Australian Government
Anti-Dumping Commission

INVESTIGATION INTO THE ALLEGED DUMPING OF HOT ROLLED PLATE STEEL EXPORTED FROM THE PEOPLE'S REPUBLIC OF CHINA, THE REPUBLIC OF INDONESIA, JAPAN, THE REPUBLIC OF KOREA AND TAIWAN

AND

ALLEGED SUBSIDISATION OF HOT ROLLED PLATE STEEL EXPORTED FROM THE PEOPLE'S REPUBLIC OF CHINA

EXPORTER VISIT REPORT

SHANDONG IRON AND STEEL COMPANY LIMITED

(JINAN BRANCH)

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

July 2013

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2 BACKGROUND

2.1 Application

On 21 December 2012, BlueScope Steel Limited (the applicant) lodged an application requesting that the Minister for Home Affairs (the Minister) publish a dumping duty notice in respect of hot rolled plate steel (plate steel) exported to Australia from the People's Republic of China (China), the Republic of Indonesia (Indonesia), Japan, the Republic of Korea (Korea) and Taiwan, and a countervailing duty notice in respect of plate steel exported to Australia from China.

BlueScope provided further information and data in support of its application, the last of which was received on 29 January 2013. As a result, the Australian Customs and Border Protection Service (ACBPS) restarted the 20 day period for considering the application.

The application alleges that plate steel has been exported to Australia from China, Indonesia, Japan, Korea and Taiwan at prices lower than its normal value, that plate steel exported to Australia from China has benefited from countervailable subsidies, and that this dumping and subsidisation has caused material injury to the Australian industry producing plate steel.

Following consideration of the application, ACBPS decided not to reject the application. Public notification of initiation of the investigations (anti-dumping and countervailing) was made in The Australian newspaper on 12 February 2013.

Australian Customs Dumping Notice (ACDN) No. 2013/18 and ACDN No. 2013/20 provides further details of this investigation and is available at www.adcommission.gov.au .

The investigation period is 1 January to 31 December 2012. The Anti-Dumping Commission[1] (the Commission) will examine exports to Australia of the goods during that period to determine whether dumping and/or subsidisation has occurred.

The Commission will examine details of the Australian market from 1 January 2008 for injury analysis.

2.2 Background to meeting

Shandong Iron & Steel Company Limited, Jinan Company (JIGANG) was identified in BlueScope's application as an exporter of plate steel to Australia from China during the investigation period.

ACBPS notified JIGANG of the initiation of the investigations and sought its cooperation with the investigations and provided an exporter questionnaire for the company to complete. The company completed the exporter questionnaire, and a

[1] On 1 July 2013, the International Trade Remedies Branch of the ACBPS became the Anti-Dumping Commission. From 1 July 2013 the role previously performed by the CEO of the ACBPS will be performed by the Commissioner of the Anti-Dumping Commission.

non-confidential version of the questionnaire response is available on the public record.

2.3 Purpose of visit

The purpose of the visit was to verify information contained in the exporter questionnaire response submitted by JIGANG.

The JIGANG exporter questionnaire response consisted of background to its activities, exports sales data to Australia and other countries, domestic sales data, and cost to make and sell data. It also included a response to the market situation and subsidy section of the questionnaire. The exporter questionnaire response was supported by attachments.

Prior to the visit, ACBPS sought clarification from JIGANG on a number of issues. JIGANG's response is at **Confidential Attachment GEN1**. A number of further attachments were provided with the response.

Verified information obtained during the visit to JIGANG has been used to make preliminary assessments of:

- who is the exporter and who is the importer;
- export prices and normal values for plate steel manufactured by JIGANG;
- dumping margins.

The report also describes our findings in regards to subsidies received by JIGANG.

2.4 Visit

The visit for JIGANG took place at offices at the factory of JIGANG at the following address:

No. 21, Gongyebei Road,
Jinan, Shandong Province
CHINA

Telephone: + 86 531 8886 8080
Fax: + 86 531 8898 3798

The following persons were present at various stages of the visit:

Dates	15-17 May 2013
JIGANG	
Department	*Name and position*
Jinan Branch	Wang Xiangdong, Vice President – Jinan Branch

Medium plate factory	Ma Yueqiang, Chief
Production Department	Wang Yong, Deputy Chief
Human Resources	Zheng Haixi
Legal Department	Luo Wenjun, Vice Director Cao Shuyu
Technology Centre	Feng Yong, Senior engineer
Jinan Steel International Trade	Deng Guandong, Director Pan Xian, Vice Director Wang Xia, Deputy Chief Song Yan, Marketing Manager, Export Department Zhou Linlin Li Ke
Domestic purchase Department	Fa Quanying, Vice Director Wei Xiaotao, Chief Ding Weining Zhang Mingxue
Domestic Sales company	Zhang Xinfu, Vice Director Wang Xiutang, Chief Liang Jun Liu Lei Bao Guangdong
Finance Department	Tang Wanquan, Chief Kang Yanzhong, Chief Luan Yi, Chief Dong Yajuan, Deputy Chief Liu Xian Liu Yi Guo Chuanhui Li Jian

	Cao Xuzong
Wide heavy steel factory	Song Zhaowei, Deputy Chief
Asset Management Department	Chen Jian, Vice Director Xin Shuai
Energy Environment and Power Department	Lin Zhengren, Deputy Chief
Australian Customs and Border Protection Service	
International Trade Remedies Branch	Michelle Gibson, Manager, Operations 2 Mick Kenna, Manager, Operations 3
ACBPS engaged translator	Jerry Li

At the visit we provided a summary of the investigation process and timeframes as follows:

- the investigation period for the anti-dumping and countervailing investigations is 1 January 31 December 2012;
- ACBPS will examine the Australian market from 1 January 2008 for the purpose of analysing the condition of the Australian industry;
- a preliminary affirmative determination (PAD) may be made no earlier than 15 April 2013 (after day 60 from the initiation date);
- provisional measures may be imposed at the time of the PAD or at any time after the PAD has been made, but ACBPS would not make such a determination until it was satisfied that there appears to be, or that it appears there will be, sufficient grounds for the publication of a dumping duty notice and/or a countervailing duty notice;
- a statement of essential facts (SEF) for the investigations (dumping and subsidies) will be placed on the public record by 3 June 2013 or by such later date as the Minister may allow in accordance with section 269ZHI of the Act[2];
- the SEF will set out the material findings of fact on which ACBPS intends to base its recommendations to the Minister and will invite interested parties to respond, within 20 days, to the issues raised (submissions received in response to the SEF will be considered when compiling the report and recommendations to the Minister);
- ACBPS report to the Minister is due by 17 July 2013;
- the Minister will have 30 days from the date of receipt of the final report to make a final decision; and

[2] Following our verification visit the Minister has, under s. 269ZHI of the *Customs Act 1901*, extended the deadline for the publication of the SEF. See Australian Customs Dumping Notice No. 2013/40 for further details about the extension.

- certain interested parties have the right to seek a review to the Trade Measures Review Officer in relation to the Minister's final decision.

3 COMPANY INFORMATION

3.1 Company background

Prior to February 2012, a company called Jinan Iron and Steel Company Limited owned and operated the steelmaking operations in Jinan which manufactured plate steel exported to Australia. The company was listed on the Shanghai Stock Exchange and 68.69% of its shares were held by Jinan Iron and Steel Group Co., Limited. Jinan Iron and Steel Group Co., Limited is a subsidiary of Shandong Iron and Steel Group Co., Limited and the Tibet Trust Company Ltd. The Shandong Iron and Steel Group Co., Limited is owned by the Shandong State-Owned Assets Supervision and Administration Commission.

Jinan Iron and Steel Company Limited was established in December 2000.

