



**INVESTIGATION 237**

**ALLEGED DUMPING AND SUBSIDISATION OF SILICON  
METAL**

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

**EXPORTER VISIT AND DUMPING MARGIN CALCULATION  
REPORT**

**FUJIAN LINAN GROUP**

**INCORPORATING**

**XIAMEN K METAL CO., LTD**

**HUA'AN LINAN SILICON INDUSTRY CO., LTD**

**GUIZHOU LIPING LINAN SILICON INDUSTRY 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

**July 2014**

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<b>ABBREVIATIONS</b>	
ACBPS	Australian Customs and Border Protection Service
The Act	<i>Customs Act 1901</i>
ADN	Anti-Dumping Notice
CFR	Cost and Freight
Commission	Anti-Dumping Commission
CTMS	Cost to make & sell
EPR	Electronic Public Record
FOB	Free on board
GUC	Goods under consideration
Guizhou Linan	Guizhou Liping Linan Silicon Industry Co., Ltd
Hua'an Linan	Hua'an Linan Silicon Industry Co., Ltd
K Metal	Xiamen K Metal Co., Ltd
Linan Group	Collective group term incorporating: Xiamen K Metal Co., Ltd Hua'an Linan Silicon Industry Co., Ltd Guizhou Liping Linan Silicon Industry Co., Ltd
Pacific Aluminium	Collective group term incorporating: Rio Tinto (Bell Bay) Company Ltd, Boyne Smelters Ltd and Tomago Aluminium Co. Ltd
PAD	Preliminary Affirmative Determination
P & L	Profit and loss statement
REQ	Response to exporter questionnaire
RMB	Yuan Renminbi
SEF	Statement of Essential Facts
Simcoa	Simcoa Operations Pty Ltd
TCO	Tariff Concession Order
the goods	the goods the subject of the application (also referred to as the goods under consideration or GUC)
the Parliamentary Secretary	the Parliamentary Secretary to the Minister for Industry
USD	US dollars
VAT	Value added tax

## 1 BACKGROUND AND PURPOSE

### 1.1 Background

On 10 January 2014, Simcoa Operations Pty Ltd (Simcoa) lodged an application requesting that the Parliamentary Secretary to the Minister for Industry (the Parliamentary Secretary) publish a dumping duty notice and countervailing duty notice in respect of silicon metal exported to Australia from China.

Simcoa alleged that the Australian industry has suffered material injury caused by silicon metal exported to Australia from China at dumped and subsidised prices. Simcoa claims the industry had been injured through:

- Lost sales volumes;
- Reduced market share;
- Price depression;
- Price suppression;
- Loss of profits and profitability;
- Reduced return on investment; and
- Reduced capacity utilisation

Public notification of initiation of the investigation was made on 6 February 2014 in *The Australian* newspaper and by Australian Dumping Notice No. 2014/08.

### 1.2 Purpose of report

At the commencement of the investigation, the Commission received completed responses to exporter questionnaires (REQs) from Xiamen K Metal Co., Ltd (K Metal), Hua'an Linan Silicon Industry Co., Ltd (Hua'an Linan) and Guizhou Liping Linan Silicon Industry Co., Ltd (Guizhou Linan). Each of the REQs received indicated that the companies were not related parties. As set out at section 2.1 of this report, as a result of its enquiries the Commission has concluded that this assertion is not correct. The Commission is treating the three entities as one group for the purpose of assessing a dumping margin. This report has been prepared on that basis, incorporating the findings for all three entities as a group. Throughout this report the term 'Linan Group' will be used to describe the three entities.

The Commission conducted an onsite verification visit to K Metal and Hua'an Linan. Due to logistical difficulties in accessing Guizhou Linan's manufacturing plant, the Commission did not conduct an onsite visit and has benchmarked the data provided in Guizhou Linan's REQ against the verified data provided by Hua'an Linan. Information obtained from the REQ for Guizhou Linan has been used in the calculation of the Linan Group's dumping margin.

This report sets out the results of the onsite visit for K Metal and Huan'an Linan and the assessment of the data for Guizhou Linan..

### 1.3 Meeting details

The purpose of the onsite visit was to verify information in the REQs submitted by K Metal and Hua'an Linan. Each REQ consisted of a background of each company's

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activities, details of exports to Australia where applicable, details of exports to other countries, cost to make and sell information, details of domestic sales and information on adjustments to domestic selling prices. Each REQ was supported by multiple attachments.

Information verified during the visits has been used to make preliminary assessments regarding:

- like goods;
- identifying the exporter and the importer;
- export prices;
- normal values; and
- dumping margins.

Company	Xiamen K Metal Co., Ltd
Dates of visit	9 July 2014 and 14 July 2014

Company	Hua'an Linan Silicon Industry Co., Ltd
Dates of visit	10 July 2014; 11 July 2014 (offsite)

The following were present at various stages of the verification visit.

K Metal	Zheng ZhiYong – General Manager Della Wu – Sales Manager Xiaolin He – Finance Manager
Hua'an Linan	Nangen Huang – Plant Manager Linji Chen - Finance Manager Della Wu – Sales Manager K Metal
Consultant	Maurie Bilston - Staughtons
Anti-Dumping Commission	Nicole Platt – Manager Investigations – Operations 4 Chris Harrison – Investigator – Operations 2 Aimee Liu – Interpreter

At the visit we advised the company of the investigation process and timeframes as follows:

- The investigation period is 1 January 2013 to 31 December 2013.
- The injury analysis period is from 1 January 2010 for the purpose of analysing the condition of the Australian industry.
- A preliminary affirmative determination (PAD) is able to be made any time after 7 April 2014.

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The Commissioner of the Anti-Dumping Commission (the Commissioner) will not make a PAD until (and if) it becomes satisfied that there appears to be, or that it appears there will be, sufficient grounds for the publication of a dumping duty notice.

As at the date of the visit, no PAD had been made.

- The Statement of Essential Facts (SEF) for the investigation is due to be placed on the electronic public record (EPR) by 25 August 2014, or such later date as the Parliamentary Secretary to the Minister for Industry (the Parliamentary Secretary) allows under s.269ZHI of the *Customs Act 1901* (the Act).

The SEF will set out the material findings of fact on which the Commissioner intends to base its recommendations to the Parliamentary Secretary, and will invite interested parties to respond, within 20 days, to the issues raised therein.

- Following receipt and consideration of submissions made in response to the SEF, the Commissioner will provide his final report and recommendations to the Parliamentary Secretary.

The final report is due no later than 9 October 2014, unless an extension to the SEF is approved by the Parliamentary Secretary.

We explained to the company that we would prepare a report of our visit (this report) and provide it to the company to review its factual accuracy, and to identify those parts of the report it considers to be confidential.

We explained that, in consultation with the company, we would prepare a non-confidential version of the report, and place this on the electronic public record for the investigation.

## 2 COMPANY INFORMATION

### 2.1 General

K Metal, Hua'an Linan and Guizhou Linan submitted separate responses to the exporter questionnaire. The initial submissions indicated that the entities were not related. At the verification visits both K Metal and Hua'an Linan confirmed that they were part of a larger group, the Linan Group. K Metal also advised that Guizhou Linan was part of the Linan Group and supported this assertion by directing us to the Linan Group brochure<sup>1</sup> which listed Guizhou Linan as a related entity.

#### 2.1.1 The Linan Group

The Linan Group incorporates entities integrated with the research, production and sale of silicon metal lump, silicon metal powder, aluminium ingot, textiles and property development.<sup>2</sup> The Linan Group operates five different silicon metal manufacturing plants throughout China. Each plant is run independently and has different shareholders for registration purposes, however they do share technical expertise where required. Different grades of silicon metal are made at different plants, however several of the plants make some of the same grades of silicon metal. K Metal advised that all listed shareholders of the five plants are related and that the major shareholder of K Metal has a controlling interest in all plants within the group. The Linan Group head office is located in Fujian, China and was founded in 2000. The Linan Group employs more than 3,200 people.

