



INTERNATIONAL TRADE REMEDIES BRANCH

**INVESTIGATION INTO THE ALLEGED DUMPING
OF CERTAIN HOT ROLLED COIL STEEL**

EXPORTED FROM

**JAPAN, MALAYSIA, THE REPUBLIC OF KOREA
AND TAIWAN**

EXPORTER DESK AUDIT REPORT

CHUNG HUNG STEEL CORPORATION

THIS REPORT AND VIEWS OR RECOMMENDATIONS CONTAINED
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SEPTEMBER 2012

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1 Background

1.1 Purpose of report

The purpose of the desk audit was to:

- verify information contained in Chung Hung Steel Corporation's (Chung Hung) exporter questionnaire;
- determine the normal value of hot rolled coil steel (HRC) and the export price; and
- determine the dumping margin, if any.

1.2 Company details

| | |
|-----------|--|
| Company: | Chung Hung Steel Corporation |
| Address | 317, Yu Liao Road Chiao Tou District Kaohsiung City 825 Taiwan R.O.C. |
| Telephone | +886 7 611 7171 |

1.3 Introduction

On 10 May 2012, BlueScope Steel Limited and BlueScope Steel (AIS) Pty. Ltd (jointly referred to as BlueScope in this report) lodged an application requesting that the Minister for Home Affairs (the Minister) publish a dumping duty notice in respect of hot rolled coil steel (HRC) exported to Australia from Japan, the Republic of Korea (Korea), Malaysia and Taiwan. On 28 May 2012, BlueScope provided additional information and as a result, the maximum period of 20 days allowed to examine the application was recommenced.

The application alleges that HRC has been exported to Australia from Japan, Malaysia, Korea and Taiwan at prices lower than its normal value and that this dumping has caused material injury to the Australian industry producing HRC.

Following consideration of the application and additional information, the Australian Customs and Border Protection Service (Customs and Border Protection) initiated an investigation on 15 June 2012. Public notification of initiation of the investigation was made in The Australian newspaper on 15 June 2012. Australian Customs Dumping Notice (ACDN) No. 2012/30 provides further details of this investigation and is available at www.customs.gov.au

The investigation period is 1 April 2011 to 30 March 2012. Customs and Border Protection will examine exports to Australia of the goods during that period to determine whether dumping has occurred.

Chung Hung Steel Corporation (Chung Hung) was identified in the application as an exporter of HRC from Taiwan. Customs and Border Protection's import

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database also indicated that **[CONFIDENTIAL TEXT DELETED]** during the investigation period. Consequently, Chung Hung was invited to participate in the investigation and was provided with an Exporter Questionnaire to complete.

Chung Hung submitted a response to the exporter questionnaire (EQR) including providing requested attachments and other supporting material.

1.4 Company information

Chung Hung is a publicly traded company and listed on the Taiwan Stock Exchange. As such, the holding of each shareholder will vary from time to time in line with the shareholder's trading in the stock market.

Chung Hung is a subsidiary of China Steel Corporation ("CSC"), which is also a publicly traded company and listed on Taiwan Stock Exchange.

Based on the shareholders' roster dated as of 31 March 2012, only one shareholder owns more than 5% of CHS's shares. That shareholder is CSC, which has a direct holding of **[CONFIDENTIAL TEXT DELETED]** % and a total direct and indirect holding of **[CONFIDENTIAL TEXT DELETED]** %.

Chung Hung's principal activities are manufacturing and trading hot rolled coil, cold rolled coil, pickled and oiled coil, skin pass coil and steel pipe such as black pipe, rectangular pipe, galvanised pipe, API pipe and PE coated pipe.

Chung Hung is organized into three divisions and 12 departments, which are structured based on their respective functions. The Marketing Department is the unit involved in sales of the product concerned. The Hot Rolling Department is the production unit involved in producing such goods.

In Chung Hung's response to the exporter questionnaire, it advised that it is the manufacturer of HRC and it sells the goods both domestically and for export.

1.5 Accounting

Chung Hung's accounting period is from 1 January to 31 December.

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2 The Goods and Like Goods

2.1 The Goods

The application describes the goods as hot rolled coil (including in sheet form), a flat rolled product of iron or non-alloy steel, not clad, plated or coated (other than oil coated). The application states that goods excluded from the application are hot rolled products that have patterns in relief (known as checker plate) and plate products.

The application states that all thicknesses of HRC are covered by the application. The application further states that it is the thickness of the coil when cut that will determine whether the product is classified as hot rolled sheet or hot rolled plate. To clarify this further the application goes on to say that plate is 4.75mm in thickness or more whereas sheet is anything below this thickness.