In February 2012, Jinan Iron and Steel Company Limited merged with another steel producer, Laiwu Steel Corporation (based in Laiwu City in Shandong Province) to form Shandong Iron and Steel Company Limited. Although part of the one legal entity, the company has two distinct branches, Jinan Branch (referred to in this report as JIGANG) and Laiwu Branch. In its Exporter Questionnaire Response (EQR) JIGANG provided a copy of a document evidencing its decision to establish the Jinan Branch and a copy of its Corporate Business Licence dated February 2012.

Following the merger, Jinan Iron and Steel Group Co., Limited and the former parent of Laiwu Steel Corporation, Laiwu Steel Group Co., Limited, own 39.59% and 36.59% of the merged company respectively. The balance of the shares are held by other minor shareholders and are traded on the Shanghai Stock Exchange.

Jinan and Laiwu Branches operate as discrete entities and produce separate financial statements, although these are combined to produce the audited financial statements of Shandong Iron and Steel Company Limited.

JIGANG's principal activities are the production and sale of steel products including plate steel, hot rolled coil, cold rolled coil, galvanised coil, pre-painted galvanised iron (PPGI) and deformed bar. JIGANG is an integrated producer, purchasing iron ore, coking coal and other raw materials to produce steel. It has a steel-making capacity of approximately [redacted] million metric tonnes (MT) per annum. Plate steel represents approximately [redacted]% of its production.

Also involved in the export transactions for sales of the goods to Australia are the following affiliated parties:

- Jinan Steel International Trade Co., Limited (JSIT);
- Jigang Hong Kong Holding Co., Limited (Jigang HK).

JIGANG has an 80% shareholding in JSIT and Jigang HK is a wholly owned subsidiary of Shandong Iron & Steel Co., Ltd's shareholder, Jinan Iron and Steel Group Co., Limited.

JIGANG has a considerable number of other related parties as set out in the corporate structure provided in its EQR. These include mining companies from which it purchases iron ore and coal, eleven related entities which sell its steel products in China, and related parties that purchase and use its steel products in further manufacture.

3.2 Accounting

Shandong Iron and Steel Co., Limited's financial year is the calendar year, 1 January to 31 December.

In its EQR response, JIGANG provided the following accounting information:

- its Chart of Accounts;
- financial statements for JIGANG for each month in 2012;
- cash flow statement;
- an English translation of Jinan Iron & Steel Co., Ltd's annual report for 2011;
- income tax returns from 2008 to 2011 and for each quarter in 2012;
- extracts from its audit reports on non-operating income for 2008 to 2012.

At the visit, JIGANG provided:

- the 2012 audit report and statements for Shandong Iron and Steel Co., Limited;
- financial statements for JIGANG for 2012;

JIGANG advised that it uses the [redacted] (ERP) system to extract data from its accounting system. A connection to the [redacted] system was available in the meeting room and we were able to observe the interrogation of the system during the verification process.

3.3 Related parties

JIGANG is part of a large corporate group. Related parties are involved in the provision of raw materials such as iron ore and steel as well as the sale of steel products on the domestic market and for export.

JIGANG advised that the pricing policy of the Shandong Iron & Steel Group meant that all transactions between related parties used market price as the principle for setting prices between the parties. The prices for utilities such as water, electricity and gas are supplied on a cost plus percentage basis.

JIGANG also advised that it makes some raw materials purchases from related parties, as indicated in the following table:

Raw material	Related party (supplier)
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]

3.4 Production Process

JIGANG is a fully integrated steel maker, producing coke, molten iron, steel, steel slab and plate steel.

Plate steel is manufactured at JIGANG's factory on Gongyebei Road, Jinan. JIGANG has three production lines for plate steel:

- 2.5 metre (m) and 3.5m plate lines for producing medium plate; and
- 4.3 m plate line for producing heavy plate.

JIGANG purchases coking coal from which it produces coke. Coke, along with iron ore and other raw materials is fed into a blast furnace to produce molten iron which is used in the production of steel slab from which the plate steel is produced. JIGANG does not manufacture plate steel from Hot Rolled Coil.

The production process to manufacture plate steel from steel slab is as follows:

1. The steel slabs are heated by passing through a heating furnace.
2. The steel slab is passed through a descaler to remove surface scale.
3. Slabs are passed through a roughing mill where they are widened to the required width and then cooled.
4. The plate steel is rolled to the required thickness through a finishing mill before being cooled.
5. The plate steel passes through the hot leveller to straighten it before being cooled.
6. The plate steel passes through a series of shears to trim the plate to the required dimensions.
7. The plate steel is tested against the requirements of the order and marked by the automatic marking machine.
8. The plate steel is piled and stored, ready for transport.

During the verification visit we undertook a tour of JIGANG's factory and sited the production processes of steelmaking, slab production and plate steel production.

Further details of JIGANG's production process is contained in Exhibit A-7 of its EQR.

4 GOODS UNDER CONSIDERATION AND LIKE GOODS

4.1 The goods the subject of the applications

Description

The goods the subject of the application (the goods) are:

Flat rolled products of:

- *iron;*
- *non-alloy steel; or*
- *non-heat treated alloy steel of a kind commonly referred to as Quench and Tempered (Q&T) Green Feed;*

of *a width greater than 600 millimetres (mm), with a thickness equal to or greater than 4.75mm, not further worked than hot rolled, not in coils, with or without patterns in relief.*

Goods excluded from the investigation are:

- 250 mega Pascal (MPa) yield strength grades of plate steel with a thickness greater than 150mm;
- 350 MPa yield strength grades of plate steel with a thickness greater
- than 100mm;
- Q & T Green Feed grades of plate steel with a thickness greater than
- 105mm; and
- heat treated Q & T grades of plate steel.

Tariff classification

The goods are classified to the following tariff subheadings in Schedule 3 to the Customs Tariff Act 1995:

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

For tariff subheadings 7208.40.00, 7208.51.00 and 7208.52.00 the general rate of duty is 5 per cent for goods imported from Japan and free for imports from China, Indonesia, Korea and Taiwan.

For goods imported under the tariff subheading 7225.40.00 the general rate of duty for goods imported from Japan, Korea and Taiwan is 5 per cent and 4 per cent for imports from China and Indonesia.

4.2 Like goods

4.2.1 JIGANG's exports to Australia

JIGANG manufactured XXXX categories of plate steel for export to Australia during the investigation period:

[redacted] plate steel categories].

JIGANG advised that it also exported some plate steel to the Australian trader, [redacted] but that this had been over 150mm in thickness and therefore outside the scope of the investigation.

All product exported to Australia was prime grade product.

4.2.2 JIGANG's plate steel sales in China

JIGANG explained that it sells many different grades/standards of plate steel in China. Its plate steel products are divided into the following seven broad categories:

1. Carbon steel plate;
2. Low alloy plate;
3. Boiler plate;
4. Plate for pipes and wires;
5. Bridge building plate;
6. High strength plate;
7. Shipbuilding plate.

In its EQR, JIGANG provided product brochures for its medium plate (made on the 2.5 metre (m) and 3.5 m plate lines) and heavy plate (made on its 4.3 m plate line).

We discussed with JIGANG the products that would be most comparable to the grades it exported to Australia during the investigation period. In terms of the carbon steel grades [redacted] grade, JIGANG advised that it sold some of this grade in China but it was 'over runs' of product manufactured for the Australian market that a Chinese customer was prepared to buy. It stated that the most comparable product sold normally in China would be the Chinese grade [redacted] under the Chinese standards GB/T 3274 and GB/T 700 and [redacted] grade made to the Japanese standard JIS G101.

JIGANG stated that during the investigation period it sold the same [redacted] products it sold to Australia. These were sold to:

- [redacted] customers].

