the ownership was primarily the same, the board of directors were the same and price setting for the full hard metal did not reflect arms-length characteristics.

In addition to the full hard metal costs, the verification team considers a proportion of the Wuxi Changjiang’s SG&A should be included as part of the GUC cost to make and sell. Accordingly the verification team identified this aspect with USC in the agenda as part of the verification procedures.

## 6.3 USC’s cost accounting system

The accounting system uses [CONFIDENTIAL TEXT DELETED – cost accounting method] process costing to calculate the unit cost of the goods by using actual month end costs. At attachment 28 in USC’s EQR, and presented below, is USC’s allocation methods.

### 1. Direct Cost Centre

[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

### 2. Indirect Cost Centre and Allocation Basis

[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED]

[REDACTED]

[CONFIDENTIAL TEXT DELETED – details of cost accounting].

Below are the cost centres for Wuxi Changjiang. The separation of costs and allocation is undertaken in a similar manner as described for USC.

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Also at attachment 28 to the EQR, [CONFIDENTIAL ATTACHMENT]USC also provided the allocations methods for Wuxi Changjiang.

### 1. Direct Cost Centre


### 2. Indirect Cost Centre and Allocation Basis


[CONFIDENTIAL TEXT DELETED – details of cost accounting]

## 6.4 Production volumes

At attachment 27 to USC’s EQR is a schedule of the production capacity and capacity utilization rates for the goods. Capacity utilization during the POI was [CONFIDENTIAL TEXT DELETED - number] from the previous financial year and [CONFIDENTIAL TEXT DELETED - number] from the 2010 financial year.

The verification team was not able to verify the accuracy of this production as the volumes included non GUC goods. However via the verification of the cost to make described in section 6.5, and sales value described in section 5.2, the verification team is satisfied with the accuracy of the production quantity reported for GUC sales.

## 6.5 Cost to make - Wuxi Changjiang

During the POI, Wuxi Changjiang manufactured full hard metal, cold rolled coil and pickled and oiled sheet steel. As a proportion of the total manufacture costs to all products, full hard metal represented approximately [CONFIDENTIAL TEXT DELETED]%. As a per cent of total full hard metal conversion cost, the full hard

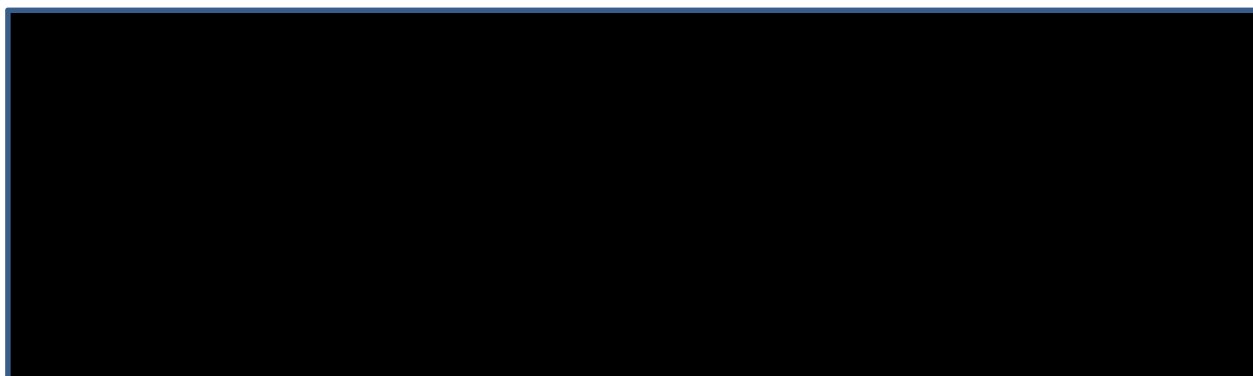
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metal value transferred to USC was approximately **[CONFIDENTIAL TEXT DELETED]** ■■■■%, or as a per cent of the total manufacturing costs of all products, the value transferred to USC was approximately **[CONFIDENTIAL TEXT DELETED]** ■■■■%.

### 6.5.1 Raw Materials

Prior to the verification visit USC was asked to provide evidence of raw material purchases for hot rolled coil for the following purchases. The selection of purchases were identified from a schedule of Wuxi Changjiang raw material purchases at attachment 42 **[CONFIDENTIAL ATTACHMENT]** from USC's Countervailing exporter questionnaire response.

#### **[CONFIDENTIAL TEXT DELETED Raw Material purchases selection]**



USC provided each invoice together with a schedule that identified each coil, evidence of payment and a schedule that reconciled the purchase back to the raw material purchase listed above. We note the terms of sale differed in that some sales were ex works and others were on a delivered basis. See **confidential attachment CTM 2**. USC advised the verification team that Wuxi Changjiang has many suppliers of hot rolled coil and the decision to purchase is based on a range of factors including, price, quality, and lead time to take delivery. USC also stated that from time to time Wuxi Changjiang will import hot rolled coil.

