INVESTIGATION 316

ALLEGED DUMPING OF
GRINDING BALLS
EXPORTED FROM THE PEOPLE’S REPUBLIC OF CHINA

VISIT REPORT - EXPORTER

JIANGSU CP XINGCHENG SPECIAL 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

April 2016
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Grinding Balls – Jiangsu CP Xingcheng Special Steel Co., Ltd – Exporter Visit Report
1.1 Background

On 17 November 2015, the Anti-Dumping Commissioner (the Commissioner) initiated an investigation into the alleged dumping of grinding balls (the goods) exported to Australia from China. Public notification of the initiation of the investigation was published on the Commission’s website.

The background relating to the initiation of this investigation is contained in Consideration Report 316.

Following this initiation, the Anti-Dumping Commission (the Commission) wrote to Jiangsu CP Xingcheng Special Steel Co Ltd (Xingcheng) and other Chinese exporters of grinding balls inviting them to cooperate with the investigation. Xingcheng cooperated through submitting a completed exporter questionnaire response (REQ) and relevant attachments.
2 THE GOODS AND LIKE GOODS

2.1 The goods exported to Australia

Xingcheng manufactured and exported several models of grinding balls during the investigation period. The visit team confirmed that these models were of differing steel grade, technical composition and diameter.

Xingcheng stated that it does not keep inventory of export models and all export sales are made to order. Any inventory showing in the Xingcheng’s accounting records at the end of the month is essentially goods that are waiting to be delivered to the customer.

2.2 Like goods sold on the domestic market

Xingcheng submitted in its REQ that it produced goods that are like to those exported to Australia. The visit team confirmed that Xingcheng sold upwards of 20 models of like goods during the investigation period. The visit team confirmed that the models were of differing steel grade, technical composition and diameter.

Xingcheng stated that it maintains a small amount of inventory in the domestic market with the majority of domestic sales being made to order.

2.3 Model matching

The visit team considers that Xingcheng sells like goods on the domestic market to the goods exported to Australia. Additionally, the visit team notes that Xingcheng sells grinding balls with similar grades, similar diameters and hardness in the domestic market as it exports to Australia. However, the visit team notes that there are potentially critical differences between some of the models exported to Australia and those models sold domestically.

Xingcheng stated that the customer dictates the product requirements and that the critical difference between models of grinding balls is the different technological standards. Xingcheng stated further that if a model has a different technological standard then irrespective of similarities in steel grade or diameter, it is not possible to match models.

However, as Commonwealth Steel Company Pty Ltd (trading as Moly-Cop) and Donhad Pty Ltd (Donhad) have made claims that a particular market situation exists in the Chinese domestic grinding ball marketplace, without pre-empting the Commissioner’s decision on market situation, the verification team has determined normal values under 269TAC(2)(c) which does not require matching domestic models to export models of grinding balls.

2.4 Like goods – preliminary assessment

The visit team considers that grinding balls produced and sold domestically by Xingcheng have characteristics closely resembling those of the goods exported to Australia and are
“like goods” in terms of subsection 269T(1) of the *Customs Act 1901*. See confidential attachment 1.

1 References to any section or subsection of legislation are references to the *Customs Act 1901* unless otherwise specified.
3 VERIFICATION OF EXPORT SALES TO AUSTRALIA

3.1 Verification of sales to audited financial statements

The visit team verified the completeness and relevance of Xingcheng export sales spreadsheet by reconciling it to audited financial accounts in accordance with ADN 2016/30.

Details of the verification are contained within the verification work program at confidential attachment 1.

The verification team did not identify any issues during the upwards verification of export sales.

3.2 Verification of export sales to source documents

The visit team verified the accuracy of Xingcheng’s export sales spreadsheet by reconciling it to source documents in accordance with ADN 2016/30.

Details of the verification are contained within the verification work program at confidential attachment 1.

The verification team did not identify any issues during the downwards verification of export sales.

3.3 The exporter

For all export sales during the investigation period, the visit team considers Xingcheng to be the exporter\(^2\) of the goods.

3.4 The importer

The verification team considers that, in relation to the goods exported by Xingcheng during the investigation period; the customers listed in the consolidated Australian sales listing were the beneficial owners of the goods at the time of importation and therefore were the “importers” of the goods.