The Commission requested a copy of an organisational chart for the Linan Group. A Linan Group brochure was provided which outlined the different business interests and companies associated with the group (**Confidential attachment 1**). No organisational structure chart was available.

#### 2.1.2 K Metal

K Metal is the sales and export branch for the Linan Group, located in Xiamen. It does not manufacture any goods. K Metal provided a company brochure outlining the company background and product range (**Confidential attachment 2**). K Metal is a privately owned company with one major shareholder. In its REQ, K Metal advised that it was not a subsidiary of any other company, however in the Linan brochure provided at the visit (**Confidential attachment 1**), K Metal is listed as a subsidiary of the Fujian Linan Group<sup>3</sup>.

K Metal sells silicon metal, aluminium ingot and oil coke on the domestic and export markets. Whilst K Metal sells a variety of products for the Linan Group, only silicon metal is sold from the range to Australia. Silicon metal sales make up approximately ■■■% of K Metal's total sales volume. Domestic sales account for ■■■% of all silicon

<sup>1</sup> Linan Group Brochure, page 5.

<sup>2</sup> Xiamen K Metal Co., Ltd, Linan Group brochure.

<sup>3</sup> Linan Group Brochure, page 5.



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metal sales by volume, [REDACTED] % of silicon metal sales volumes are to Australia and the balance is sold to other countries.

### 2.1.3 Hua'an Linan

Hua'an Linan is a manufacturing plant that produces silicon metal. It operates three furnaces on site. Hua'an Linan sells the silicon metal it produces to the Chinese domestic market. It does not export the silicon metal directly. It sells silicon metal to K Metal and other trading companies within China for export and domestic sales, and directly to some end-user domestic customers. An internal organisation structure was provided in the REQ listing the different departments and management sections of the company. A company brochure was not available for Hua'an Linan. Hua'an Linan explained that all products it produces are listed in K Metal's brochure.

### 2.1.4 Guizhou Linan

Guizhou Linan is a silicon metal manufacturing plant that was established in 2003. Located in Hongzhou Town, Liping County, the plant employs approximately 125 people. Guizhou Linan is one of the five silicon metal manufacturing plants operated by the Linan Group. Guizhou Linan sells silicon metal on the Chinese domestic market to numerous traders including K Metal.

## 2.2 Related parties

K Metal explained that it sourced product for sale from both related and unrelated entities. All sales were to unrelated customers both domestically and internationally.

Hua'an Linan stated that apart from its sales to K Metal, it had no commercial relationship with suppliers of raw materials and inputs, or customers.

K Metal, Hua'an Linan and Guizhou Linan advised in the respective REQs that no commercial relationship existed between any suppliers or customers. The Commission does not agree with this assertion after the verification visit. At the visits, both K Metal and Hua'an Linan confirmed that they were part of the one commercial group and advised that despite showing [REDACTED], [REDACTED] and the main shareholder of [REDACTED] [confidential shareholder information] that form part of the Linan Group. As noted above, K Metal also confirmed that Guizhou Linan was part of the Linan Group as well.

## 2.3 Accounting structure and details of accounting system

The Linan Group's financial year is 1 January to 31 December.

In the REQ, K Metal provided the following accounting information:

- Chart of accounts (**Confidential attachment 3**);
- Balance sheet, income and cash flow statements for 2013 (**Confidential attachment 4**); and
- Audited financial statements for 2012 and 2013 (**Confidential attachment 5**).

In the REQ, Hua'an Linan provided the following accounting information:

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- Chart of accounts (**Confidential attachment 6**);
- Income statement for 2013 (**confidential attachment 7**), and
- Audited financial statements for 2012 (**Confidential attachment 8**).

In the REQ, Guizhou Linan provided the following accounting information:

- Chart of accounts (**Confidential attachment 39**);
- Income statement for 2013 (**confidential attachment 40**), and
- Audited financial statements for 2012 and 2013 (**Confidential attachment 41**).

We examined the audited statements and observed the unqualified auditors' opinion that the accounts fairly presented the financial position of K Metal and Guizhou Linan in 2013 and Hua'an Linan in 2012, and both are kept in accordance with the relevant accounting principles for business enterprise generally accepted as fair and reasonable in China. Hua'an Linan advised that at the time of the verification visit, the 2013 audited accounts had not yet been prepared.

K Metal uses an accounting system called 'Golden Disk'. At the verification visit it demonstrated the use of this system, breaking down sales by product type and distinguishing between domestic and export sales for the different product categories. The system only records silicon metal to one sales code, it does not distinguish between the different grades available.

Hua'an Linan operates an accounting system called 'Enterprise Accounting'. All sales are to the domestic market and all sales are of silicon metal, there is therefore only one income account recorded in the system.

Both K Metal and Hua'an Linan generated management reports for the 2013 and 2012 financial years directly from the respective accounting systems at the visits. These reports matched those that had been provided with the REQs.

### 3 THE GOODS UNDER CONSIDERATION AND LIKE GOODS

#### 3.1 The goods

##### 3.1.1 Description

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

- Silicon metal containing at least 96.00 per cent but less than 99.99 per cent silicon by weight, and
- Silicon metal containing between 89.00 per cent and 96.00 per cent silicon by weight that contains aluminium greater than 0.20 per cent by weight,

of all forms (i.e. lumps, granules, or powder) and sizes.

The application stated:

The goods under consideration (GUC) includes all forms and sizes of silicon, including off-specification silicon such as silicon metal with high percentages of other elements, such as aluminium, calcium, iron, etc.

Silicon is a chemical element, of metallic appearance and steel grey in colour. It can be sold in lump, granule or powder form, and can be used in the same end-use applications whatever its form. Silicon is generally sold in lump form to the metallurgical industry and, in powder form to the chemicals industry. It is often referred to as a metal, although silicon possesses characteristics of both metals and non-metals (silicon is a metalloid).

Silicon is principally used by primary and secondary aluminium producers as an alloying agent and by the chemical industry to produce silicones and photovoltaics. The type and level of impurities in the silicon generally influence the end-use application (i.e. whether 'primary' or 'secondary' use aluminium).

##### 3.1.2 Tariff classification

The goods are classified to the following tariff subheading 2804.69.00 in Schedule 3 to the *Customs Tariff Act 1995* with statistical code 14.

The general rate of duty is currently "free" for goods imported from China.

##### 3.1.3 Product range

The Australian industry provided a detailed explanation of the different grades available and the various uses for the different grades. The differences in grades were also explained at the verification visit by K Metal. The explanations for grade variances were equivalent for each party. It is the chemical composition that determines the final grade category. No significant differences were identified in the cost to make and sell for different grades. All production and cost data provided by the exporters was for silicon metal as a whole and was not broken down by grade.

K Metal provided a brochure showing the different grades available for sale (**confidential attachment 2**). K Metal noted that the list included in the brochure was not exhaustive

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and that other grades could be sold if a customer had a specific request. If a special request is received by K Metal from a customer, it will source the specific product from one of the plants within the Linan Group.

Hua'an Linan produces the range of grades as provided in K Metal's brochure. It also confirmed that specific grades outside those listed could be produced if requested.

K Metal noted that certain production facilities specialised in certain grades of silicon metal, however there was some overlap between grades produced at some plants. K Metal advised that they only source silicon metal sold to Australia from two plants, Hua'an Linan and Guizhou Linan. K Metal stated that because of the specified quality required, only those two plants were used to source silicon metal for sales to Australian customers.

