



Australian Government
**Department of Industry,
Innovation and Science**

**Anti-Dumping
Commission**

REVIEW 365

**REVIEW OF ANTI-DUMPING MEASURES
RELATING TO ZINC COATED (GALVANISED
STEEL) EXPORTED FROM THE PEOPLE'S
REPUBLIC OF CHINA**

VERIFICATION REPORT - EXPORTER

JIANGYIN ZONGCHENG STEEL CO., LTD

**THIS REPORT AND THE VIEWS OR RECOMMENDATIONS CONTAINED THEREIN
WILL BE REVIEWED BY THE CASE MANAGEMENT TEAM AND MAY NOT REFLECT
THE FINAL POSITION OF THE ANTI-DUMPING COMMISSION**

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1 BACKGROUND

On 30 August 2016, the Commissioner of the Anti-Dumping Commission gave public notice of his decision to initiate a review of the anti-dumping measures in respect of zinc coated (galvanised) steel exported to Australia from the People's Republic of China (China) by Jiangyin Zongcheng Steel Co., Ltd (Zongcheng) in Anti-Dumping Notice (ADN) No. 2016/86. The background relating to initiation of this review is contained in Consideration Report No. 365.

Following initiation of the review, a search of the Australian Border Force import database indicated that Zongcheng exported zinc coated (galvanised) steel to Australia from China during the period 1 July 2015 to 30 June 2016 (the review period).

The Anti-Dumping Commission (the Commission) sought Zongcheng's cooperation through the completion of an Exporter Questionnaire regarding zinc coated (galvanised) steel.

The Commission elected not to conduct on-site verification of the information provided in the export questionnaire. Instead, the Commission relied upon a recent onsite verification of Zongcheng's galvanised steel sales and costs for six of the twelve months of the review period. The remaining six months of galvanised steel data was verified remotely. This analysis included tests for the reasonableness, accuracy and completeness of export sales, domestic sales and cost to make and sell (CTMS) data utilised in calculating the dumping margin.

2 THE GOODS AND LIKE GOODS

2.1 The goods exported to Australia

During the review period, Zongcheng exported galvanised steel ('the goods') to Australia. The goods were flat rolled products of non-alloyed steel with various widths, grades, thicknesses and coating masses. The goods produced were in compliance with Australian Standards and Japanese Industrial Standards (JIS).

2.2 Like goods sold on the domestic market

During the review period, Zongcheng also sold galvanised steel to domestic customers in China. These goods were also flat rolled products of non-alloyed steel of various widths, grades, thicknesses and coating masses. The goods produced were in compliance with various standards.

The verification team considers that the goods manufactured for domestic consumption are identical to, or have characteristics closely resembling, the goods exported to Australia, as they:

- are not distinguished from the exported goods during production;
- are produced at the same facilities and with the same raw material inputs and manufacturing processes; and
- can be considered functionally and commercially alike.

2.3 Model matching

Due to the market situation finding (see section 5.6 below), the normal value cannot be ascertained based on domestic selling prices, therefore, model matching between export and domestic sales is not required. The verification team has constructed the normal value based on cost to make and sell the goods by Zongcheng plus an amount for profit. The verification team used cost to make and sell based on Zongcheng's sales of like goods on the domestic market.

2.4 Like goods – preliminary assessment

The verification team considers that galvanised steel produced by Zongcheng for domestic sales has characteristics closely resembling those of the goods exported to Australia and are therefore 'like goods' in accordance with subsection 269T(1) of the *Customs Act 1901* (the Act).¹

¹ References to any section or subsection in this report relate to provisions of the Act, unless specifically stated otherwise.

3 VERIFICATION OF EXPORT SALES TO AUSTRALIA

3.1 Verification of Australian sales to audited financial statements

The verification team verified the completeness and relevance of Zongcheng's Australian sales listing by reconciling it to audited financial statements.

The verification team did not identify any issues during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

3.2 Verification of Australian sales to source documents

The verification team verified the accuracy of Zongcheng's Australian sales listing by reconciling it to source documents.

The verification team did not identify any issues during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

3.3 The exporter

For all Australian export sales during the review period, the verification team considers Zongcheng to be the exporter of the goods.²

3.4 The importer

The verification team considers that the importer, Stemcor (SEA) Pte Ltd based in Australia, is the beneficial owner of the goods at the time of importation, and therefore the 'importer' of the goods.

3.5 Related party customers

The verification team did not identify any information that might suggest the Australian importer was related to Zongcheng, based on the company's response to the Exporter Questionnaire, sales data and audited financial statements.

3.6 Arms length

In respect of Australian sales of the goods made by Zongcheng to Stemcor (SEA) Pte Ltd during the review period, the verification team found no evidence that:

² The Commission generally identifies the exporter as a 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 carrier, courier, forwarding company, or its own vehicle for delivery to Australia; or a principal in the transaction, located in the country of export, that owns, or previously owned, the goods but need not be the owner at the time the goods were shipped.