To confirm the total of hot rolled coil purchases, USC provided a raw material movement schedule generated from its general ledger that identified raw material purchases. The verification team could trace the total purchases of raw materials to those used in the manufacture of the goods. **See confidential attachment CTM 3**

The verification team considers the raw material purchases listed in its Countervailing exporter questionnaire response to be accurate.

### 6.5.2 Conversion costs

The verification team requested that USC provide the conversion costs associated with its raw material purchases to demonstrate that Wuxi Changjiang have absorbed all costs associated with the transfer of the full hard metal to USC.

To commence, the verification team was advised that Wuxi Changjiang make three categories of steel: full hard metal, cold rolled coil and PO (pickled and oiled).

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Prior to the verification the agenda identified full hard metal coils transferred to USC using the coil identification mark. USC informed the verification team that the coil identification is the key mark to trace goods in the production system.

USC provided a simple cost breakdown for each coil which consisted of

- tonnage;
- raw material,
- scrap revenue; and
- labour overhead

At **confidential attachment CTM 4**, USC then demonstrated via general ledger documents and other management reports how the values were built up. USC was able to demonstrate the value of the full hard metal by coil and reconcile the values back to audited financial statements by way of reference to **confidential attachment CTM 5**. Furthermore USC provided a complete listing of Wuxi Changjiang's cost to make full hard metal which identified each coil. The pre visit selected coils used in the agenda could be identified in this list as well.

### 6.5.3 Wuxi Changjiang cost reconciliation

To confirm that Wuxi Changjiang had fully absorbed the costs as presented in confidential attachment CTM 4, USC provided a cost-reconciliation. Starting with a worksheet that identified the cost of sales it was further refined into cost of sales for full hard metal and other products.

Within the breakdown of costs was the identification of the raw material cost, packing costs and labour and overhead. This information was broken down by months, from 1 January 2011 to 30 June 2012. The verification team was then provided a copy of the trial balances for the 2011 financial year, the trial balance to 30 June 2012. In these trial balances the verification team identified the full cost of conversion.

USC demonstrated how the costs were verified to Wuxi Changjiang's audited financial statements and to the full hard metal coils manufactured as discussed in section 6.4.2 above. In this demonstration, USC was able to identify specific costs relevant to the cost of manufacture and the relevant the chart of accounts cost codes which could be traced to the trial balance and again to the audited financial statements.

### 6.5.4 Wuxi Changjiang SG&A

Following the conversion cost reconciliation, the verification team found that no SG&A expenses had been attributed to the full hard metal conversion cost transferred to USC.

The verification team asked for Wuxi Changjiang's SG&A. USC advised the verification team that minimal selling expenses are incurred by Wuxi Changjiang for the full hard metal sales to USC. Pricing is determined at a head office level so the activity is more administrative only.



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USC provided a worksheet identifying all of Wuxi Changjiang's SG&A which we traced to the audited financial statements and separated out costs not associated with the full hard metal sales to USC. At **confidential attachment CTM 6** is the work sheet identifying the relevant expenses excluded from the SG&A, which includes sales salaries, interest on loans, and loss on disposal of asset.

The interest and loss on the asset disposal were not related to the GUC. Given the related nature of the combined entities, the verification team included a proportion of Wuxi Changjiang's SG&A to the conversion cost.

### 6.6 Cost to make – Union Steel China

#### 6.6.1 Introduction

USC stated in their EQR it purchased **[CONFIDENTIAL TEXT DELETED]**% of full hard metal from Wuxi Changjiang. The remaining proportion is emergency stock purchases. USC indicated that prior to the POI its proportion of third party purchases for full hard metal **[CONFIDENTIAL TEXT DELETED]** **[CONFIDENTIAL TEXT DELETED – procurement policy]**. USC has purchased full hard and hot rolled coil from third parties **[CONFIDENTIAL TEXT DELETED]** **[CONFIDENTIAL TEXT DELETED – details of raw materials purchase]**

Full hard metal transferred from Wuxi Changjiang is based on **[CONFIDENTIAL TEXT DELETED]** **[CONFIDENTIAL TEXT DELETED – details of company policy]**. For this anti-dumping investigation the transfer price was not used, rather, the transfer value is the cost of the hot rolled coil and the conversion cost of the hot rolled coil into full hard metal.

As discussed an amount for Wuxi Changjiang's SG&A was also added.

In verifying USC's cost to make, the verification team continued with the same coil identification numbers as selected in the verification of the full hard metal manufactured by Wuxi Changjiang.