In revised domestic sales spreadsheets provided subsequent to the REQ, K Metal and Hua'an Linan listed all sales of silicon metal made on the domestic market. The total volume of domestic sales of all grades of the goods by K Metal was █████ tonnes and the total volume of domestic sales of all grades of the goods by Hua'an Linan was █████ tonnes. Table 1 shows the proportion of grades sold on the domestic market by each company.

Grade	Hua'an Linan	K Metal	Guizhou Linan
441	47%	18%	74%
553	0%	18%	13%
2202	14%	8%	4%
3303	7%	38%	1%
4402	32%	17%	9%

Table 1 : Silicon metal domestic sales volume by grade

### 3.1.4 Goods exported to Australia

During the investigation period, Hua'an Linan and Guizhou Linan manufactured and exported silicon metal through K Metal to three Australian customers, Rio Tinto (Bell Bay) Company Ltd (Bell Bay), Boyne Smelters Ltd (Boyne) and Tomago Aluminium Co. Ltd (Tomago). The three customers are all part of the Rio Tinto group and are managed by the Pacific Aluminium business division of the group.

At the importer visit to Pacific Aluminium the Commission was advised that Hua'an Linan was not aware that the sales of silicon metal to K Metal were for export. However, at the verification visit, it was stated that Hua'an Linan was part of the same commercial group as K Metal. We were advised that representatives from Rio Tinto had visited the Hua'an Linan manufacturing plant to inspect the quality of the silicon metal products for export to parties within the Rio Tinto group. It was also stated at the verification visit to Hua'an, that the plant produces silicon metal that is then sold to K Metal for the purpose of exporting to foreign countries.

During the investigation period, K Metal exported a total of [REDACTED] tonnes of the goods to Australia. The goods consisted of the following grades:

<b>Grade</b>	<b>% of total volume exported</b>
441	42%
2202	53%
3303	5%

**Table 2 : Silicon metal Australian sales volume by grade**

### **3.1.5 Manufacturing facilities**

As outlined in section 2.1.1, the Linan Group produce silicon metal at five manufacturing facilities throughout China. During the verification visit, we travelled to Hua’an Linan to conduct an inspection of the production facilities. At the visit, we observed one of the three furnaces at the plant producing silicon metal. Hua’an Linan showed us the various stages of production which was the same for all three furnaces. All production process steps were conducted in one shed for each furnace.

The Hua’an Linan plant operates 24 hours per day, employing [REDACTED] workers rotating in shifts over that period. The facility contains three furnaces, however at the time of the visit only two were operational. Hua’an Linan only produces silicon metal on site and is able to make different grades depending on customer needs. It is limited in the size of silicon metal produced, as the crushing process is done manually. The usual size of pieces produced for the end product is approximately 5cm in diameter, however if smaller sizes are required, the silicon metal can be further broken down. Hua’an Linan is unable to produce a finally crushed silicon metal product.

### **3.1.6 Production process**

Hua’an Linan provided a flow chart of the production process in its REQ. In summary, Hua’an Linan described the silicon metal production process as follows:

- Raw silica is washed.
- All other raw materials are prepared.
- All materials are put into the furnace.
- The mix is refined.
- Materials become liquid.
- Liquid silicon metal is cooled into a solid block.
- The solid block is broken into the required size.
- The broken block is weighed and packed into woven bags ready for delivery.

Hua’an Linan pack the silicon metal into one tonne woven bags for delivery. They do not pack the product in any size other than one tonne bags. If a customer requires a different

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packaging size, the silicon metal is delivered to K Metal's warehouse and repacked into the required size before delivery to the customer.

Hua'an Linan advised that the production process was the same whether the silicon metal was produced for sale on the domestic market or was for export.

### **3.1.7 Like goods**

Silicon metal is produced in various grades. The grades represent the chemical composition of the product and the maximum allowed levels of the impurities of iron, aluminium and calcium.

To meet the specified grade, the product should have no more than the specified amount of impurities of each of the above mentioned elements relevant to that grade. Therefore, a grade of silicon such as 2202 or 441 produced in China should have no significant differences to the equivalent grade produced in Australia according to the international standards.

We were advised at the visits to K Metal and Hua'an that the Australian customers, represented by Rio Tinto, undertook a visit to two of the Linan Group's plants for the purposes of acceptance testing prior to negotiating contracts. The importers advised that there are no significant differences between the goods and the Australian produced goods at equivalent grades.

### **3.2 Like goods – preliminary assessment**

Based on information provided in the REQs and that collected during the verification visits the Commission considers silicon metal sold domestically by Hua'an Linan, Guizhou Linan and K Metal has characteristics closely resembling those of the goods exported to Australia during the investigation period. These characteristics include physical likeness (e.g. size, shape), commercial likeness (e.g. interchangeability) and functional likeness (e.g. end-use). The Commission is therefore satisfied that silicon metal sold by Hua'an Linan, Guizhou Linan and K Metal on the domestic market in China are like goods in accordance with s.269T.

## 4 SALES TO AUSTRALIA

### 4.1 Sales to Australia – K Metal

During the investigation period, K Metal exported silicon metal to customers in Australia. All of these customers are aluminium smelters managed by Pacific Aluminium. Section 3.1.4 of this report provides a summary of the grades of silicon metal exported to Australia from K Metal.

In its REQ, K Metal provided a detailed Australian sales spreadsheet listing all sales made to Australia during the investigation period. The Australian sales spreadsheet included the following information:

- Customer name
- Level of trade
- Model/grade
- Product code
- Invoice number
- Invoice date
- Date of sale
- Order number
- Shipping terms
- Payment terms
- Quantity
- Gross invoice value
- Invoice currency
- FOB unit export price
- Packing size
- Handling charges

We sought to verify the export sales data contained within the Australian sales spreadsheet during the visit. The verification process discussion is contained at sections 4.5 and 4.6 of this report.

### 4.2 Export sales process

K Metal explained that there is a single supply contract in place with Pacific Aluminium, with separate orders made throughout the year under the terms of this contract. Pacific Aluminium provides K Metal with an annual quantity forecast for the coming calendar year and updates monthly quantity forecasts throughout the year on behalf of its smelters. Purchase orders are made by each of the smelters directly as required and provided to K Metal throughout the year. Each of these orders represent individual sales contracts. K Metal directs the purchase order to the purchasing department, who in turn contacts the factory for supply.

K Metal advised that the price is essentially based on a formula incorporating the monthly average export price for silicon metal published by Asian Metals. Asian Metals is an information provider on metal prices. K Metal provided a copy of the Asian Metals historical data for the investigation period for grades 441 and 2202, at both export and domestic levels (**confidential attachment 9**).



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We were informed that the Australian customer forwards an enquiry for a specific quantity of silicon metal generally two to three months in advance. The price is set using the specified formula using the [REDACTED] from the Asian Metals data from the month immediately preceding the month of shipment. A pre-agreed discount of [REDACTED]% is then applied to that figure and then the price is adjusted to reflect the type of packaging required. K Metal advised the [REDACTED]% discount is applied to all Australian sales for customer relationship purposes.

K Metal advised that once the goods are received from the manufacturer into its warehouse, it arranges packaging into the size required by the customer if different to the one tonne packaging provided by the manufacturer, and delivery to [REDACTED]. We were informed that sales to Australia are usually at [REDACTED] terms, however during the investigation period shipments to one customer, [REDACTED] [shipping terms]. K Metal advised it issues the commercial invoice, bill of lading and packing list to the Australian customer and payment terms are [REDACTED] days from bill of lading date.

### 4.3 Currency

K Metal's export sales to Australia are recorded in USD. K Metal's accounting information system and audited statements are recorded in RMB. When providing sales summary information in the REQ, K Metal used an exchange rate of 1 USD to 6.1 RMB. An analysis of daily historical exchange rates of USD to RMB across the relevant period published by the Reserve Bank of Australia confirmed this as an appropriate rate to apply.