We asked about other abrasion resistant plate steel products manufactured and sold by JIGANG. JIGANG stated that the [redacted] [product differences]

A product brochure for JIGANG's medium lines and a product guide for products produced on its heavy line are at **Confidential Attachment LG1**.

4.2.3 Like goods – preliminary assessment

We consider that the plate steel produced and sold domestically by JIGANG has characteristics closely resembling those of the goods exported to Australia and are therefore "like goods" in terms of subsection 269T(1).

5 EXPORT SALES TO AUSTRALIA

5.1 General

5.1.1 Volumes and sales routes

JIGANG, through JSIT and Jigang HK, exported the following volumes of plate to Australia during the investigation period:

Australian customer	Quantity (MT)
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]

In its EQR response, JIGANG provided a detailed export sales spreadsheet listing sales from JSIT to Jigang HK and another spreadsheet listing sales from Jigang HK to the Australian customers. The JSIT export sales spreadsheet includes amounts it incurred for inland transport from JIGANG to the export port and amounts for export handling charges.

The [redacted] were all exported to [redacted] for resale to the end user [redacted] Exports of the [redacted] grade were all to [redacted] The [redacted] grade of plate X[redacted] was exported to [redacted] for resale to [redacted]

[redacted] [confidential commercial arrangements]

5.1.2 Sales process

The sales process can be described as follows:

- JSIT negotiates with the Australian customers on price, quality, product specification and payment and delivery terms;
- JSIT makes a purchase contract with JIGANG for the customer requirements and arranges delivery of the goods from JIGANG's warehouse to the port;
- JSIT incurs inland transportation and export costs and completes the export declaration;
- JSIT claims the VAT rebate if applicable;

- JSIT issues a commercial invoice to either Jigang HK or [redacted]
- the Australian customer pays Jigang HK who pays [redacted] or JSIT and JSIT pays JIGANG;
- the period between production arrangement and shipment is normally 1-2 months.

5.1.3 Pricing

JIGANG advised that it has no price lists or extras tables for the export market and that prices are negotiated on a shipment by shipment basis.

5.2 Verification of export sales up to audited financial statements

We sought to verify the completeness and relevance of these spreadsheets up to audited financial statements. This was undertaken as part of the domestic sales upwards verification. For details, refer to section 7.5 below.

5.3 Verification of export sales down to source documents

5.3.1 Exports to Australia

Prior to the visit, we selected four export sales from the detailed Australian export sales spreadsheet and requested that JIGANG provide source documents in relation to each invoice.

For each selected invoice, JIGANG provided copies of the following documents:

- sales contract and commercial invoice between JIGANG and JSIT;
- sales contract and commercial invoice from JSIT to [redacted] (where applicable);
- sales contract and invoice from [redacted] to Jigang HK (where applicable);
- bill of lading;
- proof of payment from Australian customer to Jigang HK;
- proof of payment from Jigang HK to [redacted] or JSIT (as applicable);
- inland transport documents; and
- invoices for export charges.

We were able to match the sales information in the source documents to the data contained in the detailed sales spreadsheet. The source documents, including proof of payment of the selected sales, are at **confidential attachment EXP1.**

5.3.2 Inland transport

The spreadsheet of export sales for JSIT submitted in JIGANG's EQR includes amounts for inland transportation expenses. We were able to confirm from source documents that the amounts included in the spreadsheet were accurate.

5.3.3 Export expenses

The spreadsheet of export sales for JSIT submitted in JIGANG's EQR includes amounts for export expenses. We were able to confirm from source documents that the amounts included in the spreadsheet were accurate.

5.3.4 VAT rebate

JIGANG explained that a VAT rebate of 13% of the [redacted] value is available for certain exported plate steel. Under the export arrangements JSIT claims the VAT rebate. JIGANG advised that the 13% rebate was claimed on the [redacted] grades exported to Australia and [redacted] grade where the [redacted] No export rebates were claimed on the remainder of the shipments.

JIGANG provided the Government document setting out the level of rebate payable upon export of each relevant tariff classification as well as documents evidencing VAT rebate claims for two of the selected export transactions **(Confidential Attachment EXP2).**

5.3.5 Exchange rates

Sales from JIGANG to JSIT are made in [redacted] Sales from JSIT to [redacted] for exports destined for Australia were made in either [redacted] Sales by JSIT direct to Jigang HK were made in [redacted]

Sales by Jigang HK to Australian customers were made in either [redacted] or [redacted]

JIGANG stated that exchange rates used to convert JSIT's sales in [redacted] to [redacted] for sales in a particular month were based on the published buying rate for the first day of each month released by Bank of China.

We were able to match all the rates in the JSIT export sales spreadsheet to the rates published on the Bank of China website: http://www.boc.cn/sourcedb/lswhpj/index.html.

To convert sales made by Jigang HK in [redacted] and [redacted] to [redacted] Jigang HK applied the following exchange rates:

[redacted]

January to July 2012 - [redacted]

August to November 2012 - [redacted]

December 2012 - [redacted]

[redacted]

January to August 2012 - [redacted]

September to December 2012 - [redacted]

We compared the exchange rates used by Jigang HK to Reserve Bank of Australia published exchange rates (using cross-rates where necessary) and found them to be reasonable.

Jigang HK used the Bank of China published exchange rates to convert the [redacted] amounts to [redacted]

5.3.6 Conclusion

Having been able to reconcile JSIT and Jigang HK's export sales spreadsheets down to source documents, we are satisfied that the spreadsheets are accurate.

5.4 Date for comparison of export and domestic sales

JIGANG considers that the date of sale is the date of the sales contract between the Australian customer and Jigang HK. Contracts between Jigang HK and JSIT and between JSIT and JIGANG are executed on the same date as the contract with the Australian customer. JIGANG advised that no alteration to the ordered quantity or price can be made after the contract has been made. Invoices are issued at the time of shipment approximately one to two months after the sales contract is made. Based on the invoice date, JIGANG provided export sales data from Jigang HK for the full calendar year 2012, however based on the date of sale, export data is only provided until October 2012.

ACBPS usually regards the invoice date as the date of sale (that is, the date that best represents when the material terms of the sale have been established) unless there is clear evidence to indicate that another date is appropriate. In this instance, we consider that the invoice date best defines the date of sale and is an appropriate date for comparison with domestic selling prices.

5.5 The exporter

We consider JIGANG to be the exporter of plate steel exported to Australia from China via affiliated traders JSIT and Jigang HK (and in some cases unaffiliated company, [redacted] JIGANG:

- is the manufacturer of the goods and manufactured the goods to the specific order of the Australian customers; and
- sent the goods for export to Australia and was aware of the identity of the Australian end customer of the goods.

Notwithstanding the above, we note that JSIT:

- is listed as the supplier on the bill of lading; and
- arranges and pays the inland freight and exportation charges.

We also note that Jigang HK is listed as supplier on the commercial invoice to the importer in Australia.

5.6 The importers

We consider that for export sales of plate steel, the Australian customers shown on the JSIT invoices were the beneficial owners of the goods at the time of importation. We noted that each of the Australian customers:

- negotiated with JSIT;
- are named as the consignee on the bills of lading; and
- arrange and pay ocean freight and marine insurance, Customs clearance, logistics, and storage of the goods after they're delivered to the Australian port.

We consider the Australian customers to be the importers.

5.7 Arms length

In respect of the sales to the Australian customers we found no evidence that:

- there is any consideration payable for or in respect of the goods other than their price; or
- the price is influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- the buyer, 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.

We consider the export sales of plate steel to the Australian customers were arm's length transactions.

5.8 Export price – preliminary assessment

We are satisfied that:

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

However, we consider that the export price for these sales cannot be determined under s. 269TAB(1)(a) as the goods have not been purchased directly from the exporter, JIGANG, but from an associated intermediary of the exporter, Jigang HK.