USC has four main product groups being galvanized steel, aluminium zinc coated steel, coated steel and colour coated steel.

#### 6.6.2 Upwards to financial statements – completeness

To commence the verification USC provided a reconciliation packet **confidential attachment CTM 7** that identified the total cost to manufacture. This cost was traced to the audited financial statements.

USC then separated the costs to manufacture into the four main product groups and then stepped the verification team down to the cost to manufacture the GUC. From the cost of manufacture, the GUC was broken down into a raw material schedule that identified aluminium zinc costs, labour and overheads from 1 January 2011 to 30 June 2012 with each cost being identified by a chart of account number code.

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From the raw material total, it was transferred to the cost of main operations in the financial statements. The verification team was satisfied that the value of the full hard metal transferred in from Wuxi Changjiang, plus the scrap value, labour and overhead had been included in the cost to manufacture the goods.

### 6.6.3 Unit cost to make – Full Hard Metal

At attachments 29 and 31 of USC's EQR were the domestic and export cost to make and sell worksheets. To explain the unit cost to make USC provided at confidential attachments 30 and 32 of its EQR, work sheets demonstrating how the unit cost to make full hard metal was calculated and how the value was transferred into the cost to make and sell worksheets of confidential attachments 29 and 31. Using confidential attachment CTM 4, the verification team was able to trace the unit conversion cost per coil from Wuxi Changjiang into confidential attachments 30 and 32.

USC also apply a scrap value against the full hard metal cost. This value is applied based on the value of the scrap metal sold and the proportion of throughput of full hard metal through the respective four product categories.

When the transfer price is used, as opposed to the conversion costs adopted in this investigation, USC informed the verification team it also applies a yield variance to the full hard metal value which is based on the difference in weight as recorded by Wuxi Changjiang's scales and those of USC's.

### 6.6.4 Unit cost to make – Scrap

The verification team requested that USC provide evidence of the scrap value. USC provided a schedule of all product sales and a detail of the by-product sales together with a transaction listing of all by-product sales for the POI. See **confidential attachment CTM 8**. USC consider that their only by-product sale is scrap. As a per cent of total sales revenue scrap value was less than █%[**CONFIDENTIAL TEXT DELETED**] of the total sales value.

### 6.6.5 Unit cost to make – Aluminium and Zinc

Attachment 30 and 32 of USC's EQR was the calculation for aluminium zinc coating for the GUC. Aluminium and zinc are direct costs applying to the GUC. Specifically, the four product groups are identified and then the aluminium zinc cost is applied to the specific product group. For the cost to make and sell, USC have applied a proportion of the cost to each product / model based on the value of the total cost allocated, and the model weight, as a proportion of the total coating weight that passed through in the period.

Also provided was an extract of the production reports identifying the volume and values and dross (scrap aluminium zinc) incurred in the period.

The verification team asked to verify actual purchases of zinc and aluminium. USC provided copies of a purchases ledger, trial balance, payment advice and purchase invoices. The verification team traced the invoice value to the trial balance via these documents. See **confidential attachment CTM 9**.

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### 6.6.6 Unit cost to make - Overheads Applied

The unit cost to make was separated into direct and indirect costs. The full hard metal and the aluminium zinc costs were identified as direct costs. Indirect costs that were applied include;

- Labour
- Electricity
- Water gas and fuel,
- Roll,
- Chemicals,
- Other
- Packing
- Depreciation
- Repairs.

At attachment 30 and 32 of USC's EQR [**CONFIDENTIAL ATTACHMENT**] were attachments identifying the above cost categories and the monthly totals incurred for the GUC. To reconcile these values USC provided a work sheet identifying the total costs incurred for the four product categories. Choosing May 2012, the verification team traced the total value of the costs to the May 2012 trial balance. See **confidential attachment CTM 10**. To trace the values, USC indicated that the errors correction sheet at **confidential attachment GEN 2** needed to be referred to. The net result of the corrections was an increase to the overhead applied.

The above overhead costs are allocated to the GUC on the basis as described in section 6.2 based on usage, or throughput volume (square meter).

### 6.6.7 Unit cost to make - depreciation

The verification team asked USC to reconcile the depreciation charged in the overhead calculations in confidential attachments 30 and 32 of USC's EQR to the audited statements. Using **confidential attachment CTM 10**, USC identified the depreciation charge for May 2012. USC provided a schedule that provided the depreciation expense from 1 January 2011 to 30 June 2012. The verification team traced the depreciation expense to the May 2012 trial balance and using the same methodology traced the depreciation expense to the 2011 audited financial statements. To complete the trace, depreciation charges recorded in the operating expense and the administrative expenses in the audited financial statements needed to be included to enable the reconciliation.