### 4.4 Date of sale

In the Australian sales spreadsheet, K Metal listed two dates related to selling; a date of sale, which represents the date at which the order was placed by the customer with K Metal, and the invoice date, which was within a few days of the date of shipment. The date of shipment was also recorded on the invoices examined. The Commission has used the invoice date as the date of sale.

### 4.5 Verification of export sales to audited financial statements

In the 2013 audited financial statements provided by K Metal (**confidential attachment 5**), total sales for the period were RMB [REDACTED].

K Metal provided sales reports extracted from its accounting system (**confidential attachment 3**) to demonstrate what constituted total sales. K Metal provided a sales report of all domestic products, together with domestic sales of the GUC. K Metal also provided similar reports for exports. From the reports provided to us, we verified that the total sales amount reported in the audited statement equalled the sum of total domestic and export sales recorded in the financial system. The total export sales value was RMB [REDACTED]. Of this amount, sales of the GUC totalled RMB [REDACTED]. This amount is represented as [REDACTED] tonnes of silicon metal exported in the investigation period. K Metal informed us that of this amount of silicon metal exported, [REDACTED] tonnes were exported to Australia, representing RMB [REDACTED] of sales revenue. K Metal had manually extracted the Australian sales from the export sales report as the accounting system was unable to produce a report of Australian sales only. The [REDACTED] tonnes of Australian sales at this value reported by K Metal in the REQ matched Australian Customs and Border Protection Service's CRE import data extracted at the commencement of the investigation. K Metal provided a copy of the records it kept for



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Australian sales showing the [REDACTED] tonnes of sales for the investigation period (**confidential attachment 42**). The total volumes and values of both domestic and export sales of the GUC on the respective sales reports matched the figures provided in the revised domestic sales spreadsheet and export sales provided in the REQ and also cross matched to the sales summary spreadsheet in the REQ.

On the basis of the documents provided by K Metal, we were satisfied that the export sales listing submitted by K Metal was complete.

### 4.6 Verification of export sales to source documents

Prior to the visit, we selected eight export sales from the list provided by K Metal and requested that K Metal provide comprehensive source documents in relation to each transaction.

For each selected transaction, K Metal provided copies of the following documents (**confidential attachment 10**):

- customer purchase order;
- commercial invoice;
- packing list;
- bill of lading;
- invoice for export charges; and
- record of customer payment.

We checked the information on these source documents and compared it with the data provide in the sales listing and were able to reconcile and verify all selected transactions in the listing provided were accurate.

### 4.7 The exporter

The Act does not define the exporter, however it is the Commission's policy as outlined in the Dumping and Subsidy Manual, to consider the circumstances (e.g. the role of the parties, their functions and responsibilities) surrounding the exportation of the goods in order to determine the exporter.

We consider the Linan Group (comprising the three entities) to be the exporter of silicon metal for export sales to Australia from China, on the basis that:

- Hua'an Linan, Guizhou Linan and K Metal are part of the Linan group, whereby K Metal acts as the export distributor for goods manufactured within the group;
- Hua'an Linan and Guizhou Linan are the manufacturers of the goods that are exported to Australia; and
- Hua'an Linan and Guizhou Linan sell the goods via intermediaries with knowledge that the goods may be destined for export.

### 4.8 The importer

The importer is defined in s.269T(1) as the beneficial owner of the goods at the time of their arrival within the limits of the port or airport in Australia at which they have landed.

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Having reviewed the information gathered at the K Metal verification, we consider that for K Metal's export sales of silicon metal to Australia in the investigation period, Bell Bay, Boyne and Tomago were the beneficial owners of the goods at the time of importation. We noted that for each transaction, the respective company:

- is named as the consignee on the bill of lading;
- arranges customs clearance, logistics, and storage of the goods after they have been delivered to the Australian port; and
- Bell Bay and Boyne arrange for post FOB charges and shipment of the goods.

We consider Bell Bay, Boyne and Tomago to be the importers of the goods during the period of investigation.

### **4.9 Arm's length**

In respect of exports sales to Australia during the investigation period, 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, or an associate of the buyer, will directly or indirectly, be reimbursed, compensated or otherwise receive a benefit for, or in respect of, whole or any part of the price.

We therefore consider that all export sales to Australia during the investigation period were arm's length transactions.

### **4.10 Export price – preliminary assessment**

We consider that:

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

In relation to exports by the Linan Group to Australian customers, we recommend that the export price be determined under s.269TAB(1)(a), being the invoice price between K Metal and the Australian customers.

Details of export price calculations are at **confidential appendix 1**

## 5 COST TO MAKE & SELL

### 5.1 K Metal

In its REQ, K Metal provided cost to make and sell (CTMS) data by quarter, incorporating only selling, general and administrative costs (SG&A). (**Confidential Attachment 11**). As K Metal is not the manufacturer of the goods it did not include further cost details in the REQ CTMS spreadsheet. Prior to the verification visit the Commission requested a complete listing of all silicon metal purchases for the investigation period to establish the purchase cost of the products it sold.

K Metal informed us that it placed orders with the suppliers once it had received orders from customers. Only at certain times when the market was strong did it order excess stock to store in the warehouse. The general practice was to order only when required to fill a specific customer order. K Metal confirmed that it only ordered silicon metal from Hua'an Linan and Guizhou Linan for sale to Australian customers. We asked how K Metal could be sure that product for Australian customers came from those two factories only. K Metal explained that every delivery of silicon metal had a lot number allocated to it. In the warehouse in which it stored the silicon metal for repacking and delivery, specific storage areas were allocated to each supplier. Deliveries of silicon metal were tracked using the lot numbers and only stock from the allocated lots were sold to Australian customers. K Metal advised that an independent logistics company that ran the warehouse was in charge of the inventory control and maintained a separate computer system, so K Metal could not provide documents to show the tracking of the different silicon metal lots. However, due to quality control and company integrity, K Metal stated it would not jeopardise the established relationship it currently has with its Australian customers by supplying product from any other source than the two factories selected. Given we did not view the warehousing facilities and no supporting documentation was provided, we were unable to verify that silicon metal sold to Australia by K Metal was only sourced from the two plants, Hua'an Linan and Guizhou Linan.

#### 5.1.1 Verification upwards to audited financial statements

K Metal extracted the data it provided in the CTMS spreadsheet from *Golden Disk*. It provided us with a copy of the system extract of the three accounts that made up the SG&A expenses recorded in the CTMS by quarter for the investigation period (**confidential attachment 12**).

K Metal also provided profit and loss statements (P&L) for 2013 (**Confidential Attachment 13**). We were able to reconcile the values in the quarterly general ledger reports to the P&L statement for the 2013 financial year and then to the audited financial statement for that year (**Confidential Attachment 5**).

#### 5.1.2 Selling, General and Administrative expenses

We then sought to understand how selling, general and administrative (SG&A) expenses had been applied to the goods under consideration. K Metal explained that these costs had been allocated based on sales volumes. We considered that this was a reasonable allocation of SG&A expenses. In its REQ, K Metal had provided an allocation of SG&A as part of the CTMS. Based on the information provided that SG&A had been allocated on a sales volume basis, we amended the amounts allocated in the CTMS to reflect this. We

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noted that the amount that had originally been allocated in the CTMS was not correctly reflecting the allocation basis used.

Once the totals in the CTMS had been amended to reflect the allocation based on sales volumes, we were satisfied that the SG&A data provided for the CTMS was complete and relevant.

### 5.1.3 Verification of purchases to source documents

The Commission selected 10 silicon metal purchase transactions including both related entities and other suppliers in the selection from the purchases spreadsheet provided by K Metal. We requested that for each selected transaction K Metal provide the following documents:

- Purchase order
- Order confirmation
- Commercial invoice
- Evidence of payment
- Inland freight invoice and evidence of payment
- Discount and rebate source documents (where applicable)

K Metal provided copies of the requested documents at the verification visit (**confidential attachment 36**). We inspected the documentation and found no material variances in the quantities and values recorded in the purchases spreadsheet. Where payment documentation was missing, K Metal was able to provide the missing documents on site at the visit.