We therefore consider that the export price for these sales can be determined under s. 269TAB(1)(c) having regard to all the circumstances of the exportation. Specifically we consider it appropriate to ascertain the export price based on the price paid or payable for the goods by the importer.

The weighted average quarterly [redacted] export price in [redacted] is summarised in the table below:

Standard	Total
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]

Details of the export price calculations are at **Confidential Appendix 1.**

6 COST TO MAKE & SELL

6.1 Introduction

JIGANG's EQR contained cost to make and sell (CTMS) spread sheets for plate steel produced and sold domestically in China and exported to Australia during the POI. JIGANG reported the costs on a quarterly basis for each of the 173 standards of plate steel manufactured. The cost was reported at the overall standard level for all thicknesses and sizes of plate steel produced to that standard.

The CTMS work sheet identified the following cost categories;

- Steel slab;
- Ferric oxide;
- Plate ending;
- Plate edges;
- Steel slab scraps;
- Roller;
- Energy;
- Labour;
- Fixed expenses;
- Measure and inspection expenses;
- Sales expense;
- General expense;
- Financial expense.

JIGANG use one financial accounting system to cover both its purchases of raw materials and sales of finished goods, which operates on a standard cost plus differential cost basis. Monthly adjustments are made to the standard cost to reflect the actual costs. Whilst JIGANG's cost accounting system is based on standard costs, the manufacturing costs submitted by JIGANG in its EQR are the actual costs incurred derived from the accounting system.

JIGANG carries over the cost for each stage of the production process to the next stage. After production is finished, the cost of manufacture is recorded as Finished Goods in inventory accounting ledgers. As discussed in section 3.2, JIGANG use an Oracle financial system to extract data from its accounting system.

The profit and cost centre within the parent company Shandong Iron and Steel Company is Jinan Steel Company (JIGANG). In its EQR JIGANG provided a list of the cost centres within JIGANG, see **Confidential Attachment Cost G-2.4.** JIGANG records the costs of plate steel by the production line (2.5m, 3.5m or 4.3m) and product code, including the product standard. In its CTMS spreadsheets provided in its EQR, JIGANG has provided costs down to the product standard level. JIGANG reported that the cost of production for a specific model of plate steel is the same regardless of whether the product is sold on the domestic or export market.

6.2 Cost to make

6.2.1 Introduction

In its EQR JIGANG stated that it manufactures the steel slab used as the raw material for the production of the plate steel. JIGANG does not manufacture plate steel from hot rolled coil (HRC). JIGANG manufactures the following raw materials used in the production of the steel slab:

- Sinter;
- Pellet;
- Coke; and
- Molten iron.

Prior to the verification visit, we advised JIGANG that we would like to verify the actual costs of production 'downwards' to source documents and 'upwards' through management reports to audited financial statements. We requested that they prepare the appropriate documents to complete this exercise for plate steel produced to standards [redacted] and [redacted] for the third quarter of 2012 (July – September).

6.2.2 Downwards to source documents

JIGANG had prepared the above requested verification package for our visit, tracing the actual production costs in the CTMS spreadsheet back through the production process to the purchase of raw materials.

Confidential Attachment CTMS1 is a breakdown of the CTMS for all size combinations of the grades [redacted] for Q3 2012. We were able to reconcile the figures in this attachment to the total figures for [redacted] in the '3rd QR CTMS' tab in the CTMS spreadsheet. The figures we were able to reconcile include production quantity, cost of steel slab, energy, labour and total manufacturing cost.

We selected a size range of plate steel from CTMS breakdown and requested and were provided with a print out from the Oracle system showing breakdown of the production quantity (**Confidential Attachment CTMS2)**. We were able to reconcile the total production quantity of the individual plates on this page to the total production quantity on the CTMS breakdown page.

From the detailed CTMS we selected a particular size of plate steel within the selected standard [redacted] for verification back from COGS through the production process to the purchase of raw material. We sited the figures in the verification pack in the live Oracle system and requested and received print outs of several key pages from the Oracle system.

From the main COGS table (**Confidential Attachment CTMS3**), we were able to trace the total standard cost, variance and production quantity to the 'finished product - allocation of cost variance of raw material' table (**Confidential Attachment CTMS4**). From here we were able to trace the cost variance and the unique task number for the steel slab used in the production of the plate steel to the 'Semi-finished product – variance carried over' table (**Confidential Attachment CTMS5**).

We received a print out from the [redacted] system showing the actual quantity, total standard value and actual unit price of slab consumed in the production of the steel plate (**Confidential Attachment CTMS6**).

In the print out of the 'semi-finished product – variance calculation' (**Confidential Attachment CTMS7**), we were able to trace actual unit price of slab consumed back to the previous pages. We sited the value of the goods received (slab) figure from this page in the live [redacted] system (**Confidential Attachment CTMS8**). We were also able to trace the variance figure on this page back to the total allocated variance for steel making (**Confidential Attachment CTMS9**) and the total allocated labour and manufacturing overheads variance (**Confidential Attachment CTMS10**).

We were able to trace the total raw material variance figure back to the itemised variance table (**Confidential Attachment CTMS11**) which contained line items of the raw materials such as alloys, melted iron and slab. We selected two raw material task numbers (both melted iron) for further verification and received **Confidential Attachment CTMS12**, a summary page for the selected material (showing the quantity of the raw material (melted iron), the standard total cost, actual unit cost and variance carried over. The variance carried over figures reconciled to the variance figure for the two selected items on **Confidential Attachment CTMS9**.

We received a bill of materials for the conveyor cost centre (**Confidential Attachment CTMS13**) and were able to reconcile the unit price of the melted iron to the previous documents provided. We sought to trace back the actual unit cost of the melted iron from **Confidential Attachment CTMS12** and were provided with **Confidential Attachment CTMS14**, an inventory sheet for melted iron showing the volume and value of the opening inventory, the inventory variance for that period. This document also showed the actual unit cost of melted iron which reconciled with the amount on **Confidential Attachment CTMS12**. **Confidential Attachment CTMS14** also showed the total actual cost, for which we requested the bill of materials.

We were provided with **Confidential Attachment CTMS15**, production cost breakdowns for the four cost centres for melted iron, comprising the four blast furnaces. An itemised bill of materials was provided for each blast furnace. We could reconcile the total value of the materials consumed in these four cost centres to the actual total cost of melted iron on **Confidential Attachment CTMS14**. We requested and received print outs from the [redacted] system of the totals of each of these cost centres for the period (**Confidential Attachment CTMS16**).

From the bill of materials for the No. 1 blast furnace, we selected sinter and coking coal for more detailed verification. We were provided with the cost summary sheet for sinter and coking coal and were able to reconcile the unit costs on this document to the unit costs in the bill of materials for the selected raw materials.

For detailed verification of coking coal costs we were provided with the production cost breakdown for the iron making plant (**Confidential Attachment CTMS17**). We were able to reconcile the actual total cost of production for the iron making plant to the cost summary sheet (**Confidential Attachment CTMS18**).

We selected a sinter cost item from the sinter and coking coal cost breakdown and requested and received a bill of materials for item – "number 70 sinter" (**Confidential Attachment CTMS19**). We were able to reconcile the actual total cost of production to **Confidential Attachment CTMS18**, to the total from amount on the bill of materials.

We selected a line item from the iron making plant bill of materials for further verification. We received a variance summary sheet (**Confidential Attachment CTMS20**) for this raw material (coking coal) showing the unit cost, which reconciled back to the iron making bill of materials.

We received a print out of the total transactions of coking coal purchased by JIGANG in July 2012 (**Confidential Attachment CTMS21**). We were able to reconcile the total variance on this page to the total cost of variance figure on **Confidential Attachment CTMS20**.