2.2 Tariff classification

The goods are classified under the following tariff classifications and statistical codes:

- 7208.25.00 – statistical code 32
- 7208.26.00 – statistical code 33
- 7208.27.00 – statistical code 34
- 7208.36.00 – statistical code 35
- 7208.37.00 – statistical code 36
- 7208.38.00 – statistical code 37
- 7208.39.00 – statistical code 38
- 7208.53.00 – statistical code 42
- 7208.54.00 – statistical code 43
- 7208.90.00 – statistical code 30
- 7211.14.00 – statistical code 40
- 7211.19.00 – statistical code 41

The rate of duty for Japan is 5%, whereas Korea, Malaysia and Taiwan do not attract a duty. Customs and Border Protection also identified that HRC may be classified under 7208.51.00 (statistical code 40) and 7208.52.00 (statistical code 41) however these codes relate to hot rolled products that are not in coil and have a thickness of 4.75mm or more, which Customs and Border Protection consider to be plate products.

2.3 Like Goods

Subsection 269T(1) defines like goods to mean:

Goods that are identical in all respects to the goods under consideration or that, although not alike in all respects to the goods

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under consideration, have characteristics closely resembling those of the goods under consideration.

Chung Hung stated in its exporter questionnaire that some of the goods sold domestically differ from the exports to Australia because the Australian product is sold in coils whereas the domestic product is sold in sheets. In addition, some exported HRC of the same grade as domestic sales was in different widths. Adjustments were made to the domestic selling price to take into account these product specification differences.

2.4 Like Goods – preliminary assessment

We are satisfied that the HRC manufactured by Chung Hung for the domestic market are like goods to those exported to Australia under s.269T(1) of the *Customs Act 1901* (the Act). Chung Hung supplied a document which outlined the products that they exported to Australia compared to the domestically sold products. See **Confidential Attachment 1**.

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3 Export sales to Australia

3.1 General

Chung Hung exported HRC to **[CONFIDENTIAL TEXT DELETED – names of customers]** during the investigation period. The terms of trade **[CONFIDENTIAL TEXT DELETED – terms of trade]**. During the investigation period all of Chung Hung's export customers were traders. Chung Hung advised that it is not related to any of its Australian customers.

In its response to the exporter questionnaire, CSG explained its selling process:

- **[CONFIDENTIAL TEXT DELETED – details of sales process]**

Confidential Attachment 2.

Chung Hung advised its payments terms are **[CONFIDENTIAL TEXT DELETED – credit terms]**.

Chung Hung provided a spreadsheet with its exporter questionnaire detailing export sales to Australia for the period 1 April 2011 to 31 March 2012 (**Confidential Attachment 3**). The following table summarises Chung Hung's sales to Australia during the investigation period via finish.

| | MT |
|---------------------|------------------------------------|
| 1. Total | [CONFIDENTIAL TEXT DELETED] |
| 2. By finish | |
| Pickled and Oiled | |
| Bare | |

The following table summarises Chung Hung's sales to Australia via grade.

| Grade | MT |
|------------------------------------|------------------------------------|
| [CONFIDENTIAL TEXT DELETED] | [CONFIDENTIAL TEXT DELETED] |

We selected eight invoice numbers from the list of Australian sales attached to Chung Hung's exporter questionnaire response and the company provided the following documents in relation to each sale:

- commercial invoice;
- packing list;
- bill of lading;
- bank charges invoices
- survey fee invoices
- customs brokerage fees invoice
- customs declaration form
- certificate and list of measurement and weight
- harbour service fee invoices

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- other fee (e.g. document fee) invoices
- trade promotion fee invoices
- service charges fee at a single rate per MT
- delivery notice
- mill test certificate

The bundle of documents relating to each selected transaction forms is at **Confidential Attachment 4**. Chung Hung also provided proof of payment for the selected Australian sales source documents. We are satisfied that the proof of payment documents accurately reflect the values listed in the invoices.

We did have some queries for Chung Hung which they clarified upon request. We had further questions in regards to the export inland transport costs that Chung Hung had listed in its Australian sales spreadsheet. We requested further information from Chung Hung about which of the transaction forms indicate the inland transport costs. Chung Hung then provided us with source documents for two of the transactions showing inland transport invoices and proof of payment.

Also we asked about the price difference in the inland costs listing in the Australian sales spreadsheet **[CONFIDENTIAL TEXT DELETED]**. Chung Hung advised us that the unit transportation rate is different due to the different starting point for shipments. Chung Hung indicated that **[CONFIDENTIAL TEXT DELETED – details of transportation arrangement]**.