### 6.6.8 Conclusion of cost to make

The verification team verified the cost of manufacturing for all products for the investigation period to the cost of sales in the 2011 audited financial statements. USC provided its income statement for 2011 and its interim income statement for the first half of 2011 and 2012. It also provided the cost of sales statements for the same periods that reconciled to the income statements. The cost of sales statement identified the cost of manufacturing, transfers in and out, opening and closing inventory, the cost of by-product sales, raw materials, other materials, labour and

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overhead and the cost of merchandising sales (bought in products). USC provided the cost of manufacturing statements for these periods which the verification team reconciled to the cost of sales statements. The verification team was satisfied that the conversion cost incurred by Wuxi Changjiang had been transferred to USC for use in USC's cost to make and sell work sheet at attachment 29 and 31 of its EQR. See **confidential attachment CTM 10**

The verification team considers that a proportion of the SG&A incurred by Wuxi Changjiang needs to be added to the transfer value of the full hard metal conversion costs.

The verification team has calculated an amount of Wuxi Changjiang's SG&A based on full hard metal unit cost transferred to USC. See **confidential appendix CTM 6**

### 6.7 SG&A expenses (SG&A)

USC does not account for the SG&A for each product and for this purpose calculated the SG&A on a proportional revenue basis of the GUC relative to the total sales value split for domestic and export activities.

USC identified selling, general and administration expenses in its cost to make and sell worksheet and split them into selling, administrative, financial, delivery and extraordinary based on a revenue basis. To demonstrate the SG&A calculation USC provided a schedule with all the expense and revenue accounts incurred during the POI and split them into domestic and export based on activity. See **confidential attachment CTMS 1**.

#### 6.7.1 Extraordinary gains and losses

USC informed the verification team that the majority of the extraordinary income was due \_\_\_\_\_ to \_\_\_\_\_ a

\_\_\_\_\_  
[CONFIDENTIAL  
TEXT DELETED – details of financial information]. The second amount relates to

\_\_\_\_\_  
[CONFIDENTIAL TEXT DELETED – details of financial  
information]. The verification team has excluded these amounts from the  
extraordinary gains and loss SG&A ratio. See **confidential attachment CTMS 2**

#### 6.7.2 Non-operating expenses

Within this expense and income category, USC provided a work sheet identifying the reason behind the foreign exchange gains and losses. See **confidential attachment CTMS 3**. The verification team asked USC to explain the non-operating expenses and how they related to the GUC. The verification team was provided a schedule that identified \_\_\_\_\_ the \_\_\_\_\_ classes \_\_\_\_\_ of \_\_\_\_\_ expenses.

\_\_\_\_\_

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[REDACTED] [CONFIDENTIAL TEXT DELETED – details of financial information yet to be finalised].

### 6.8 Cost to make and sell – summary

The verification team is satisfied that sufficient information was available and verified to substantiate the CTMS for coated steel provided by USC. We consider the CTMS is suitable for:

- determining a constructed normal value; and
- assessing whether domestic sales were sold in the ordinary course of trade.

The CTMS of the various models is summarised at **confidential appendix 2**.

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### 7 DOMESTIC SALES

#### 7.1 Domestic sales process

At confidential attachment 17 to USC's EQR was a domestic sales spread sheet. During the POI USC had [CONFIDENTIAL TEXT DELETED – number] customers with a turnover of RMB [CONFIDENTIAL TEXT DELETED – number], selling [CONFIDENTIAL TEXT DELETED – number] tonnes of like goods. Domestic GUC sales represent approximately [CONFIDENTIAL TEXT DELETED]% of total domestic sales during the POI and approximately [CONFIDENTIAL TEXT DELETED]% of total sales.

##### 7.1.1 Level of Trade

At confidential attachment DOM 1 is a submission regarding the operation of the domestic market. By way of summary, USC sells coated steel to end users and distributors on the domestic market. However, the verification team was advised at the time of the visit that [CONFIDENTIAL TEXT DELETED – number] sub categories to the levels of trade existed, being [CONFIDENTIAL TEXT DELETED – details of sales route].

USC indicated that the domestic market is very competitive

[CONFIDENTIAL TEXT DELETED – details of USC's domestic sales and pricing policy]

##### 7.1.2 Price setting

USC indicated that price setting is similar and also different to the export market price setting process.

It is similar in that end users do not receive any price lists. The end user market tends to be smaller volumes. They do however receive a price adjustment notice that indicates the price movement from the previous period.

[CONFIDENTIAL TEXT DELETED – details of pricing policy].