- there was any consideration payable for, or in respect of, the goods other than its price; or
- the price was influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- the buyer, or an associate of the buyer, was directly or indirectly reimbursed, compensated or otherwise received a benefit for, or in respect of, the whole or any part of the price.³

The verification team therefore considers that all export sales to Australia made by Zongcheng during the review period were arms length transactions.

3.7 Export price – conclusion

Having regard to the above desktop verification, the verification team is satisfied that the domestic and Australian sales listings provided by Zongcheng are reasonably accurate, relevant and complete can be relied upon for the purpose of assessing the export price.

The verification team recommends that the export price be determined under paragraph 269TAB(1)(a), as the price paid by the importer to the exporter less transport and other costs arising after exportation.

The verification team's preliminary export price calculations are at **Confidential Appendix 1**.

³ Section 269TAA of the Act refers.

4 COST TO MAKE AND SELL

4.1 Verification of costs

The verification team verified the completeness and relevance of Zongcheng's CTMS spreadsheet by reconciling it to audited financial statements. The CTMS spreadsheet is at **Confidential Appendix 2**. The verification team did not identify any issues.

Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

4.2 Verification of costs to source documents

The verification team verified the accuracy of Zongcheng's CTMS spreadsheet by reconciling it to source documents.

The verification team did not identify any issues during this process. Details of the verification process are contained in the verification work program, and relevant attachments, at **Confidential Attachment 1**.

4.3 Related party purchases

Based on the company's response to the Exporter Questionnaire and documentation supplied for the purpose of the verification, the verification team did not identify any suppliers that might be related to Zongcheng.

4.4 Cost to make and sell – conclusion

Having verified a large portion of Zongcheng's CTMS data to audited financial statements and to source documents, the verification team is satisfied that Zongcheng's CTMS spreadsheet is reasonably complete, relevant and accurate.

Zongcheng verified CTMS spreadsheet is at **Confidential Appendix 2**.

5 VERIFICATION OF DOMESTIC SALES

5.1 Verification of domestic sales to audited financial statements

The verification team verified the completeness and relevance of Zongcheng's domestic sales listing by reconciling it to audited financial statements.

The verification team did not identify any issues during this process. Details of the verification process are contained in the verification work program, and relevant attachments, at **Confidential Attachment 1**.

5.2 Verification of domestic sales to source documents

The verification team verified the accuracy of Zongcheng's domestic sales listing by reconciling it to source documents. The verification team did not identify any issues during this process.

Details of the verification process are contained in the verification work program, and relevant attachments, at **Confidential Attachment 1**.

5.3 Prime and non-prime products

The verification team identified a substantial difference in prices between prime and non-prime products. Non-prime products are offered to customers at a discounted rate.

Further, it was noted that non-prime products were not offered for export. The verification team has therefore removed non-prime products from the calculation of profit.

5.4 Related party sales

Based on the company's response to the Exporter Questionnaire, documentation supplied for the purpose of the verification, and a previous verification visit the verification team did not identify any domestic customers that might be related to Zongcheng.

5.5 Ordinary course of trade

Section 269TAAD of the Act provides that if like goods are sold in the country of export at a price less than the cost of such goods, and are unrecoverable within a reasonable period, then they are taken not to have been sold in the ordinary course of trade (OCOT).

The verification team compared the revenue (i.e. net sales value) for each domestic sale of galvanised steel to the corresponding quarterly domestic CTMS to test whether those sales were profitable.

Where the volume of unprofitable sales exceeded 20 per cent for a particular model, the verification team tested the recoverability of the unprofitable sales by comparing the revenue for each transaction to the corresponding weighted average CTMS over the review period. Those sales found to be unrecoverable were considered not to be in the OCOT.

5.6 Suitability of domestic sales

In the original investigation, it was established that, in accordance with subsection 269TAC(2)(a)(ii), a situation exists in the domestic Chinese aluminium zinc coated steel market that renders domestic selling prices in that market unsuitable for the purpose of determining the normal value for aluminium zinc coated steel under subsection 269TAC(1).

Therefore, the verification team considers that the normal value should be determined using a constructed method as permitted under subsection 269TAC(2)(c). The verification team considers that certain adjustments, in accordance with subsection 269TAC(9), are necessary to ensure a fair comparison of normal values with export prices. These adjustments are outlined in Section 7 of this report.

5.7 Profitability of domestic sales

Where the normal value has been constructed under paragraph 269TAC(2)(c), an amount for profit has been included with respect to the profitability of domestic sales of like goods made in the ordinary course of trade (OCOT).⁴

5.8 Domestic sales – summary

As indicated above it has been established pursuant to Section 269TAC(2)(a)(ii), that a situation exists in the domestic Chinese HRC market that renders domestic selling prices in that market unreasonable for the purposes of determining normal values for HRC under section 269TAC(1) of the Act.