We selected a purchase transaction of coking coal from July 2012 for further verification. We requested and were shown the purchase invoice for this transaction and received a copy (**Confidential Attachment CTMS22**). We were able to reconcile the purchase amount and quantity in the total transaction spreadsheet to the invoice.

We were satisfied that the above exercise allowed us to trace the actual cost of production from the CTMS spreadsheet supplied in the EQR back through the production process all the way to an invoice for the purchase of the raw materials.

6.2.3 Upwards to financial statements – completeness

We requested and were provided the 2012 financial statements for Shandong Iron and Steel Company Limited covering Jinan Company (JIGANG) and Laiwu Company - **Confidential Attachment CTMS23.** We were advised that JIGANG also produces a monthly report and financial statement which is integrated into the annual financial statements of the parent company.

We requested and were provided with the detailed cost of goods sold (COGS) workbook (**Confidential Attachment CTMS24**) for the month of July 2012 which listed the sales quantity and standard cost for each plate steel standard and size combination. For our selected sample of the [redacted] standard in the [redacted] thickness, we were able to agree the sales quantity and total standard cost to the figures in the main COGS table (**Confidential Attachment CTMS3**).

We requested and received the profit and loss statement extract containing the sales cost of all products for each month of 2012 (**Confidential Attachment CTMS25**). We were able to see that the total cost in the P&L for all products in June was slightly lower ([redacted]%) than the total COGS figure in the detailed COGS workbook.

We were able to reconcile the total COGS figure for 2012 in the P&L to the total operating cost in the income statement for JIGANG for 2012.

6.2.4 Production volumes

In its EQR JIGANG provided a schedule of the production capacity and capacity utilisation rates for the GUC. We could see that whilst capacity remained steady in 2011 and 2012, capacity utilisation fell from [redacted]% to [redacted]%.

The production capacity figures agreed with the total production figures for all standards of plate steel provided in the Quarter 1-4 worksheets of the CTMS spreadsheet.

Through the verification of the cost to make (discussed above), we are satisfied with the accuracy of the production quantity reported for GUC sales.

6.2.5 Raw Materials

As discussed above, JIGANG does not purchase HRC or steel slab to manufacture plate steel, rather, it manufactures the raw materials of sinter, pellet, coke and molten iron to be used in the production of the steel slab from which the plate steel is produced.

JIGANG purchase the following types of iron ore:

- sinter feed;
- fines (used for sintering);
- lump; and
- pellet.

All of the above types of iron ore are imported from a number of different countries, including Australia. JIGANG advised that it only purchases Chinese iron ore pellet feed (fines). [redacted] per cent of JIGANG's iron ore purchases are imported.

JIGANG advised that any kind of iron ore can be used in the production of steel slab and that the type of iron ore the company uses depends on the cost of each type of iron ore. It continued to explain that lump and pellet iron ore can be used interchangeably in the production process but sinter and fines for sintering cannot be used interchangeably with pellet and lump iron ore.

It was explained to us that there are two types of iron ore fines, sinter fines and pellet feed. Both types of fines need to undergo a sintering process to be transformed to a consistency similar to lump iron ore before going into the blast furnace. Lump iron ore does not need to undergo this process and can be put straight into the blast furnace. Lump iron ore is more expensive than iron ore fines.

As part of the CTMS verification we were able to trace a transaction for the purchase of raw materials (coking coal) through the production process and into the CTM.

<u>**Domestic purchases of iron ore**</u>

At the verification visit we requested source documents for purchases of domestic iron ore for July 2012. These were provided, see **Confidential Attachment CTMS26**. JIGANG's raw material domestic purchase spreadsheet provided in its EQR provided a summary of raw material purchases, including iron ore, from each supplier for the 2012 calendar year. We were able to reconcile the average unit price in the source documents to the data in the spreadsheet.

We compared JIGANG's purchase price for domestic iron ore (excluding VAT) to SBB domestic Chinese iron ore prices (excluding VAT) for the investigation period (**Confidential Attachment CTMS27**). We did not find anything in the price comparison to suggest that the price JIGANG paid for domestic iron ore was influenced by a commercial or other relationship between JIGANG and the domestic iron ore suppliers.

Import purchases of iron ore

At the verification visit we selected four transactions of imported ore from JSIT's list of imported iron ore purchases provided as part of its EQR for further verification.

Two of the selected transactions involved Jigang HK purchasing iron ore from a supplier, selling the iron ore to JSIT who then sold it to JIGANG. For these transactions we were provided with a copy of the sales agreement/contract between JIGANG and JSIT, JSIT and Jigang HK and Jigang HK and the supplier. We were able to reconcile the material type, contract number, quantity and unit purchase price in the source documents to JSIT's imported iron ore spreadsheet provided as part of its EQR.

The remaining two selected transactions involved JSIT purchasing iron ore from a supplier ([redacted] and selling them to JIGANG. We were able to reconcile the quantity in the source document for one of the transactions to the figure in JSIT's imported iron ore spreadsheet provided as part of its EQR. We were not able to reconcile the quantity in the second transaction source documents or the unit purchase price in the source documents for both transactions to the figures in JSIT's imported iron ore spreadsheet provided as part of its EQR.

In the transactions where JSIT purchased iron ore from Jigang HK, we were able to see that the purchase price paid by JSIT to Jigang HK was [redacted] per tonne higher than the purchase price paid by Jigang HK to the seller. The sellers in both examples were traders, based outside the country of origin for the iron ore.

In all four transactions we were able to see that the price paid by JIGANG to JSIT was marginally higher than the price paid by JSIT to the supplier.

The source documents for these selected transactions of imported iron ore are at **Confidential Attachment CTMS28**.

Raw materials - conclusion

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

6.3 SG&A expenses (SG&A)

JIGANG identified selling, financial (general) and administration expenses in its cost to make and sell worksheet and allocated these expenses on a proportional revenue basis of the GUC relative to the total sales value split for domestic and export activities.

To demonstrate the SG&A calculation JIGANG provided the 2012 Income Statement and Balance Sheet for JIGANG (**Confidential Attachment CTMS29**).

We were able to reconcile the total SGA expenses for JIGANG in the Income Statement to the 'SG&A allocation' tab of the CTMS spreadsheet provided by JIGANG in its EQR. We were able to reconcile the total JIGANG turnover in the income statement to the 'Proportion' tab of the CTMS spreadsheet and noted that GUC sales as a proportion of total turnover was [redacted]% in 2012. We were able to see that this percentage had been applied to the total SG&A expenses to calculate the total SG&A expenses allocated to sales of the GUC for 2012.

6.4 Cost to make and sell – summary

We verified JIGANG's cost to make and sell plate steel to source documents and to audited financial statements. We are satisfied that sufficient information was available and verified to substantiate the CTMS for plate steel provided by JIGANG.

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 of plate steel is summarised at **Confidential Appendix 2**.

7 DOMESTIC SALES

7.1 General

JIGANG advised that it ranks as one of the leading plate steel manufacturers in China. It advised that other major manufacturers are:

[redacted]

JIGANG stated that it was unaware if these competitors were government owned or had some level of government ownership.

JIGANG explained that the major sectors purchasing plate steel in China are:

- Ship building;
- Engineering and machinery;
- Oil pipelines; and
- Windfarms.

JIGANG advised that demand in all sectors had declined in 2012.

JIGANG advised that almost all of its domestic sales are made in relation to specific customer orders, and that while sales from stock can occur, these are very uncommon and would be sales of 'overrun' production.