3.5 Related parties customers

Xingcheng exported some goods to Australia to a related party during the investigation period.

The visit team did not identify any other potential Australian or domestic customers which were related to Xingcheng, based on the company’s REQ, sales data and audited statements.

\(^2\) The Commission generally identifies the exporter as a principal in the transaction, located in the country of export from where the goods were shipped, who gave up responsibility by knowingly placing the goods in the hands of a carrier, courier, forwarding company, or their own vehicle for delivery to Australia; or a principal in the transaction, located in the country of export, who owns, or previously owned, the goods but need not be the owner at the time the goods were shipped.
3.6 Arms length

In respect of export sales of grinding balls by Xingcheng to the related party during the investigation period, the visit team found evidence that:

- 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; and
- Xingcheng and the related party, both being bodies corporate, are controlled, directly or indirectly, by a third person (whether or not a body corporate).³

The verification team therefore considers that all export sales of grinding balls to Australia by Xingcheng to the related party during the investigation period were not arms length⁴ transactions.

The visit team verified that all export sales to unrelated parties were in arms length transactions.

3.7 Export price – preliminary assessment

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

In relation to the goods exported by Xingcheng to unrelated parties, the verification team recommends that the price paid by the importer less transport and other costs arising after exportation.

For the sales that were verified as non-arms length, the verification team verified that:

- the sales of the goods were consumed by the related party and not subsequently sold; and
- there were no sales of the goods with the same steel grade and diameter during the same quarter of the investigation period as the non-arms length sales.

The verified information demonstrates that due to the goods being consumed and the timing of the sales, the export price for the non-arms length transactions cannot be determined under subsection 269TAB(1)(b) or subsection 269TAB(1)(c) having regard to all the circumstances of the exportation.

Therefore, due to sufficient information not being available, to enable the export price of goods to be ascertained under the preceding subsections, the verification team recommends that the export price of the sales of the goods to the related party be determined having regard to all relevant information under subsection 269TAB(3).

The visit team selected the export sale price of the same steel grade and diameter of grinding ball that was sold to an unrelated party in an arms length transaction to determine an export price. The selected sale occurred in a different quarter to the non-

³ Customs Act 1901 (Cth) s.269TAA(4)(b)(i).
⁴ Section 269TAA of the Act outlines the circumstances in which the price paid or payable shall not be treated as being at arms length. These are where: there is any consideration payable for or in respect of the goods other than price; 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 in the opinion of the Parliamentary Secretary, the buyer, or an associate of the buyer, will, directly or indirectly, be reimbursed, be compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.
arms length sales. Therefore, the visit team then made a downwards timing adjustment by the cost difference of the grinding bar used in the arms length sale to that used in the non-arms length sales.

The visit team’s preliminary export price calculations are at Confidential Appendix 1.
4 COST TO MAKE AND SELL

4.1 Verification of Xingcheng’s costs up to audited financial statements

The visit team verified the completeness and relevance of Xingcheng’s cost to make and sale spreadsheet by reconciling it to audited financial accounts in accordance with ADN 2016/30.

Details of the verification are contained within the verification work program at confidential attachment 1.

The verification team did not identify any issues during the upwards verification of CTMS.

4.2 Verification of costs down to source documents

The visit team verified the accuracy of Xingcheng’s cost to make and sell spreadsheet by reconciling it to source documents in accordance with ADN 2016/30.

4.2.1 Details of the verification are contained within the verification work program at confidential attachment 1.

Selling general and administration costs

Xingcheng provided a revised selling general and administration (SG&A) allocation workbook detailing the following allocations:

- selling expenses;
- administrative expenses; and
- financial expenses.

The visit team noted that no transportation costs were recorded for the last quarter of 2014. Xingcheng stated that transportation costs during this period had been incorrectly allocated to a separate entity within the group. This error was discovered in early 2015, therefore from April 2015 the transportation expenses were correctly borne by Xingcheng. For the transportation expenses incorrectly paid by the other entity for January to March 2015, these were charged to Xingcheng in a single transaction on 22 April 2015. All transportation expenses incorrectly borne by the other entity within the group prior to 2015 were effectively written off. The visit team verified both of the above figures in the accounting system.