Also during our desk audit we found that the service fee for two of the transactions was not **[\$[CONFIDENTIAL TEXT DELETED]** per MT but instead **[\$[CONFIDENTIAL TEXT DELETED]** per MT and **[\$[CONFIDENTIAL TEXT DELETED]** per MT. Chung Hung advised us that **[CONFIDENTIAL TEXT DELETED – details of arrangement with third party]**.

We matched the remainder of the details for each selected transaction to the details in the Australian Sales spreadsheet. Based on the information provided we are satisfied that the export sales volume and values in the Australian Sales spreadsheet are accurate.

3.2 Who is the exporter and importer – preliminary assessment

We consider Chung Hung to be the exporter of the goods to Australia as it:

- manufactured the goods;
- owned or previously owned the goods;
- is 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 purchaser's identity.

3.3 Arms length

Chung Hung gave us proof of payment documentation for the selected Australian sales. Through our verification of these documents we confirmed

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during our desk audit that the price invoiced by Chung Hung was the price paid by **[CONFIDENTIAL TEXT DELETED – names of customers]**.

Therefore, we consider that sales between Chung Hung and **[CONFIDENTIAL TEXT DELETED – names of customers]** to be arms length.

3.4 Export price

Based on the information provided for the desk audit we consider that:

- the goods have been purchased by the importer from the exporter; and
- the transactions between the importer and exporter were arms length.

We consider that export prices can be calculated under s269TAB(1)(a), being the price paid or payable by the importer less, as appropriate, expenses that represent a charge for any matter arising after exportation. Export price calculations are at **Confidential Attachment 5**.

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4 Cost to make and sell

Chung Hung uses accounting principles that are in accordance with the generally accepted accounting principles of Taiwan. Chung Hung uses an ordinary cost accounting system whereby one average cost is given to the product at one given cost centre. Chung Hung stated that it **[CONFIDENTIAL TEXT DELETED – details of cost accounting arrangement]**.

In its response to the exporter questionnaire, Chung Hung explained that **[CONFIDENTIAL TEXT DELETED – details of cost accounting arrangement]**.

In its exporter questionnaire response, Chung Hung provided separate spreadsheets showing:

- its cost to make and sell HRC in Taiwan; and
- its cost to make and sell HRC exported to Australia.

These spreadsheets form **Confidential Attachment 8**. The spreadsheets provide monthly costs for materials, direct labour and manufacturing overheads to arrive at the cost of manufacturing the product. The spreadsheets also show amounts for selling, administrative and finance costs and delivery expenses.

The spreadsheets provide a unit cost per metric tonne (MT) for each month of the investigation period.

We identified that as Chung Hung was a re-roller, the cost of slab made up the vast majority of its manufacturing costs. Chung Hung stated that steel slab was purchased from related and unrelated suppliers. Chung Hung supplied us with a document outlining Chung Hung's relationship with the supplier of slab and the quarterly volume and value of slab purchases. See **Confidential Attachment 6**.

Chung Hung also supplied us with a spreadsheet that had a line by line breakdown of all slab purchases during the investigation period. We asked Chung Hung to supply us with source documents for 12 purchases of slab from both related and unrelated parties. We matched the volume and value amount written in the spreadsheet with the amount shown in the order invoice. Chung Hung also provided us with proof of payment, by supplying bank documentation for the 12 invoices, showing that the amount on the invoice being paid by Chung Hung to the supplier. We verified all 12 source documents and found that all of them reconciled to the amounts listed in the spreadsheet. See **Confidential Attachment 7**.

Below is a table summarising the cost (USD) per MT of slab purchased from Chung Hung from related and unrelated suppliers.

| Supplier Name | Related or Unrelated company | Average Cost of slab per MT (USD) |
|------------------------------------|------------------------------------|------------------------------------|
| [CONFIDENTIAL TEXT DELETED] | [CONFIDENTIAL TEXT DELETED] | [CONFIDENTIAL TEXT DELETED] |

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| | | |
|--------------------------------|--------------------------------|--------------------------------|
| [CONFIDENTIAL TEXT DELETED] | [CONFIDENTIAL TEXT DELETED] | [CONFIDENTIAL TEXT DELETED] |
| [CONFIDENTIAL TEXT DELETED] | [CONFIDENTIAL TEXT DELETED] | [CONFIDENTIAL TEXT DELETED] |
| [CONFIDENTIAL TEXT DELETED] | [CONFIDENTIAL TEXT DELETED] | [CONFIDENTIAL TEXT DELETED] |
| [CONFIDENTIAL TEXT DELETED] | [CONFIDENTIAL TEXT DELETED] | [CONFIDENTIAL TEXT DELETED] |

We are satisfied that the prices of slab purchased from related parties reflected the market price for slab. Chung Hung's cost to make and sell and slab costs were also benchmarked against other comparable exporters and were found to be reasonable in comparison.