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Any price negotiation whereby a price is set only holds for [REDACTED] [CONFIDENTIAL TEXT DELETED – pricing policy]

[REDACTED] [CONFIDENTIAL TEXT DELETED – details of pricing policy] See confidential attachment DOM 2

USC informed the verification team the base price is set with the following characteristics: [REDACTED];

[CONFIDENTIAL TEXT DELETED – pricing policy]

### 7.1.3 Sales and Marketing Activity

USC informed the verification team that the domestic sales team consists of [CONFIDENTIAL TEXT DELETED – number] staff. As part of the functions of this team, it is involved with domestic travel, trade shows, marketing seminars, visiting clients and activities associated with business development. Despite the internal organisation structure indicating the separation of the domestic and export sales functions, the verification team asked to see the chart of accounts identifying the split of the costs relative to the organisation chart.

[REDACTED] [CONFIDENTIAL TEXT DELETED – chart of account] attachment 3 of its EQR [CONFIDENTIAL ATTACHMENT].

### 7.1.4 Ordering

To order goods on the domestic market a purchase order needs to be submitted. The purchase order is submitted after the price has been agreed upon. USC's policy is that goods are made to order. [REDACTED]

[REDACTED] [CONFIDENTIAL TEXT DELETED – details of sales process and production policy].

### 7.1.5 Payment

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[REDACTED]  
[CONFIDENTIAL TEXT DELETED – payment terms policy].

### 7.1.6 Promissory notes

As part of the sales reconciliation packet **confidential attachment EXP 2**, was USC's list of domestic sales issued with promissory notes. The value as a per cent of the domestic sales of the GUC was approximately [REDACTED] % [CONFIDENTIAL TEXT DELETED].

### 7.1.7 Delivery

All sales are made on [REDACTED] [CONFIDENTIAL TEXT DELETED – sales term] basis. Once the goods are ready, USC contacts its customer and advises that the goods are ready for collection and raises an invoice [REDACTED] [CONFIDENTIAL TEXT DELETED – sales term and sales process]

### 7.1.8 Packing

The main difference between domestic and export sales is the cost of the bag used that covers the coil in transit. Export sales are wrapped in a plastic bag, where as domestic sales are wrapped in a paper bag. All other aspects of the packing is similar to export sales, in that it is outsourced to the same third party provider and that USC provide the steel strapping.

### 7.1.9 Discounts, rebates and allowances

USC stated that [REDACTED] [CONFIDENTIAL TEXT DELETED – details of discount, rebate and allowance arrangement]

[REDACTED] [CONFIDENTIAL TEXT DELETED – details of discount, rebate and allowance arrangement].

## 7.2 Domestic sales - reconciliation to financial statements

USC prepared documents reconciling domestic sales to the financial statements. See **confidential attachment EXP 2**. This reconciliation was prepared for both domestic and export sales. The verification team traced domestic sales figures from the income statement at attachment 7 of USC's EQR through to USC's audited profit and loss statement for the year ended 31 December 2011. To reconcile the figures, USC provided an adjustments summary to identify the returns or warranty claims, it also provided a summary report of all domestic sales split by month and product. From the information provided the verification team was also able to trace the domestic sales of the goods to the management accounts for the POI.



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The total value of the domestic sales spread sheet was correctly transferred to the Appendix A-8 Turnover [CONFIDENTIAL ATTACHMENT].

We were satisfied that the information was complete and the verification team was able to reconcile all figures to the audited financial statements.

### 7.3 Domestic sales – verification to source documents

USC provided a list of all its domestic sales of like goods during the POI in its exporter questionnaire response. In addition to the two complete sets of domestic sales documentation provided with its EQR, to facilitate downwards verification of USC's domestic sales to source documentation, the verification team requested that USC provide supporting documents for 8 selected invoice numbers. USC provided the following documents for each of these selected transactions:

- purchase order;
- commercial invoice;
- packing list; and
- evidence of payment.

We verified details for the selected transactions to the domestic sales spread sheet. See **confidential attachments DOM 3 to 10**.

We consider that the domestic sales data provided by USC is accurate.

### 7.4 Arm's length transactions

The verification team found with respect to sales of the GUC during the POI, no evidence that:

- there was any consideration payable for or in respect of the goods other than their price; or
- the price was 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.

We therefore consider USC's domestic sales during the investigation period were arm's length transactions.

### 7.5 Ordinary course of trade and volume of sales

Pursuant to s.269TAAD of the Act, the verification team compared the unit invoice price paid for each domestic sale with the fully absorbed CTMS (including a proportion of Wuxi Changjiang's SG&A), for those models sold in the corresponding month of production. For those models sold at a loss, the verification team then compared the selling prices of the loss making sales with the weighted average CTMS for that model for the investigation period to test whether some of those sales may be taken to be recoverable within a reasonable period of time.