We requested that K Metal provide a copy of the general ledger report for silicon metal purchases produced from its accounting system for the investigation period. K Metal produced the report and provided a copy (**confidential attachment 14**). The report showed the total silicon metal purchases during the investigation period, with the total quantity purchased (██████ tonnes) corresponding to the amount provided in the REQ spreadsheet summary of purchases. However we noted a variance between the value total recorded in the REQ spreadsheet and the report generated from the accounting system. K Metal explained that the difference was due to 17% VAT being included in the REQ but not in the total generated from the accounting system. K Metal advised that any other minor variance were due to the financial department not exactly matching details from the purchasing sheets in the system.

We were satisfied that the data provided in the purchases spreadsheet was accurate and complete.

## 5.2 Hua'an Linan

Hua'an provided CTMS data prior to the verification visit however the CTMS data was revised as the visit progressed. A new CTMS spreadsheet was provided which we used for verification purposes (**confidential attachment 14**).

We sought to verify the revised CTMS data to both audited financial statements and source documents, such as invoices, to ensure the accuracy, completeness and relevance. The process is described in the following sections.

### **5.2.1 Production volumes**

In the REQ Hua'an Linan advised that the maximum production capacity was 8,000 tonnes. Hua'an Linan explained that this figure was based on two of the three available furnaces being in use during the investigation period. The maximum production capacity if all three furnaces are in use is 12,000 tonnes. Hua'an Linan noted that it regularly shuts down production of one the furnaces depending on the availability of electricity, which can be affected by the time of year and seasonal conditions.

Hua'an Linan provided a detailed inventory report generated from the accounting system to confirm both production volume and sales volumes for the investigation period (**confidential attachment 15**). Based on the documentation provided, the Commission is satisfied that the data provided for production volume provided in the REQ is accurate.

### **5.2.2 Verification upwards to financial statements**

Hua'an Linan's 2013 financial statements had not been audited at the time of the verification visit therefore we were unable to verify to that level. However Hua'an Linan produced both a 2012 and 2013 P&L from the accounting system at the verification visit. We were able to cross match figures from the 2012 report to the audited financial accounts for 2012. For the investigation period we have verified upwards to the available management reports produced from the accounting system at the visit. Hua'an Linan also produced a P&L by month for the entire investigation period (**confidential attachment 16**). We cross matched figures from the CTMS to the income statement provided in the REQ, which we then matched to the management reports provided. As Hua'an Linan only produces silicon metal for sale on the domestic market, all its costs were included in the domestic CTMS spreadsheet, there was no divide between domestic and export sales so we were able to directly match the CTMS costs to the management reports.

We noted one discrepancy between the "main cost" listed in the P&L and the "total cost to make" in the income statement. Hua'an Linan provided a general ledger print out of the "main costs" inventory ledger for the investigation period (**confidential attachment 17**) which showed the total recorded in the P&L. Hua'an Linan also provided a general ledger for the monthly production cost for the investigation period (**confidential attachment 18**) which reconciled to the total cost to make recorded in the CTMS. Hua'an Linan then explained how the main cost figure related to the production cost figure provided in the CTMS.

Hua'an Linan demonstrated the use of a formula that was used to convert the main cost figure in the P&L to the production cost figure provided in the CTMS, we agreed the calculations were correct after going through the figures and cross matching the totals to reports generated from the accounting system.

Using the monthly P&L and the production cost general ledger we were able to reconcile the costs for each quarter to the CTMS spreadsheet. As Hua'an Linan only produces silicon metal we confirmed that all costs had been recorded in the CTMS.

### **5.2.3 Verification downwards to Source Documents**

We then sought to verify the CTMS spreadsheet downwards to source documents to check for accuracy.

### **5.2.4 Raw Materials**

We identified that raw materials, including silica, coal, charcoal (oil coal) and wood, constituted the main cost of raw materials for silicon metal and we sought to verify each of these costs to source documents. As outlined above, we were able to reconcile the costs in the CTMS spreadsheet to the P&L statement for Hua'an Linan.

Hua'an Linan provided a general ledger account for each of the raw material categories for the investigation period (**confidential attachment 19**). The raw material categories included silica, coal, charcoal and wood. Hua'an advised that all raw material purchases were from non-related entities, and that none of the suppliers of the materials were state owned enterprises.

From the general ledger reports provided we selected two transactions from each and asked Hua'an Linan to provide original source information including invoice and payment evidence for those transactions selected. Hua'an Linan provided copies of VAT invoices for all selected purchases (**confidential attachment 20**) and we noted no discrepancies between the figures recorded in the general ledger and the supporting documentation. We also cross matched the source documents provided to the raw material purchase spreadsheet provided in the REQ. When doing so we noted that the headings for unit price and quantity had been swapped and once corrected the spreadsheet balanced. Hua'an Linan advised that silica purchases were subject to VAT of 3% not 17% like other purchases.

We were satisfied that the raw material costs reflected in the CTMS spreadsheet were accurate.

### **5.2.5 Electricity**

We also sought to verify electricity costs. Hua'an explained that these were captured in the manufacturing overhead costs in the CTMS spreadsheet. In the production cost general ledger (**confidential attachment 18**) the listed costs were divided into three categories - power, raw materials and manufacture expense. We were able to reconcile the monthly totals from this report to the electricity purchase spreadsheet provided in the REQ. Hua'an Linan then provided a detailed general ledger report for the electricity account by month for the investigation period (**confidential attachment 21**). Again we cross matched this general ledger report to the REQ spreadsheet and found no discrepancies. From the general ledger report we selected the month of August 2013 to trace to source documents. Hua'an Linan provided copies of both the VAT invoices and the electricity bills for the month (**confidential attachment 22**). We found no discrepancies between the REQ, the ledger and the source documents. We were therefore satisfied that the electricity costs were accurately recorded.

### **5.2.6 Depreciation**

Hua'an Linan advised that the depreciation expense was recorded together with the manufacturing overheads. Hua'an Linan provided a copy of the fixed asset register (**confidential attachment 31**). The document showed the opening balance of the fixed asset ledger, it listed all the asset purchases made during the investigation period together with the depreciation expense applied to each by month, it then stated the closing balance of the ledger. We were able to cross match the amount of depreciation recorded in the ledger to the total provided in the production cost ledger (**confidential attachment 18**) which in turn flowed through to the CTMS.

We were satisfied that depreciation costs were accurately recorded.

### **5.2.7 Direct Labour**

On the same report provided for depreciation, salary expenses were also itemised by month for the investigation period. Hua'an Linan explained that the workshop supervisor calculated the working labour costs and provided the data to the finance personnel for entry into the accounting system. Hua'an Linan supplied a copy of the report the workshop supervisor provided to the finance team for the month of February 2013 (**confidential attachment 23**). We note a minor variance of less than 0.1% in the total recorded on the workshop sheet and that recorded in the general ledger. We are satisfied that the direct labour costs have been accurately recorded in the CTMS.

### **5.2.8 Selling, General and Administrative expenses**

As silicon metal is the only product produced by Hua'an Linan, all of the SG&A expenses were allocated in the CTMS. The company provided a detail general ledger by month of all amounts that made up the total SG&A expense (**confidential attachment 24**). We were able to cross match the total from this report to the CTMS spreadsheet, the income statement and the P&L management report.

We selected two transactions from the SG&A ledger and requested source documentation. Hua'an Linan provided copies of the requested invoices for each expense selected (**confidential attachment 25**) and we noted no discrepancies.