In its REQ, Xingcheng allocated Research and Development (R&D) expenses for the consumption of materials from the grinding ball cost centre. However, at the visit Xingcheng claimed that on further examination, while the materials came from the grinding ball plant, the project they were used for was a R&D project on a special grade of steel used for engineering machinery nuts, and on this basis those expenses should also be removed from the allocation to grinding balls.

Xingcheng provided a download of the sub-ledger for all R&D projects for Oct-Dec 2014 and Jan-Sep 2015. The totals reconcile to the SG&A allocation workbook and the total amounts in the accounting system online. The sub-ledgers show that all R&D projects relate to special steels for the automotive, engineering and other sectors, not for grinding balls. Xingcheng also provided the detailed sub-ledger for the project that used materials
from the grinding ball plant. This sub-ledger shows that the costs from the grinding ball plant was an immaterial amount of the total costs of the project therefore, the visit team agreed to remove the costs from SG&A.

4.3 Cost to make and sell – summary

Having verified Xingcheng’s CTMS data for grinding balls to the audited financial accounts and to source documents, the visit team is satisfied that Xingcheng’s CTMS data is complete, relevant and accurate.

Xingcheng’s verified CTMS spreadsheet is at Confidential Appendix 2.
5 VERIFICATION OF DOMESTIC SALES

5.1 Verification of domestic sales to audited financial statements

The visit team verified the completeness and relevance of Xingcheng’s domestic sales spreadsheet by reconciling it to audited financial accounts in accordance with ADN 2016/30.

Details of the verification are contained within the verification work program at confidential attachment 1.

The verification team did not identify any issues during the upwards verification of domestic sales.

5.2 Verification of domestic sales to source documents

The visit team verified the accuracy of Xingcheng’s domestic sales spreadsheet by reconciling it to source documents in accordance with ADN 2016/30.

Details of the verification are contained within the verification work program at confidential attachment 1.

The verification team did not identify any issues during the downwards verification of domestic sales.

5.3 Related parties customers

The verification team did not identify any domestic customers which were related to Xingcheng.

5.4 Arms length

In respect of Xingcheng’s domestic sales of grinding balls during the investigation period, the visit team found no evidence that:

- there is any consideration payable for or in respect of grinding balls 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, the whole or any part of the price.

The visit team therefore considers that all domestic sales by Xingcheng during the investigation period were arms length transactions.

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, they are taken not to have been paid in the ordinary course of trade (OCOT).
The verification team compared the quarterly domestic CTMS to the corresponding net invoice price to test whether domestic sales were profitable. Where the volume of unprofitable sales exceeded 20 per cent for the product category, the team then tested the recoverability of the unprofitable sales by comparing the unit selling price to the corresponding weighted average CTMS over the whole of the investigation period. Those sales found to be unrecoverable were deemed not to be made in the OCOT.

5.6 Suitability of sales and profit

As discussed in section 2.3 above, normal values have been constructed using the costs to make the exported goods, plus SG&A applicable to the goods sold domestically, and an additional amount for profit.

The profitability of domestic sales of like goods has been calculated by comparing the selling price with the corresponding quarterly CTMS. In calculating the profit, the verification team has only included domestic sales made in the OCOT.

5.7 Domestic sales – conclusion

Having verified the sales data in the domestic sales spreadsheet, the visit team is satisfied that the domestic sales data represents a reasonably complete, relevant and accurate account of domestic sales of grinding balls made by Xingcheng during the investigation period.

The visit team’s preliminary OCOT and suitability tests for domestic sales are contained at Confidential Appendix 3.

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5 Section 45(2) of the Customs (International Obligations) Regulation 2015
6 ADJUSTMENTS

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

6.1 Inland freight

The visit team considers an upward and downward adjustment for inland freight is required to ensure a fair comparison. The visit team applied an upwards and downwards adjustment based on actual inland freight listed for each export and domestic sale transaction.

6.2 Export Handling

The visit team considers an upward adjustment for export handling is required to ensure a fair comparison to the export price. The visit team applied an upwards adjustment based on actual export handling listed for each export transaction.

6.3 Bank Charges

The visit team consider an upward adjustment for bank charges is required to ensure a fair comparison to the export price. The visit team applied an upwards adjustment based on the actual charge incurred by Xingcheng for payments received in USD.