All models were considered to pass the ordinary course of sales test.

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### 7.6 Sufficiency of sales

Domestic sales cannot be used to establish normal values if the volume of domestic sales that are in the ordinary course of trade is less than 5% of the volume of comparable goods exported to Australia.<sup>1</sup>

The verification team identified [REDACTED] [CONFIDENTIAL TEXT DELETED – number] models that failed the sufficiency of sales test.

### 7.7 Sales by other sellers

There are other sellers of coated steel in China. Customs and Border Protection is visiting another Chinese producer of coated steel.

### 7.8 Domestic sales – summary

We found a sufficient volume of sales of comparable models in the domestic market for aluminium zinc coated steel that were arm's length transactions and sold at prices that were in the ordinary course of trade. The price paid for the goods in those domestic sales was considered to be established satisfactorily.

Based on the information provided by USC and the verification processes conducted on site, the verification team considers that prices paid in respect of domestic sales are suitable for assessing normal value under s. 269TAC(1), if that is the preferred approach.

A summary of domestic sales suitable for establishing normal values is at **confidential appendix 3**.

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<sup>1</sup> s.269TAC(14) of the Act.

**PUBLIC RECORD****8 THIRD COUNTRY SALES**

As part of its exporter questionnaire response USC provided a summary of coated steel it exported to countries other than Australia during the investigation period. We are satisfied that there is sufficient verified domestic sales and CTMS information for the purposes of calculating normal values. While we verified the total volume and value of coated steel sales to third countries as part of the sales reconciliation process, we did not undertake any further verification.

Verification of total third country sales is via **confidential attachment EXP 2**

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### 9 ADJUSTMENTS

USC claimed that several adjustments should be made to ensure normal values can be compared with export prices.

#### 9.1.1 Physical Characteristics

USC considers of the [REDACTED] [CONFIDENTIAL TEXT DELETED – number] models exported to Australia only [REDACTED] [CONFIDENTIAL TEXT DELETED – number] models were not identical. USC has requested a physical adjustment for these [CONFIDENTIAL TEXT DELETED – number] models. From confidential attachment 15 to its EQR, USC indicated that the physical differences can be accounted for by [REDACTED] [CONFIDENTIAL TEXT DELETED – pricing policy] differences associated with the identifiable different characteristics between the most like export model and the domestically sold model.

The verification team asked for [REDACTED] [CONFIDENTIAL TEXT DELETED – pricing policy] of the POI. USC provided these. See **Confidential attachment DOM 2**.

[REDACTED] [CONFIDENTIAL TEXT DELETED – pricing policy].

The verification team applied the relevant prices relating to each price band to make the physical adjustment.

#### 9.1.2 Packing

USC indicated packing costs to be an adjustment. The packing is undertaken by a third party provider. Packing costs include packing materials (steel and bag to cover the coil) other packing materials, and labour. Packing costs were verified for each selected export transaction. USC provided a packing adjustment verification packet to verify packing costs. See **confidential attachment ADJ 1**. USC demonstrated different circumstances pertaining to the packing costs in the different markets. The main cost difference was the cost of the bag used in the export market being plastic and being a higher cost versus a paper bag used for the domestic market.

#### 9.1.3 Export inland freight

USC reported transaction specific freight expenses incurred to transport the goods from the factory to either the ports of Shanghai or Changshu for export. Inland freight costs were verified for each selected export transaction. See **confidential attachment EXP 3-10**.

#### 9.1.4 Handling, loading and ancillary expenses

USC reported transaction specific terminal handling charges, wharfage, document fees and customs brokerage fees that were incurred at the port of export. These

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charges were verified to source documents via the export sales verification. See **confidential attachment EXP 3-10**

### 9.1.5 Bank charges

USC reported bank charges incurred in respect of letters of credit and the collection of the payments from its export customers. Bank charges were verified for each selected export transaction. These charges were verified to source documents via the export sales verification. See **confidential attachment EXP 3-10**

### 9.1.6 VAT

In its EQR USC indicated that a 4% VAT adjustment resulting from the VAT rebate for exported goods. The verification team requested that USC demonstrate the value of the VAT rebates pertaining to the export sales of GUC. USC provided a copy of an internal USC brochure and a copy of the Harmonisation System document identifying the relevant tariff classification and the rate of VAT refundable. See **confidential attachment ADJ 2**.

### 9.1.7 Selling activity

The verification team considered that the selling activity on the domestic market was a significant effort as a result of the various business development activities undertaken. However following an examination of the selling costs on a per tonne basis the verification team did not identify any cost differences that warranted a selling activity adjustment. See **confidential attachment CTMS 3**.