Hua'an Linan explained that in the SG&A costs in the CTMS spreadsheet reflected the following cost items listed in the general ledger provided:

- Office expenses
- Sales expenses
- Motor vehicle
- Travel
- Sales staff salaries
- Insurance
- Stamp tax
- Other

We examined each expense category and considered that this was a reasonable allocation of SG&A expenses.



### **5.3 Guizhou Linan**

As part of the REQ Guizhou Linan completed the CTMS spreadsheet and provided an annual summary of raw material purchases and electricity costs. The Commission requested more detailed information regarding raw material purchases and electricity, which Guizhou Linan provided in the form of a table of monthly purchase details for each.

We compared the cost data provided by Guizhou Linan with the verified data provided by Hua'an Linan and observed that costs overall were approximately RMB [REDACTED] more per tonne for Guizhou Linan in the production of silicon metal. Whilst raw materials were purchased at similar rates by Hua'an Linan and Guizhou Linan, Guizhou Linan appeared to have paid more per tonne for each element.

The detailed electricity information provided by Guizhou Linan showed inconsistent rates being paid across the months of the investigation period. Electricity rates fluctuated with some months being below the tariff rate table provided by the Government of China (**confidential attachment 33**) and other months above the rate provided. The annual rate provided overall was above the tariff rates provided.

### **5.4 Conclusion – Cost to make and sell**

We were able to reconcile all relevant data provided to audited accounts for K Metal, management reports for Hua'an Linan and source documents for both entities. In doing so, we formed the view that the cost data contained in Hua'an Linan's REQ was an accurate, relevant and complete reflection of the actual costs incurred in manufacturing the goods. We also concluded that K Metal had provided accurate purchasing and SG&A expense data.

In summary, sufficient information was obtained and verified to determine:

- a normal value under s.269TAC(1) of the Act for the investigation period; and
- the cost of goods to assess ordinary course of trade under s.269TAAD of the Act.

The cost to make and sell spreadsheets form **Confidential Appendix 2**.



## 6 DOMESTIC SALES

### 6.1 General

In the respective REQs both Hua'an Linan, K Metal and Guizhou Linan provided a domestic sales spreadsheet listing. Review of all these spreadsheets led the Commission to conclude that the data was incomplete. Prior to the verification visit both Hua'an Linan and K Metal provided a revised domestic sales spreadsheet which was used in the verification process. Guizhou Linan also revised its domestic sales spreadsheet which we then compared to the financial statements and concluded it was complete.

Each domestic sales spreadsheet included the following information:

- Customer name
- Level of trade
- Model/grade
- Invoice date
- Delivery terms
- Payment terms
- Quantity
- Net invoice value in RMB
- Packing cost
- Inland transport

We selected eight transactions from each spreadsheet and asked each company to provide supporting documentation. Further discussion of this verification process is outlined at sections 6.2 and 6.3.

#### 6.1.1 Hua'an Linan

We verified that all of Hua'an Linan's sales are to domestic customers. Hua'an Linan noted that some sales are to related entities within the Linan Group whilst others are not, and that there are no differences in price between sales to related entities and non-related entities. Hua'an Linan advised that its customers include traders and end users, with most of the goods that are sold to traders eventually being exported. Hua'an Linan also produces a small amount of by-product as part of the silicon metal production process. This by-product consisting of silicon metal scraps is not packed for sale. On occasion steel plants come to Hua'an Linan's manufacturing plant to collect it. Any sales of by-product are sold on an advance payment basis and recorded as "other sales". During the investigation period such a small amount of by-product was collected that no sales of by-product were recorded.

Hua'an Linan receives orders for silicon metal directly from its domestic customers including K Metal and other traders. Once a price is negotiated, Hua'an Linan produces the goods to order and ships them as required.

Hua'an Linan informed us that the price for all its domestic sales is set using the previous month's average selling price as listed on "China Ferro Alloy" (China Ferro Alloy publishes both the Chinese and world market prices for many metals, [www.cnfeol.com](http://www.cnfeol.com))

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as a starting point for negotiations. This price is then adjusted for current market demand and other production cost considerations such as raw material costs. There is no price adjustment for customers based on their level of trade. Each selling price is negotiated with each customer for every sale, there is no price list. Hua'an Linan advised that sales in the P&L did not include the 17% VAT amount, whilst sales recorded in the domestic sales spreadsheet did include the 17% VAT. VAT in the P&L was recorded to a different general ledger account called "main tax and surplus".

Hua'an advised that the goods are packaged in one tonne bags and are delivered to the customer on trucks. Hua'an uses various transportation companies to deliver the goods dependent upon where the goods are being delivered. We were informed that the cost of transportation is included in the price of the goods and is not shown or recorded separately on the customer invoice. Hua'an Linan provided copies of inland freight VAT invoices to support the rate of inland transport claimed in the domestic sales spreadsheet (**confidential attachment 26**).

Hua'an advised that payment from the customer is generally required in full via telegraphic transfer prior to production and delivery of the order. Hua'an confirmed that there are no discounts, rebates or commissions on the sale of the goods.

### 6.1.2 K Metal

K Metal informed us that its domestic sales process starts with the customer making an enquiry direct to the K Metal sales team. The price is negotiated with the customer using the Asian Metal price information as a reference point and then adjusting for market conditions and K Metal's financial considerations. K Metal's purchasing department conducts all price negotiations with its suppliers. When negotiating with customers, the sales team does not have a price list, instead each order is negotiated separately. The price negotiation with domestic customers is slightly different to that for export sales. There is no set formula for setting the price each time, it is a pure negotiating exercise for domestic sales.

Once the order is confirmed by the customer, K Metal advised that it then contacts the manufacturing plant to place the order and arranges for the goods to be transported to K Metal's warehouse facilities. K Metal advised that the goods are then repackaged, if required, and delivered to the customer on trucks. K Metal informed us that an unrelated logistics company is used to deliver the goods to the customer. Sometimes the products sold by K Metal are delivered directly from the manufacturing plant to the customer. This may occur where the silicon metal does not need to be repacked in a size other than one tonne bags which are supplied by the manufacturer.

K Metal informed us that its domestic customers include both end users and some other traders. K Metal advised that it is able to get a better price directly from the plant than some other customers that approach the plant directly. As an established supply relationship exists, K Metal provides capital support to the manufacturer with reliable cash flow from agreed payment terms. We did not note any significant difference in the price of silicon metal from Hua'an Linan to K Metal, to sales of silicon metal from Hua'an Linan to other customers.

K Metal advised that there are no commercial relationships with domestic customers. K Metal also informed us that occasionally a discretionary discount is applied to sales to

customers based on factors such as length of contract and customer rapport. We were informed that this discount is a maximum of approximately █%. This discount, if applied, is factored into the negotiated sales price and not identified separately on any invoice or ledger.

## **6.2 Verification of sales to audited financial statements**

### **6.2.1 Hua'an Linan**

As noted in section 2.3 at the time of the verification visit Hua'an Linan's 2013 audited financial report had not yet been prepared. We therefore verified the sales data provided to the management reports produced from the accounting system onsite. Hua'an Linan advised that these figures were the same figures provided to the auditors for preparation of the accounts.

We were able to reconcile the total volume of sales to the detailed inventory report (**confidential attachment 15**) and then also reconcile the total value of sales provided in the domestic sales spreadsheet to the total sales in the P&L. The total domestic sales value in the spreadsheet included 17% VAT, once this amount was removed from the total it cross matched to the P&L total for sales which did not include the 17% VAT.

### **6.2.2 Xiamen K Metal**

K Metal provided a list of all sales of silicon metal it made to domestic customers during the investigation period from the accounting system (**confidential attachment 27**). We were able to cross match both the volume and value totals from this report to the revised domestic sales spreadsheet provided at the verification visit. The domestic sales spreadsheet needed to be revised again on site after an error was detected, see section 6.3 for more detail.