6.4 Non-refundable value-added tax

Xingcheng incurs a non-refundable VAT expense on export sales to Australia of 12% for grinding bar, being the difference between the VAT rate of 17% less a 5% VAT rebate on export sales of grinding balls. Therefore, the verification team applied an upward adjustment of 12% to the normal value.

6.5 Credit terms

The visit team considers that an upward and downward adjustment for credit terms is required to ensure a fair comparison. The visit team applied an upwards and downwards adjustment based on Xingcheng’s applicable interest rate and the actual amount of days payment was made after the invoice date.

6.6 Commissions

Management Agreement

The visit team confirmed that Xingcheng has a management agreement with CITIC Special Steel Economy and Trade (CP Trade). CP Trade provide sales and marketing support and issues invoices for all of Xingcheng’s export and domestic sales. All export sales invoices are issued in the name of Jiangyin Xingcheng Special Steel Materials Co., Ltd and all domestic invoices are issued in the name of Jiangyin Xingcheng Special Steel Works Co., Ltd. Both of these companies are related to Xingcheng.
The visit team obtained a reconciliation sheet, the ledger, invoices and payment details relating to the management agreement for the investigation period. The visit team verified all figures relating to export and domestic sales under the management agreement. The visit team also verified CP Trade's financial reports for 2014 and 2015 and confirmed that CP Trade made a profit during those periods.

The visit team is satisfied of the validity of the management agreement and has allowed upwards and downwards adjustments for the actual cost incurred for each export and domestic sale transaction.

See confidential attachment 1 for all verification of adjustments.

6.7 Adjustments – conclusion

The visit team is satisfied that there is sufficient and reliable information to justify the following adjustments, in accordance with subsection 269TAC(8) and 269TAC(9) of the Act, and considers these adjustments are necessary to ensure a fair comparison of normal values and export prices:

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<thead>
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<th>Adjustment Type</th>
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<td>Inland freight charges</td>
<td>Deduct/Add inland freight</td>
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<tr>
<td>Export handling charges</td>
<td>Add export handling charges</td>
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<tr>
<td>Export bank charges</td>
<td>Add cost of bank charges</td>
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<tr>
<td>Non-refundable VAT</td>
<td>Add an amount for the non-refundable VAT</td>
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<td>Credit Terms</td>
<td>Deduct/Add credit terms</td>
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<tr>
<td>Commission</td>
<td>Deduct/Add management fees</td>
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7 NORMAL VALUE

Recognising the claims of a particular market situation made by the Moly-Cop and Donhad and without pre-empting the Commissioner’s decision regarding that issue, Xingcheng’s normal values have been constructed under 269TAC(2)(c) using Xingcheng’s actual cost to make grinding ball exported to Australia plus SG&A on the assumption that the goods, instead of being exported, were sold domestically. A rate of profit, as discussed in section 5.6 above, has been added using its domestic sales of like goods made in the ordinary course of trade6.

In using costs to make and sell as the basis for normal values, the verification team considers that certain adjustments, in accordance with section 269TAC(9), are necessary to ensure fair comparison of normal values with export prices as outlined in chapter 6 above.

The normal value calculations are at Confidential Appendix 4.

6 Section 45 of the Customs (International Obligations) Regulation 2015.
8 DUMPING MARGIN

The dumping margin has been assessed by comparing the weighted average export prices to the corresponding weighted average normal values for the investigation period\(^7\).

The dumping margin in respect of grinding bar exported to Australia by Xingcheng for the investigation period is **23.5 per cent.**

The preliminary dumping margin calculation is at Confidential Appendix 5

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\(^7\) In accordance with subsection TACB(2)(a)
9 SUBSIDIES

9.1 Grants

The visit team verified the grants declared by Xingcheng in its REQ by reconciling the amounts to the non-operating income trial balance over the investigation period.

The visit team verified the accuracy of the payments by reconciling the payment amounts to the source payment approvals and payment vouchers.

9.2 Preferential loans

Xingcheng stated that they received loans as described in their REQ. The visit team verified the accuracy of these loans and the applicable interest rates to source documents.

The visit team identified additional loans that were taken out prior to the investigation period but repaid during the investigation period. Xingcheng also provided details of these loans and the repayments.
## 10 APPENDICES AND ATTACHMENTS

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<th>Export sales</th>
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