### 9.1.8 Credit terms

The verification team considered whether a credit adjustment should apply and determined any credit adjustment would be for an insignificant amount due to the small value of promissory notes issued. The verification team did not include a credit adjustment. See 7.1.6 of this report on promissory notes.

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### 10 NORMAL VALUE

We consider that information gathered from all sources and detailed in this report and its attachments, can be relied upon to establish normal values.

As stated above, following the visit the delegate made PADs in relation to dumping of galvanised steel and aluminium zinc coated steel. The delegate has preliminarily determined that a market situation exists in relation to sales of galvanised steel and aluminium zinc coated steel in China and normal values should be based on constructed costs and an amount for profit.

The delegate also considers the cost of HRC reflected in Chinese exporters' records does not reflect a competitive market cost due to the various influences of the Government of China on the steel industry in China. PAD 190 contains details about the benchmark used to determine HRC costs for exporters in China. Applying this benchmark results in an uplift to USC's cost of HRC during the investigation period.

Normal values have been constructed using the cost to make aluminium zinc coated steel exported to Australia plus SG&A on the assumption that the goods, instead of being exported, were sold domestically<sup>2</sup>. A rate of profit has been added using data related to the production and sale of like goods in the ordinary course of trade<sup>3</sup>.

The verification team made positive adjustments to domestic selling prices pursuant to s.269TAC(9) for:

- inland freight;
- VAT rebate;
- handling, loading and ancillary costs; and
- bank charges.

No adjustment was necessary for the packing cost as this formed part of the cost to make.

A summary of normal value calculations is at **confidential appendix 4**.

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<sup>2</sup> s. 269TAC(2)(c)

<sup>3</sup> Regulation 181A(2) of the *Customs Regulations 1926*

**PUBLIC RECORD****11 DUMPING MARGIN – PRELIMINARY ASSESSMENT**

In calculating the dumping margin we compared each export transaction with the corresponding quarterly normal value for the corresponding model of coated steel. The weighted average product dumping margin for aluminium zinc coated steel is positive 8.50% as some issues identified in the report are yet to be finalised. A summary of dumping margin calculations is at **confidential appendix 5**.

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### 12 COUNTERVAILING AND MARKET SITUATION

Customs and Border Protection sent a separate exporter questionnaire to USC regarding market situation and countervailing. USC provided responses to both questionnaires.

#### 12.1 Market Situation

USC indicated that it is a foreign owned enterprise and the Government of China (GOC) has not been a shareholder or investor in USC at any time. USC's ownership is discussed in section 3.1 of this report. Wuxi Changjiang is 100% owned by Union Steel Korea. Both USC and Wuxi Changjiang have the same directors.

In their response USC indicated that the GOC does not play any part in the planning, price setting, or investment associated with USC or Wuxi Changjiang. At attachment 34 of the EQR, USC provided a copy of the 2011 board minutes and forecast budget for financial year 2012.

USC indicated that the Chinese market for coated steel in China operates in a commercial way. The investigation team was informed that USC has full autonomy to undertake its business as it sees fit. With regard to raw material inputs, it can source the goods from any supplier, including SOE's and from time to time will purchase raw material from overseas suppliers.

USC indicated that the coated steel market does not operate under any quotas, or consolidation policies set by the GOC and it is not aware of any such price distorting influences.

#### 12.2 Countervailing

Customs and Border Protection identified 29 subsidy programs. USC indicated that of the 29 programs 18 programs related to 'grants'. USC indicated that no grants were received and they were not applicable.

Prior to the visit the verification team requested that USC provide evidence to confirm its raw material purchases and evidence of payment.

At section 6.4.1 is the list of raw material transactions chosen and as discussed, USC provided the relevant evidence.

##### 12.2.1 Program 1 – Less than adequate remuneration

In its response to the Countervailing Exporter Questionnaire, USC indicated that some of the hot rolled coil was sourced from SOEs. USC also provided copies of the business licences of each of the suppliers. See **confidential attachment SUB 1**.

The verification team verified the raw material purchases at section 6.4.1.



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### 12.2.2 Program 5 – Preferred tax policies for foreign invested enterprises

[REDACTED] [CONFIDENTIAL TEXT DELETED – details of use of this program].

### 12.2.3 Program 11 – VAT and Duty exemption on import equipment

With regard to program 11, VAT and Duty exemption program on imported goods, USC provided a table to indicate the machinery imported. USC indicated it [REDACTED] [CONFIDENTIAL TEXT DELETED – details of use of this program] and that the Government of China stopped duty and VAT exemptions in 2005. This was evident in the schedules provided. USC provided information pertaining to both itself and that of Wuxi Changjiang.