In the 2013 audited P&L provided by K Metal (**confidential attachment 5**), total sales are RMB █.

K Metal provided several sales reports extracted from its accounting information system (**confidential attachments 28**) to show what constituted total sales. The total sales value from these reports matched that provide in the audited financial statements. From the reports provided to us, we verified that total domestic sales make up RMB █ of total sales. Of this amount, sales of the goods make up RMB █ of total domestic sales. This amount is represented by █ tonnes of silicon metal domestic sales in the investigation period.

On the basis of the documents provided by K Metal, we were satisfied that the revised domestic sales listing submitted by K Metal is complete.

### **6.2.3 Guizhou Linan**

We compared Guizhou Linan's revised domestic sales spreadsheet values with the sales summary and income statement provided in the REQ. We were able to cross match the total sales value across all spreadsheets and to the operating income figure in the 2013 audited financial statements. We were satisfied that the revised domestic sales spreadsheet was complete.

### **6.3 Verification of sales to source documents**

Prior to the visit, we selected eight domestic sales from each of the domestic sales spreadsheets provided by K Metal and Hua'an Linan and requested that each company provide source documents in relation to each transaction.

For each selected transaction, both Hua'an Linan (**confidential attachment 29**) and K Metal (**confidential attachment 30**) provided copies of the following documents for their respective sales:

- sales contract;
- VAT invoice; and
- proof of payment.

#### **6.3.1 K Metal**

We checked the information on these source documents and compared it with the data provide in the sales listing and were able to reconcile and verify all selected transactions except for one. We noted two discrepancies between the names of customers listed in the sales spreadsheet and the contracts provided. Further examination by K Metal and our interpreter confirmed these to be translation errors only. We amended the spreadsheet as required. K Metal identified that one of the selected transactions was not a sale of silicon metal, but a sale of aluminium ingots. The domestic sales spreadsheet was revised to remove this transaction and it then balanced to the sales report produced from the accounting system. We were satisfied that the revised domestic sales spreadsheet was accurate and complete.

#### **6.3.2 Hua'an Linan**

We checked the information provided for each transaction and were able to reconcile all information and figures. We were satisfied that the domestic sales spreadsheet was accurate and complete.

#### **6.3.3 Guizhou Linan**

As part of the REQ Guizhou Linan provided copies of two domestic sales contracts, one for the month of January 2013 and the other for July 2013 as examples. We were able to cross match the details from each sales contracts to the domestic sales spreadsheet. We noted no discrepancies.

### **6.4 Arm's length**

In respect of domestic sales of silicon metal during the investigation period, 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

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- the buyer, or an associate of the buyer, will directly or indirectly, be reimbursed, compensated or otherwise receive a benefit for, or in respect of, whole or any part of the price.

We therefore consider Hua'an Linan's, Guizhou Linan's and K Metal's domestic sales can be treated as arm's length transactions under s.269TAA.

### 6.5 Ordinary course of trade and sufficiency test

In order to test whether the domestic sales made to unrelated parties were in the ordinary course of trade (OCOT), we first tested the profitability of each transaction by comparing the net unit selling price to the corresponding quarterly weighted average CTMS for each comparable grade.

We conducted these tests on each of the domestic sales spreadsheets provided by Hua'an Linan, Guizhou Linan and K Metal.

For all grades we found that sales at a loss were in substantial quantities (they were more than 20 per cent of sales volumes over the investigation period). For all sales found to be at a loss, we then tested their recoverability by comparing the net unit selling price to the weighted average CTMS over the whole investigation period. Profitable and recoverable loss making sales were considered to be in OCOT.

Our ordinary course of trade test calculations are **at confidential appendix 3**. A summary of sales considered to be in the ordinary course of trade and a test of their sufficiency to establish normal values is at **confidential appendix 4**.

Domestic sales of a grade proposed to be used for comparison purposes must be greater than 5% of the export quantity of the grade it will be compared against. In this case, there were sufficient volumes in OCOT for all the proposed domestic grades of silicon metal selected.

## **7 THIRD COUNTRY SALES**

### **7.1 General**

In the REQ, K Metal provided a summary of its export sales to third countries. Both Hua'an Linan and Guizhou Linan only sell products on the domestic market so there were no third country sales to report.

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

## 8 ADJUSTMENTS

To ensure that the normal value obtained from the Linan Group's data was comparable to the Australian export price obtained from K Metal's data, the following adjustments were made:

### 8.1 Domestic and export inland freight

We verified the inland freight costs for domestic sales and were satisfied that the amounts included in the domestic sales spreadsheet were accurate. We made a downwards adjustment to the normal value for domestic inland freight.

We verified the inland freight costs for export sales and were satisfied that the amounts included in the Australian sales spreadsheet were accurate. We made an upwards adjustment to the normal value for export inland freight.

### 8.2 Export handling charges

We made an upwards adjustment to the normal value based on the verified information for export handling charges.

### 8.3 Credit terms

K Metal's exports to Australia in the investigation period were at terms of ■ days from the bill of lading date. Comparable sales on the domestic market for all three entities were cash on delivery terms only. We have made an upward adjustment to normal values for the additional cost of credit incurred in relation to export sales. The amount of the adjustment was based on an interest rate of ■%. K Metal advised that this interest rate is based on China's benchmark interest rate multiplied by ■. The amount the benchmark rate is multiplied by is determined by the financial contract signed by K Metal with the bank. K Metal's bank sets the rate of mark up on the benchmark interest rate for the credit terms.

We checked the benchmark interest rate during the investigation period and confirmed it was ■% (**confidential attachment 32**). Therefore the interest rate used for the credit terms for export sales is ■% multiplied by ■ which equals ■%.

### 8.4 Non-recoverable VAT in export sales

The Government of China advised the Commission that the VAT rebate amount that applied to silicon metal exports was 0% (**confidential attachment 38**). We therefore made an upwards adjustment to the normal value of 17% based on the adjusted FOB price to account for this.

### 8.5 Other matters considered

We have determined that the Linan Group is the exporter of the goods to Australia during the investigation period. We have used the domestic sales of Hua'an Linan, K Metal and Guizhou Linan for normal value purposes and the invoice price from K Metal to the Australian customer as the export price. As K Metal is a trader we have factored in an amount for the additional SG&A expenses incurred by K Metal for sales to Australia. We calculated the quarterly SG&A expense per tonne and applied this to each sale by Hua'an

Linan and Guizhou Linan to make an upwards adjustment to the normal value by this amount.

### **8.6 Adjustments – Conclusion**

We are satisfied that there is sufficient and reliable information to justify the following adjustments, in accordance with s.269TAC(8) of the Act, and we consider these adjustments are necessary to ensure a fair comparison of normal values and export prices:

<b>Adjustment type</b>	<b>Description</b>
Domestic inland freight	<b>Deduct</b> the domestic inland freight costs.
Export inland freight	<b>Add</b> the export inland freight cost.
Export credit terms	<b>Add</b> the cost of export credit.
Trader SG&A	<b>Uplift</b> the normal value by the SG&A amount per tonne.
VAT adjustment	<b>Uplift</b> the adjusted normal value by 17%.

**Table 3: Adjustments**



## 9 NORMAL VALUE

As discussed in section 6.5 Hua'an Linan, Guizhou Linan and K Metal all sold silicon metal grades on the domestic market that were comparable to grades exported to Australia. These sales were in the ordinary course of trade and were in sufficient volumes.

We have used the domestic selling prices of the comparable models of Hua'an Linan, Guizhou Linan and K Metal as the basis of normal value in terms of s.269TAC(1) of the Act. We adjusted those domestic selling prices to ensure normal values were properly comparable with export prices. These adjustments were made in terms of s.269TAC(8) of the ACT and are outlined in section 8 of the report.