In its EQR, JIGANG provided domestic price lists for the investigation period. At the visit JIGANG explained that it had inadvertently included price lists for only one plate steel product (known as JNS). At the visit, JIGANG provided price lists for all domestic grades (**Confidential Attachment DOM1**). JIGANG has one price list for plate steel manufactured on the 2.5m line and another for plate steel made on the 3.5m and 4.3m lines. Product made on the 2.5m line is slightly cheaper than product made on the other two lines. Separate price lists are issued for product sold in the Jinan region compared to product sold in outlying areas.

The price lists include extras tables for various specifications, particularly length and width. The extras table also specifies amounts for various types of heat treating and for impact testing to certain degrees. The price lists themselves specify prices according to plate thickness ranges.

JIGANG explained that it sells both prime and non-prime grades of plate steel. There are two types of non-prime grade: plate known as 'negotiation 1' which is plate with surface defects; and plate known as 'negotiation 2' which has structural defects. At the visit, JIGANG provided at our request a domestic sales listing with columns showing whether plate steel sold was either prime grade, negotiation 1 or negotiation 2. In 2012, only [redacted]% of plate sold by JIGANG was classified as non-prime.

7.2 Levels of trade

JIGANG explained that the majority of its domestic sales were to steel traders with a small proportion being to end users and fabricators. JIGANG advised that prices vary according to market conditions and sales volume but not whether a customer is a trader or end user.

7.3 Sales to related parties

JIGANG sells plate steel in China through eleven related companies. Six of the subsidiaries are wholly owned subsidiaries of Shandong Iron and Steel Co., Ltd, two are majority owned by Shandong Iron and Steel Co., Ltd and three are partly owned by the Jigang Group Co., Ltd. The eleven related parties, listed below, are steel trades operating selling JIGANG's steel products in other parts of China:

[redacted]

JIGANG advised that in addition to the related trading companies, it sells plate steel to other related companies. JIGANG provided a complete list of all related customers (**Confidential Attachment DOM2**) and a revised domestic sales listing showing which sales are to related and unrelated entities. In 2012, approximately [redacted]% of JIGANG's sales were to related parties.

We compared average weighted average prices of prime grade plate steel by grade and thickness to related and unrelated parties. The comparison showed that prices to related parties are almost always at a lower price than to unrelated parties. Our analysis is at **Confidential Appendix 3**.

7.4 Domestic sales process, pricing, terms and payment

7.4.1 General

JIGANG explained that the sales process for domestic sales of plate steel is as follows:

- the customer negotiates price with JIGANG and then places an order;
- JIGANG signs a contract with the customer;
- the order is placed in JIGANG's production system;
- the customer pays JIGANG in advance;

- the goods are manufactured and either picked up by the customer or delivered;
- a tax invoice is issued.

7.4.2 Delivery terms

JIGANG advised that almost all plate steel sales are sold [redacted] and this was supported by the sample of source documents. [redacted].

7.4.3 Payment terms

JIGANG's policy is to require pre-payment for all sales.

7.4.4 Rebates, discounts and commissions

JIGANG explained that there two types of rebate offered on the domestic market.

[redacted]

JIGANG explained that rebate payments are recorded as zero quantity transactions in the domestic sales spreadsheets.

We selected a sample of credit transactions from the domestic sales listing and asked JIGANG to provide the source documents associated with the transactions (**Confidential Attachment DOM3**). We were able to match the credit vouchers and VAT invoices for the credits to the details on the domestic sales spreadsheet.

7.5 Verification of domestic sales up to the audited financial statements

We asked JIGANG to demonstrate how the domestic sales data provided in the submission could be reconciled to audited financial statements. The domestic sales data includes sales to related company JSIT which were then exported to Australia and thus this reconciliation includes the Australian export sales.

JIGANG provided a printout from its [redacted] system showing sales quantities according to each of JIGANG's sales departments (**confidential attachment DOM4**). The total of the sales amounts by the various departments equals the amount shown as total operating revenue in JIGANG's financial statements. We selected the sales department for plate steel and JIGANG provided a printout showing total sales per month (**confidential attachment DOM5**).

JIGANG provided a line by line transaction listing of sales that match the plate sales department. Once the non-plate steel products are excluded, the listing matches the plate steel domestic sales listing provided in JIGANG's EQR. On this basis, we are satisfied that JIGANG"s domestic sales listing is complete.

The income statement for The Shandong Iron and Steel Group Co., Limited for 2012, showing separate sales and costs amounts for JIGANG and Laiwu is at **Confidential Attachment DOM6**. Laiwu's financial statements for 2012 are at **Confidential Attachment DOM7**.

7.6 Verification of domestic sales down to source documents

Prior to the visit, we selected 13 plate steel domestic sales transactions from the detailed domestic sales spreadsheet and requested that JIGANG provide source documents in relation to each sale.

For each selected invoice, JIGANG provided copies of the following documents during the visit:

- Sales contract;
- Commercial invoice (including VAT);
- Internal voucher to show invoice has been issued;
- Proof of payment (in the form of voucher of payment received); and
- Settlement receipt.

Not all of the above documents were provided for each transaction. We were able to match the sales information in the source documents (**Confidential Attachment DOM8**) to the data contained in the detailed domestic sales spreadsheet.

We noted that for most transactions payment amounts to JIGANG were greater than the invoice value, representing a large portion of the customer's sales for the selected month or quarter.

We concluded that the domestic sales spreadsheet provided by JIGANG contained a reasonably accurate list of domestic sales of like goods for the investigation period.

7.6.1 Inland transport

As noted in 7.4.2, JIGANG advised that almost all plate steel sales are sold [redacted] JIGANG advised that its accounting system did not record delivery terms and that it had no practical way of identifying which sales were delivered.

As the small number of sales that were delivered had freight included in the invoice price reported in the domestic sales spreadsheet, and JIGANG could not easily identify these sales, it apportioned an amount for inland transport against each sale. The amount was a RMB per tonne figure, derived for each month. The total inland transport amount represented less than [redacted]% of the total invoice value for the period.

JIGANG provided the inland transport worksheet (**Confidential Attachment DOM9**) from which they calculated the monthly, per tonne inland transport figure. It advised that whilst this figure represented inland transport costs for all domestic sales, it believed that around [redacted]% of the costs were attributed to plate steel.

We selected a month in the inland transport worksheet and requested and were provided with the invoice for this month (**Confidential Attachment DOM10**). We could see that the invoice value matched the figure in the inland transport worksheet. We requested, and were provided with a breakdown of this invoice, showing the detailed transactions for that month (**Confidential Attachment DOM11).**

We were able to verify the monthly per tonne inland transport figure attributed to each domestic sale for use in purposes of adjusting the normal value.

7.7 Arms length

In respect of JIGANG's domestic sales of plate to unrelated parties, we found no evidence that:

- there is any consideration payable for or in respect of the goods other than their price; or
- the price is influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller;
- 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.

We therefore consider JIGANG's domestic sales of plate steel to unrelated parties are arm's length transactions.

However, we consider that the price for goods sold to related parties has been influenced by the relationship between JIGANG and those related customers. We have based this on the pattern of prices observed for sales to related customer compared to unrelated customers. Accordingly, we consider that the sales of plate steel made by JIGANG to its related customers are not arm's length transactions.

7.8 Ordinary course of trade

We performed the OCOT test to determine a level of profit to use in our construction of the normal values.

JIGANG had a number of sales made to related parties, which were excluded from the OCOT test. In addition, credit notes were also excluded.

In order to test whether the domestic sales are in the OCOT, we first tested the profitability of each transaction to unrelated parties individually by comparing the unit selling price to the corresponding quarterly weighted average CTMS for each standard. We found that [redacted]% of the total volume of sales were at a loss (and therefore in substantial quantities. For those sales found to be sold at a loss, we then tested their recoverability by comparing the unit selling price to the weighted average CTMS of the relevant standard over the whole of the investigation period.