The verification team selected four capital purchases seeking evidence of payment and the relevant customs duty and VAT exemptions. USC provided this information together with the harmonised system tariff classification and relevant duty rate documents. The verification team found the information agreed with the table provided in the questionnaire response. See **confidential attachment SUB 2**

The verification team calculated the subsidy benefit received by Wuxi Changjiang and apportioned it based on production volumes. Wuxi Changjiang's benefit amount transferred to USC was based on the production volumes transferred to USC. The benefit received by USC directly was added to Wuxi Changjiang transferred benefits and divided by the asset life. The benefit was then divided by total sales volume. The subsidy benefit was [CONFIDENTIAL TEXT DELETED] [REDACTED] RMB per tonne. This amount was then divided by the weighted average Australian sales FOB value which represented 0.40% of the FOB value. See **confidential appendix 7**

### 12.2.4 Remaining 26 programs

The chart of accounts indicated an account called subsidies and non-operating income. The investigation team asked to see the general ledger for these two revenue accounts with USC providing copies of these accounts covering the POI. The general ledger reports provided indicated the accounts showing no activity and having a nil balance during the POI. See **confidential attachment SUB 3**

For the remaining programs, a number were geographical or industry-based and were not likely to be relevant due to the location of USC and Wuxi Changjiang's facilities or their business type. Despite this the verification team asked USC of their knowledge of the remaining 26 programs to determine if any subsidies, whether in the form of a grant or tax benefit had been received.

USC indicated in its response to the countervailing exporting questionnaire that they did not receive any benefits and again reiterated their responses to the verification

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team that they were not aware of any of the programs, or were not in the relevant geographical location or in the desired hi tech industries to receive such benefits.

### 12.2.5 Other potential programs

Following an examination of Wuxi Changjiang's extraordinary income and expense account, the verification team identified a small payment of RMB [REDACTED] **[CONFIDENTIAL TEXT DELETED]** relating to an amount received for an environmental award. See **confidential attachment SUB 4**

It is considered that if the award was countervailable the award would need to be apportioned over the production of Wuxi Changjiang which is approximately **[CONFIDENTIAL TEXT DELETED]** tonnes. Converting to AUD, the verification team considers the pass through effect on the volume of export sales to be approximately 0.003 cents per tonne.

The verification team has not established if the award is a countervailable subsidy. Despite this, the verification team considers the impact insignificant and has not pursued this issue further.

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### 13 LIST OF APPENDICES AND ATTACHMENTS

Confidential appendix 1	Export price summary
Confidential appendix 2	CTMS summary
Confidential appendix 3	Domestic sales summary
Confidential appendix 4	Normal values
Confidential appendix 5	Dumping margins
Confidential appendix 6	Wuxi Changjiang's SG&A component
Confidential appendix 7	Subsidy benefit calculation
Confidential attachment GEN 1	Agenda
Confidential attachment GEN 2	Exporter questionnaire corrections package
Confidential attachment GEN 3	Company presentation
Confidential attachment EXP 1	Warranty sales adjustment
Confidential attachment EXP 2	Export sales reconciliation package
Confidential attachment EXP 3	Bank of China monthly exchange rates
Confidential attachment EXP 4	Non GUC sales reconciliation
Confidential attachment EXP 5	Source documentation for selected export sales
Confidential attachment EXP 6	Additional purchase orders and export sales invoices
Confidential attachment CTM 1	Production cost replacement list
Confidential attachment CTM 2	Wuxi Changjiang hot roll coil purchases.
Confidential attachment CTM 3	Wuxi Changjiang hot roll coil reconciliation
Confidential attachment CTM 4	Wuxi Changjiang conversion cost of hot rolled coil
Confidential attachment CTM 5	Wuxi Changjiang conversion cost reconciliation
Confidential attachment CTM 6	Wuxi Changjiang SG&A
Confidential attachment CTM 7	USC Conversion cost reconciliation
Confidential attachment CTM 8	USC Scrap revenue
Confidential attachment CTM 9	Aluminium and zinc purchases
Confidential attachment CTM 10	Manufacturing overhead costs and depreciation reconciliation
Confidential attachment CTMS 1	USC SG&A verification package
Confidential attachment CTMS2	Extraordinary gains and losses evidence
Confidential attachment CTMS 3	Foreign exchange gains and loss work sheet
Confidential attachment DOM 1	Domestic sales market operation submission
Confidential attachment DOM 2	Distributor price lists
Confidential attachment DOM 3-10	Domestic sales commercial documents
Confidential attachment ADJ 1	Packing costs
Confidential attachment ADJ 2	VAT export rebate
Confidential attachment SUB 1	Business licences of hot roll coil suppliers
Confidential attachment SUB 2	Duty and VAT exemptions on imported goods.

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Confidential attachment SUB 3	Subsidy and non-operating income account
Confidential attachment SUB 4	Environmental award