Normal value calculations based on domestic sales are at **Confidential Appendix 5**.

<b>10 DUMPING MARGIN</b>
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**10.1 General**

We compared the weighted average of export prices (at FOB terms) over the whole of the investigation period with the weighted average of corresponding normal values (also at FOB) over the whole of that period, in accordance with s.269TACB(2)(a) of the Act.

The weighted average dumping margin for the goods exported to Australia from the Linan Group is **-2.3%**.

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

## **11 MARKET SITUATION**

At each of the verification visits we asked if either company would like to comment on the claims made by the applicant of a market situation. The consultant representing both companies commented that the Canadian case, upon which the applicant based its claims on, considered different provinces to those participating in this investigation. K Metal advised that it receives no additional benefit from the Government for sales of silicon metal. It noted that where prices for electricity are lower for its manufacturers it is because of the use of hydro power and the location of the particular plants, not because a benefit is received for the plant producing silicon metal.

We asked whether the production of silicon metal was restricted or controlled by the Government in any way. K Metal commented that there are restrictions placed upon high energy consumption industries, including silicon metal, and that the Chinese Government had been shutting down low production furnaces in the silicon metal industry.

K Metal further explained that two years ago the Chinese Government had imposed an export duty on silicon metal to restrict the quantity of exports, but due to a complaint filed with the WTO the duty had been cancelled in January 2013 and no longer applied.

## 12 COUNTERVAILING

We examined both Hua'an Linan and K Metal's financial records for any indication that a countervailable subsidy was being received. In the REQ both Hua'an Linan and K Metal advised no subsidies had been received by either during the investigation period.

We examined all ledger accounts in Hua'an Linan's financial reports at the verification visit. All ledger accounts that were not related to sales or production were able to be explained by the company and evidence provided (**confidential attachment 35**) showing that no grants or subsidies had been received by Hua'an Linan.

At the visit Hua'an Linan revised the income tax paid spreadsheet (**confidential attach 34**) that was originally submitted in the REQ. The updated figures showed tax losses occurring in 2009 and 2012. No tax was paid in these years due to the losses. No income tax was paid during 2013 due to tax losses being carried forward. During the 2010 and 2011 income tax years, income tax was paid at a rate of 25% based on the total taxable income recorded. Based on the data provided, it appears that no reduced income tax has been paid.

No subsidies or grants were detected in K Metal's financial statements.

We examined electricity payments made by Hua'an Linan and Guizhou Linan during the investigation period. We compared the rate per kilowatt to a table of electricity tariffs (**confidential attachment 33**) provided by the Government of China for the relevant provinces. We noted that over the course of the investigation period Hua'an Linan paid a rate of RMB [REDACTED] per kilowatt, which is RMB [REDACTED] per kilowatt less than the table indicated. However Guizhou Linan paid a rate of RMB [REDACTED] per kilowatt, which is RMB [REDACTED] per kilowatt higher than the maximum rate provided in the electricity scales table. We examined the electricity invoices, however they did not provide any evidence of the basis of the rate applied or the category of electricity utilisation. Based on the evidence provided we are unable to conclude that a countervailable subsidy is being provided in the form of reduced electricity rates.

When questioned further about the possibility of countervailable subsidies, K Metal advised that the Chinese Government does not provide grants to silicon metal industries. K Metal stated that the government does not support the silicon metal industry and applies strict limits to high energy consumption industries such as silicon metal manufacturers. In the event the government is not happy with the power consumption of a particular manufacturer, the government will force the operation to shut down. K Metal stated that the silicon metal industry is highly regulated because of the high energy consumption it requires, and no subsidies are provided to support the silicon metal industry.

**13 APPENDICES AND ATTACHMENTS**

<b>Confidential Appendix 1</b>	K Metal export price calculations
<b>Confidential Appendix 2</b>	Linan Group CTMS spreadsheets
<b>Confidential Appendix 3</b>	OCOT tests
<b>Confidential Appendix 4</b>	Sufficiency tests
<b>Confidential Appendix 5</b>	Normal value and dumping margin calculations
<b>Confidential Attachment 1</b>	Fujian Linan Group Brochure
<b>Confidential Attachment 2</b>	Xiamen K Metal Co., Ltd Brochure
<b>Confidential Attachment 3</b>	K Metal chart of account, English and Chinese versions
<b>Confidential Attachment 4</b>	K Metal Balance sheet, income and cash flow statements for 2013
<b>Confidential Attachment 5</b>	K Metal audited financial statements for 2012 and 2013
<b>Confidential Attachment 6</b>	Hua'an Linan chart of accounts
<b>Confidential Attachment 7</b>	Hua'an Linan 2013 income statement
<b>Confidential Attachment 8</b>	Hua'an Linan 2012 audited financial statements
<b>Confidential Attachment 9</b>	Asian Metals 2013 monthly historical data for grades 441 and 2202
<b>Confidential Attachment 10</b>	K Metal export sales source documents
<b>Confidential Attachment 11</b>	K Metal CTMS spreadsheets, original REQ response and revised
<b>Confidential Attachment 12</b>	K Metal golden disk SG&A reports by quarter for 2013
<b>Confidential Attachment 13</b>	K Metal 2013 balance sheet and P&L generated from golden disk system
<b>Confidential Attachment 14</b>	K Metal 2013 silicon metal purchases ledger
<b>Confidential Attachment 15</b>	Hua'an Linan detailed inventory report

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<b>Confidential Attachment 16</b>	Hua'an Linan 2013 and 2012 balance sheet and P&L by month
<b>Confidential Attachment 17</b>	Hua'an Linan 2013 "main cost" general ledger
<b>Confidential Attachment 18</b>	Hua'an Linan 2013 production cost ledger
<b>Confidential Attachment 19</b>	Hua'an Linan 2013 general ledger reports for raw material categories
<b>Confidential Attachment 20</b>	Hua'an Linan raw material invoices for selected purchases
<b>Confidential Attachment 21</b>	Hua'an Linan 2013 general ledger report for electricity
<b>Confidential Attachment 22</b>	Hua'an Linan electricity VAT invoices and bill for August 2013
<b>Confidential Attachment 23</b>	Hua'an Linan workshop wages report for February 2013
<b>Confidential Attachment 24</b>	Hua'an Linan SG&A general ledger report by month for 2013
<b>Confidential Attachment 25</b>	Hua'an Linan invoice for selected SG&A expenses
<b>Confidential Attachment 26</b>	Hua'an Linan inland freight VAT invoices
<b>Confidential Attachment 27</b>	K Metal domestic silicon metal sales report for 2013
<b>Confidential Attachment 28</b>	K Metal 2013 sales reports
<b>Confidential Attachment 29</b>	Hua'an Linan 2013 domestic sales supporting documentation
<b>Confidential Attachment 30</b>	K Metal 2013 domestic sales supporting documentation
<b>Confidential Attachment 31</b>	Hua'an Linan fixed asset register
<b>Confidential Attachment 32</b>	K Metal credit interest rate
<b>Confidential Attachment 33</b>	Electricity tariff rates
<b>Confidential Attachment 34</b>	Hua'an Linan revised income tax spreadsheet

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<b>Confidential Attachment 35</b>	Hua'an Linan receipt for other income
<b>Confidential Attachment 36</b>	K Metal silicon metal purchase supporting documents
<b>Confidential Attachment 37</b>	K Metal invoices for purchases of bags, logistics and inland transport
<b>Confidential Attachment 38</b>	Advice from GOC re rebate and tariff rates
<b>Confidential Attachment 39</b>	Guizhou Linan chart of accounts
<b>Confidential Attachment 40</b>	Guizhou Linan 2013 income statement
<b>Confidential Attachment 41</b>	Guizhou Linan 2012 and 2013 audited accounts
<b>Confidential Attachment 42</b>	K Metal Australian sales records for 2013