Sales that were found to be neither profitable or recoverable were considered not to have been made in the OCOT and were excluded from the profit calculation.

From our calculations we determined a level of profit of [redacted]% for sales to unrelated parties made in OCOT.

Our OCOT and profit calculations are at **Confidential Appendix 4**.

7.9 Domestic sales – preliminary assessment

Following our verification, we consider that JIGANG's domestic sales information is reliable. We also consider that JIGANG's sales to unrelated parties can be considered arms length transactions while we consider sales to related parties are not arms length. We understand that the applicant BlueScope, has made claims about the market situation in China being such that domestic sale prices are not suitable for establishing normal values. We understand that these claims will be assessed, taking into account this report and other information, before a decision is made on appropriate normal values.

8 THIRD COUNTRY SALES

In its EQR, JIGANG provided a summary its plate steel sales to third countries.

As we considered that we were in possession of enough verified information from the submission and our visit to calculate normal values for plate steel using domestic sales or a construction method, we did not undertake detailed verification of the third country data.

9 ADJUSTMENTS

9.1 General

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

9.1.1 Export inland freight

JSIT incurs inland transport expenses to transport the goods from JIGANG's factory to the ports in China for export. We applied an upwards adjustment of [redacted] per tonne to the normal value for export sales to Australia.

9.1.2 Export handling charges

JSIT incurs export handling charges for goods exported to Australia. The handling charges are [redacted] per tonne for plate standards [redacted] and [redacted] per tonne for plate grade [redacted]. Therefore we applied an upwards adjustment of [redacted] per tonne to the normal value for domestic sales of plate standards [redacted] and [redacted] and [redacted] per tonne for domestic sales of plate standard [redacted]

9.1.3 VAT

As discussed in 5.3.4, a VAT rebate of 13% of the [redacted] value is available for [redacted] grades exported to Australia and for [redacted] other shipments. JIGANG incurs an un-refundable value-added tax (VAT) expense on the remainder of export sales to Australia of 17%.

Therefore, we applied an upwards adjustment of 4% to the normal value for export sales of [redacted] grades to Australia and an upwards adjustment of 17% to the normal value for export sales to Australia for all other grades.

9.1.4 SG&A for JSIT

As discussed in 5.1, JSIT is involved in the export of the goods to Australia and incurs selling, general and administrative expenses in regards to this involvement. Therefore we applied an upwards adjustment of [redacted] per tonne to the normal value for export sales to Australia. JSIT's income statement for 2012 is at **Confidential Attachment ADJ1**.

9.1.5 SG&A for Jigang HK

As discussed in 5.1, Jigang HK is involved in the export of the goods to Australia and incurs selling, general and administrative expenses in regards to this involvement. Therefore we have applied an upwards adjustment of [redacted] per tonne to the normal value for export sales to Australia. Jigang HK's income statement for 2012 is at **Confidential Attachment ADJ2**.

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.

After the verification visit, the Delegate made a preliminary finding that a market situation exists in relation to sales of plate steel in China and that the cost of coking coal in China does not reflect competitive market costs. Consequently, the normal values have been constructed under s.269TAC(2)(c) of the Act, in accordance with the conditions of Regulation 180, 181 and 181A of the *Customs Regulations 1926* (the Regulations),[3] as required by s.269TAC(5A) and s.269TAC(5B).

In considering Regulation 180(2), we consider that JIGANG's coking coal costs do not reflect competitive market costs associated with the manufacture of like goods. Consequently we have compared JIGANG's purchase price for coking coal with a benchmark price (Chinese export prices) to calculate an uplift to be applied to JIGANG's cost to manufacture like goods.

Normal values have been constructed using the cost to make and sell (includes SG&A) on the assumption that the goods, instead of being exported, were sold domestically[4]. A rate of profit has been added using data related to the production and sale of like goods to unrelated customers in the ordinary course of trade[5]. An uplift to JIGANG's cost to manufacture has been applied for competitive market coking coal.

The market situation finding and the method of calculating the uplift will be discussed in more detail in the Preliminary Affirmative Determination report.

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

- inland freight;
- handling charges;
- SG&A for JSIT;
- SG&A for Jigang HK; and
- VAT rebate.

And negative adjustments to domestic selling prices pursuant to s.269TAC(9) for domestic inland freight.

A summary of normal value calculations is at **Confidential Appendix 5.**

[3] All references to any regulation within this report are to the *Customs Regulations 1926* unless specifically stated otherwise.

[4] s. 269TAC(2)(c)

[5] Regulation 181A(2) of the *Customs Regulations 1926*

11 DUMPING MARGIN – PRELIMINARY ASSESSMENT

In calculating the dumping margin we compared:

- Export transactions of [redacted] grades with the corresponding quarterly CTMS for the corresponding [redacted] grade plus amounts for adjustments;
- Export transactions of grade [redacted] with the corresponding quarterly CTMS for the corresponding model, plus amounts for adjustments;
- Export transactions of grade [redacted] with corresponding quarterly CTMS for comparable model grades [redacted] and [redacted], plus amounts for adjustments.

The weighted average product dumping margin for plate steel, calculated under section 269 TACB(2)(a), is 0.32%. A summary of dumping margin calculations is at **Confidential Appendix 6.**

12 PARTICULAR MARKET SITUATION

The Australian industry claims that a ‘particular market situation’ exists in respect of plate steel sold in China due to government influence on both the prices of the goods and the major raw material inputs including coke and coking coal, used in the manufacture of the goods.

JIGANG submitted a response to the Particular Market Situation section of the questionnaire, which includes, inter alia, a spreadsheet listing its main raw material purchases, during the investigation period. The majority of answers relate to the legal entity Shandong Iron and Steel Co., Ltd rather than JIGANG which represents a Division of the legal entity.

In respect of its business operations, JIGANG advised the following:

- No GOC officials have a position in the company. In fact, Chinese company law forbids this from being the case;
- No employee or director is appointed, managed or recommended by the GOC;
- Shandong Iron and Steel Co., Ltd is listed on the Shanghai Stock Exchange;
- Under the company’s Articles of Association, the shareholders, board of directors and general manager have the decision making powers and the powers are exercised based solely on market considerations;
- There is no need for government approval for investments, such as JIGANG’s new 4.3m plate steel line installed in 2010;
- JIGANG has no dealings with the GOC other than in respect of the submission of documents under the relevant laws for annual examination of the company to the industry and commerce authority, tax authority and quality inspection authority.

In respect of its plate steel sales, JIGANG advised:

- There is no restriction or condition in relation to the quality or quantity of plate steel manufactured;
- Plate steel is not subject to any export restrictions nor is any export licence required;
- The selling price of plate steel is determined by the sales management department based on market conditions without any restriction, limitation or other consideration;
- There are no laws or regulations impacting on the company’s plate steel prices.

In respect to the purchase of raw material, JIGANG advised;

- JIGANG has many suppliers of raw materials and the price of those materials varies between suppliers based on factors such as quality differences, transaction dates and purchase quantities;
- JIGANG evaluates its potential suppliers of raw materials based on their legal qualification (business licence), access to stable long-term mineral resources, timely delivery and reputation;

- Approximately [redacted]% of JIGANG's iron ore requirements are imported from unrelated suppliers, including a significant number in Australia.

At the visit, we asked JIGANG about the merger with Laiwu Iron and Steel Co., Ltd. JIGANG stated that the merger was a decision of the company management and had been endorsed by its approximately 260,000 shareholders. JIGANG stated that the merger provided the following benefits to both the merged entity:

- JIGANG improved its product structure and special product features and competitiveness;
- The merger boosted both companies brand and research and development strength, allowing improved sales strategies and maximising profitability;
- Increased asset size to improve strength against market fluctuations;
- Decrease competition with peers and reduce transactions with related parties.