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5 Domestic sales

In Chung Hung's response to the exporter questionnaire, it advised that it sells HRC **[CONFIDENTIAL TEXT DELETED – details of sales arrangement with customers]**. Chung Hung arranges for a shipping company to deliver the goods to the customer. **[CONFIDENTIAL TEXT DELETED – details of transportation arrangements]**. The invoices are included at **Confidential Attachment 9**.

Chung Hung advised that domestic market selling prices are based on case by case negotiation with customers.

We made a selection of domestic sales invoices and requested supporting documentation. Chung Hung provided delivery notes, purchase orders, invoices and proof of payment by customers. These documents form **Confidential Attachment 10**.

We were able to reconcile the source documents provided to the information included in the sales spreadsheet provided.

We are satisfied that Chung Hung's sales listing in response to the exporter questionnaire is accurate.

5.1 Discounts

Chung Hung stated that it granted discounts and rebates from prices charged to its domestic market customers.

Chung Hung stated that it granted discounts based on **[CONFIDENTIAL TEXT DELETED – details of discount arrangement]**.

Chung Hung also grants discounts for those domestic customers **[CONFIDENTIAL TEXT DELETED – details of discount arrangement]**

Chung Hung may also grant a discount to customers **[CONFIDENTIAL TEXT DELETED – details of discount arrangement]**.

Chung Hung can also grant rebates **[CONFIDENTIAL TEXT DELETED – details of rebate policy]**. This is consistent with the practice of other Taiwanese suppliers in the domestic market.

A rebate is also available if there are quality issues with the products and a refund under warranty is given.

In Chung Hung's response to the exporter questionnaire, the company provided a list of its domestic sales of the goods under consideration during the investigation period (**Confidential Attachment 11**).

5.2 Arms length transactions

Section 269TAC(1) of the Act provides that the normal value of any goods exported to Australia is the price paid or payable for like goods sold in the ordinary course of trade for home consumption in the country of export in sales that are arms length transactions by the exporter, or if like goods are not so sold by the exporter, by other sellers of like goods.

A purchase or sale of goods shall not be treated as an arms length transaction if:

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- a) there is any consideration payable for or in respect of the goods other than their price; or
- b) the price is influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- c) in the opinion of the Minister the buyer, or an associate of the buyer, will, subsequent to the purchase or sale, directly or indirectly, be reimbursed, be compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.

Consideration other than price

For the purposes of (a), above, we found no evidence that there is any consideration payable for or in respect of the goods other than their price.

Price influenced by relationship?

Chung Hung made mention of selling HRC to one related company during the investigation period. That company was **[CONFIDENTIAL TEXT DELETED – name of customer]**. Chung Hung stated that selling prices to **[CONFIDENTIAL TEXT DELETED – name of customer]** are the same or similar to prices for unrelated parties under the same conditions. Upon examining Chung Hung's domestic sales spreadsheet we determined that the price paid to **[CONFIDENTIAL TEXT DELETED – name of customer]** was similar to the price paid by unrelated parties.

For the purposes of (b), above, we do not consider that the price was influenced by a commercial or other relationship between the buyer and the seller.

Compensation or benefit

For the purposes of (c), above, we found not evidence that the buyer, or an associate of the buyer, will, subsequent to the purchase or sale, directly or indirectly, be reimbursed, be compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.

Conclusion

We recommend that domestic sales of like goods by Chung Hung be treated as arms length transactions.

PUBLIC RECORD**6 Ordinary course of trade**

We compared the unit net invoice price for each of the **[CONFIDENTIAL TEXT DELETED]** like models sold domestically to the fully absorbed cost to make and sell in the corresponding month in which the sale was made. We found that for **[CONFIDENTIAL TEXT DELETED]**, the volume of sales that were unprofitable and non-recoverable exceeded 20% of the total volume sold **[CONFIDENTIAL TEXT DELETED]**.

Of the **[CONFIDENTIAL TEXT DELETED – number of model/s]** where there was a substantial quantity of sales not in the ordinary course of trade, **[CONFIDENTIAL TEXT DELETED – number of model/s]** had all domestic sales that were unprofitable and non-recoverable. Of the other **[CONFIDENTIAL TEXT DELETED – number of model/s]**, the volume of remaining sales in the ordinary course of trade exceeded 5% of the volume of the corresponding export model.