Consequently the verification team has, for the purposes of this review, constructed the normal value for Zongcheng under section 269TAC(2)(c) of the Act.

The domestic sales listing is at **Confidential Appendix 3**.

⁴ Subsection 45(2) of the *Customs (International Obligations) Regulation 2015* refers.

6 NORMAL VALUE

The verification team considers that normal value should be determined under subsection 269TAC(2)(c), using the cost of production or manufacture of the goods in the country of export; and, on the assumption that the goods, instead of being exported, had been sold for home consumption in the OCOT in the country of export, the administrative, selling and general costs associated with such a sale and the profit on that sale.

Consistent with the market situation discussed at section 5.6 of this report, the Commission has adjusted hot rolled coil costs for Zongcheng to arrive at an adjusted CTMS for exported goods. All other costs reported by Zongcheng have been adopted without amendment.

For the purpose of constructing the normal value of the goods under subsection 269TAC(2)(c), the verification team considers that an amount for administrative, selling and general costs should be worked out under Regulation 44(2) of *the Customs (International Obligations) Regulation 2015* (the Regulations), using the administrative, selling and general costs associated with the sale of like goods.

Further, the verification team considers that an amount for profit should be worked out under Regulation 45(2), using data relating to the production and sale of like goods by the exporter or producer of the goods in the ordinary course of trade.

In addition, the verification team considers that certain adjustments, in accordance with subsection 269TAC(9), are necessary to ensure that the normal value is properly comparable with the export price, as outlined in Section 7 of this report.

The preliminary normal value calculations are at **Confidential Appendix 4**.

7 ADJUSTMENTS

The verification team is satisfied there is sufficient and reliable information to justify the following adjustments, in accordance with subsection 269TAC(9) of the Act, and considers the following adjustments are necessary to ensure a fair comparison of normal values and export prices.

7.1 Domestic and Export Packaging

The verification team considers that a downwards adjustment to the normal value for domestic packing expenses is necessary to ensure a fair comparison to the FOB export price. The verification team has applied this adjustment based on the packing costs listed for each domestic transaction.

The verification team also considers that an upwards adjustment for export packing expenses is required, to ensure a fair comparison to the FOB export price. The verification team has applied this adjustment based on the weighted average cost (per tonne for those expenses over the review period).

7.2 Export Inland Transport

The verification team considers that an upwards adjustment for export inland freight expenses is required, to ensure a fair comparison to the FOB export price. The verification team has applied this adjustment based on the weighted average cost (per tonne) for these expenses over the review period.

No downwards adjustment for domestic inland freight was required as the domestic sales were made on ex-work terms.

7.3 Export Handling

The verification team considers that an upwards adjustment to the normal value for export handling is necessary to ensure a fair comparison to the FOB export price. The verification team has applied this adjustment based on the weighted average cost (per tonne) for these expenses over the review period.

7.4 Export commissions

The verification team considers that an upwards adjustment to the normal value of commissions in respect of domestic sales is required to the FOB export price. The verification team has applied this adjustment based on the weighted average cost (per tonne) for these expenses over the review period.

7.5 Un-refundable Value-Added Tax liability

Zongcheng incurred an un-refundable value-added tax (VAT) expense on exports sales to Australia. The verification team considers that an upwards adjustment to the normal value for non-refundable (residual liability) VAT is warranted. The verification team applied an upwards adjustment of 4 per cent (17 per cent VAT less 13 per cent rebate).

7.6 Adjustments – conclusion

The verification team is satisfied that there is sufficient and reliable information to justify the following adjustments, in accordance with subsection 269TAC(9) of the Act, and considers the following adjustments are necessary to ensure a fair comparison of normal values and export prices (at FOB):

Adjustment Type	Deduction/addition
Domestic packaging	Deduct the cost of domestic packaging
Export inland transport	Add the cost of inland freight
Export handling	Add the cost of export handling
Export packaging	Add the cost of export packaging
Export commissions	Add the cost of export commission paid
Un-refundable VAT liability	Add the difference in VAT liability between export and domestic sales.

The verification team's preliminary adjustment calculations are included in normal value calculations at **Confidential Appendix 4**.

8 DUMPING MARGIN

The dumping margin has been assessed by comparing weighted average Australian export prices to the corresponding monthly average normal value for the review period, in accordance with paragraph 269TACB(2)(a) of the Act.

The dumping margin in respect of the goods exported to Australia by Zongcheng for the review period is 7.85%.

Details of the preliminary dumping margin calculation are at **Confidential Appendix 5**.

9 APPENDICES AND ATTACHMENTS

Confidential Appendix 1	Australian export sales
Confidential Appendix 2	CTMS spreadsheet
Confidential Appendix 3	Domestic sales
Confidential Appendix 4	Normal value
Confidential Appendix 5	Dumping margin
Confidential Attachment 1	Verification work program, with attachments