JIGANG stated that examples of benefits from the merger were:

- The availability of a wider range of products including product produced by Laiwu;
- A share offering following the merger had increased the merged entity's stock capital.

We asked JIGANG about the impact of GOC policies, including the National Steel Policy and Blueprint for Steel Industry Adjustment and Revitalisation. JIGANG stated that the only tangible impact had been due to the State Energy Saving and Energy Reduction Policy. The policy had required that all blast furnaces with a capacity of less than 350 cubic metres be destroyed. In 2011, JIGANG has destroyed 6 blast furnaces in accordance with the policy.

JIGANG stated that other state policies were not compulsory but were guiding principles aimed at eliminating out-dated capacity and assist in the upgrading and restructure of the industry.

JIGANG stressed that the GOC does not interfere in the setting of prices for plate steel and that prices are determined by market demand and conditions.

We asked JIGANG about the losses it had incurred in recent years. JIGANG stated that it had been profitable until 2009 when the Global Financial Crisis had impacted on the steel industry world-wide. JIGANG stated that difficult economic conditions had prevailed since 2009 but that in the first quarter of 2013 the company had returned to a profit-making position.

13 SUBSIDIES

13.1 Raw material provided by Government at less than adequate remuneration

The applicant, BlueScope, claims that public bodies (in the form of state-invested enterprises (SIEs) have supplied hot rolled coil, steel slab, coking coal and coke directly or indirectly to manufacturers of hot rolled plate steel at less than adequate remuneration.

JIGANG is an integrated supplier, purchasing iron ore, coking coal and other raw material to produce steel slab from which plate steel is manufactured. In its EQR, JIGANG provided a list of raw material suppliers and manufacturers, noting which suppliers/manufacturers it understood to be SIEs.

JIGANG stated that it did not receive any reduction in price for raw materials and that all purchases were made under free market conditions.

13.2 Preferential income tax programs

JIGANG stated that it did not receive any benefit under preferential income tax programs during the investigation period. JIGANG stated that it had always paid tax at the general company tax rate of 25%.

At the visit, JIGANG provided its tax returns from 2008 to 2011 (**Confidential Attachment SUB1).** JIGANG has not yet lodged its tax return for 2012, which is due at the end of May 2013.

JIGANG explained that it received bonus credits for research and development expenses on new technology, products and processes and for wages paid to disabled persons.

Based on the evidence provided, we are satisfied that JIGANG has not benefited from preferential income tax programs.

13.3 Tariff and VAT exemptions on imported materials and equipment

JIGANG stated that it did not receive any benefits under schemes providing for tariff and/or VAT exemptions on imported material and equipment.

JIGANG provided documents relating to the importation of machinery parts in November 2011 (**Confidential Attachment SUB2**). The documents show the payment of an 8% tariff on the imported parts.

13.4 Concessional interest rates on loans

JIGANG advised that it pays normal commercial interest rates on its borrowings. In its exporter questionnaire response, JIGANG provided details of all loans outstanding at the end of 2012. It also provided a table of reference interest rates for the period 2008 to 2012 for various term loans as issued by the Central Bank of China.

At the visit, JIGANG provided a printout from of the Central Bank of China's website to support the reference loan rates provided. It also provided a schedule of borrowings showing the interest rate applicable and amount of monthly interest payable on the loans. JIGANG also provided loan copies of loan contracts with the lending institution for three loans that we selected.

Comparing the interest rates paid by JIGANG on its loans with the Central Bank of China's reference rates we are satisfied that JIGANG does not benefit from concessional interest rates on its borrowings. Documents relating to JIGANG's loans are at **Confidential Attachment SUB3.**

13.5 Government grants

JIGANG advised that it did not receive any benefits under the programs listed by BlueScope in its application. It stated however that it had received some amounts from the GOC under other programs.

At the visit, JIGANG provided a note from its audited financial statements for 2012 setting out non-operating income amounts received by the legal entity, Shandong Iron and Steel Co., Ltd (**Confidential Attachment SUB4**). JIGANG also provided a schedule of detailed information on non-operating income for 2012 (**Confidential Attachment SUB5**).

Following the visit, JIGANG provided a revised list of grants (**Confidential Attachment SUB6**). The list provides details on 12 programs under which JIGANG has recognised non-operating income in 2012. The details of the programs are as follows:

No.	Program name	Date of grant	Amount of grant (RMB)	Income recognised in 2012 (RMB)
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				

Note: Program details are For Official Use Only.

JIGANG treated programs 1 to 6 listed above as deferred income and is amortising the grants in accordance with its accounting policy and Chinese company law. Up until the end of 2010, JIGANG applied a policy of amortising such deferred income over 10 years on a straight line basis. From financial year 2011, JIGANG changed to a amortisation period of 15 years.

Programs 7 to 11 were treated as non-operating income in 2012. Program 12 has been treated as deferred income and will be amortised over 15 years commencing from 2013.

14 LIST OF APPENDICES AND ATTACHMENTS

	All appendices and attachments are confidential
LG1	Product brochure and product guide
EXP1	Source documents for selected export sales
EXP2	VAT rebate claim documents
CTMS1	Cost breakdown for selected plate models
CTMS2	[redacted] system print supporting production quantities
CTMS3	Cost of Goods Sold table
CTMS4	Allocation of cost variance of raw material table
CTMS5	Semi-finished product – variance carried over table
CTMS6	[redacted] printout of slab consumed in steel plate production
CTMS7	Semi-finished product variance calculation
CTMS8	[redacted] system print showing slab consumption
CTMS9	Total allocated variance for steel making
CTMS10	Total allocated labour and manufacturing overheads variance report
CTMS11	Itemised variance table
CTMS12	Summary page for selected raw materials
CTMS13	Bill of materials for conveyor cost centre
CTMS14	Inventory sheet for melted iron
CTMS15	Production cost breakdown for four blast furnaces
CTMS16	[redacted] system print of blast furnace cost centres
CTMS17	Production cost breakdown for iron making plant
CTMS18	Cost summary sheet – iron making plant
CTMS19	Bill of materials for sinter production
CTMS20	Variance summary sheet
CTMS21	Coking coal purchase transactions
CTMS22	Coking coal purchase invoices
CTMS23	Financial statements 2012 – Shandong Iron and Steel Company Limited
CTMS24	July 2012 Cost of Goods Sold workbook
CTMS25	Profit and loss statement extract 2012
CTMS26	Domestic iron ore purchase source documents
CTMS27	SBB Chinese domestic iron ore pricing
CTMS28	Domestic iron ore purchase contracts
CTMS29	JIGANG financial statements 2012
DOM1	Domestic price lists
DOM2	List of related plate steel customers
DOM3	Sample credit transaction documents

DOM4	[redacted] printout of sales quantities
DOM5	Printout of monthly sales totals for plate steel department
DOM6	Income statement for The Shandong Iron and Steel Group Co., Limited
DOM7	Laiwu's financial statements 2012
DOM8	Source documents for selected domestic sales
DOM9	Inland transport worksheet
DOM10	Sample invoice for inland transport
DOM11	Transport invoice breakdown
ADJ1	JSIT income statement 2012
ADJ2	Jigang HK income statement 2012
SUB1	JIGANG company tax returns 2008 to 2011
SUB2	Machinery importation documents
SUB3	JIGANG loan documents
SUB4	Audited statement note on non-operating income
SUB5	Schedule of non-operating income
SUB6	Revised list of grants

Confidential Appendix 1	Export prices
Confidential Appendix 2	Cost to make and sell
Confidential Appendix 3	Related party sale analysis
Confidential Appendix 4	OCOT & profit margin
Confidential Appendix 5	Normal values
Confidential Appendix 6	Dumping margin