Ordinary course of trade test calculations are at **Confidential Attachment 12**.

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7 Adjustments

Chung Hung listed the following cost adjustments in their EQR. To ensure comparability with export prices we made the following adjustments to the domestic selling prices for Chung Hung.

7.1 Export inland transport

Chung Hung advised us that they **[CONFIDENTIAL TEXT DELETED – details of transport arrangement]**.

As domestic selling prices are **[CONFIDENTIAL TEXT DELETED – terms of trade]** and export prices are at **[CONFIDENTIAL TEXT DELETED – terms of trade]**, we consider that domestic selling prices should be adjusted to reflect the average export inland freight cost.

7.2 Handling, loading and ancillary expenses

In its questionnaire response, Chung Hung identified all relevant **[CONFIDENTIAL TEXT DELETED – terms of trade]** related expenses. Each individual expense was captured under the following subcategories – survey fee, brokerage, loading & handling, banking charges, harbour service fee, trade promotion charge and other export expenses.

We consider that upward adjustment to domestic sales is warranted to reflect these additional export expenses incurred by the company.

7.3 Credit

Chung Hung stated that the payment terms for Australian sales during the investigation period were **[CONFIDENTIAL TEXT DELETED – details of credit terms]**.

In relation to domestic sales, Chung Hung was able to demonstrate that an estimated **[CONFIDENTIAL TEXT DELETED – number of day/s]** credit was incurred on those customers with **[CONFIDENTIAL TEXT DELETED – credit terms]**.

We consider a downward adjustment for domestic credit is warranted.

7.4 Commission

Chung Hung identified that a commission was paid to Taiwanese agents for locating overseas customers and for agency services provided.

We consider that domestic sales should be adjusted upwards to reflect the commission paid on exports to Australia.

7.5 Service Fee

Chung Hung reported a service fee in their adjustments. This fee is paid to China Steel Global Trading Corporation as they help Chung Hung to confirm orders, key-in orders and check shipments for export sales.

7.6 Warranty claims

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A small number of domestic sales incurred warranty claims from customers and were separately identified in the domestic sales listing provided in the questionnaire response. We consider a downward adjustment to those specific domestic sales is warranted.

PUBLIC RECORD**8 Normal Value**

Where domestic sales of a particular model in the ordinary course of trade exist in sufficient volumes in a corresponding period to which exports were made, we consider that those sales are suitable for establishing normal values under s.269TAC(1).

For those monthly periods where no such domestic sales existed, we considered it appropriate to use a normal value from a different period and make a timing adjustment based on the difference in costs between those periods.

For those models where all domestic sales of like goods were found to not be in the ordinary course of trade, we recommend that the normal values be established under s.269TAC(2)(c) using the cost to make and sell. As required by s.269TAC(13) no profit has been included in the construction.

For those export models where there were no corresponding domestic sales during the investigation period, we have determined normal value using OCOT selling prices of a like model, adjusted in accordance with s.269TAC(8) for physical differences between them.

Normal value calculations are at **Confidential Attachment 13**.

PUBLIC RECORD**9 Dumping margin**

We have assessed a preliminary dumping margin, by comparing the weighted average of export prices over the whole of the investigation period with the weighted average of corresponding normal values over the whole of that period in accordance with subsection 269TACB(2)(a).

The product dumping margin for the investigation period is 6.51%.

The calculation of the dumping margin is at **Confidential Attachment 14**.

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| | |
|----------------------------|---|
| Confidential Attachment 1 | Comparison of goods exported to Australia and goods sold domestically |
| Confidential Attachment 2 | Internal pricing guidelines |
| Confidential Attachment 3 | Australian sales spreadsheet |
| Confidential Attachment 4 | Australian sales source documents |
| Confidential Attachment 5 | Export sales calculation |
| Confidential Attachment 6 | Slab Purchase summary spreadsheet |
| Confidential Attachment 7 | Slab Purchase source documents |
| Confidential Attachment 8 | Cost to make and sell spreadsheets |
| Confidential Attachment 9 | Payment to trucking company for domestic sales |
| Confidential Attachment 10 | Domestic sales spreadsheet |
| Confidential Attachment 11 | Domestic Sales source documents |
| Confidential Attachment 12 | Ordinary course of trade calculations |
| Confidential Attachment 13 | Normal Value calculations |
| Confidential Attachment 14 | Dumping Margins |