



REVIEW 419

REVIEW OF ANTI-DUMPING MEASURES

CERTAIN HOLLOW STRUCTURAL SECTIONS

**EXPORTED FROM THE PEOPLE'S REPUBLIC OF CHINA, THE
REPUBLIC OF KOREA, MALAYSIA AND TAIWAN**

VERIFICATION REPORT - EXPORTER

FAR EAST MANUFACTURING 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**

DECEMBER 2017

CONTENTS

CONTENTS..... 2

1 BACKGROUND..... 3

2 THE GOODS AND LIKE GOODS..... 4

2.1 THE GOODS EXPORTED TO AUSTRALIA 4

2.2 LIKE GOODS SOLD ON THE DOMESTIC MARKET 4

2.3 MODEL MATCHING 4

2.4 LIKE GOODS – PRELIMINARY ASSESSMENT..... 4

3 VERIFICATION OF EXPORT SALES TO AUSTRALIA..... 5

3.1 VERIFICATION OF AUSTRALIAN SALES TO AUDITED FINANCIAL STATEMENTS 5

3.2 VERIFICATION OF AUSTRALIAN SALES TO SOURCE DOCUMENTS 5

3.3 THE EXPORTER 5

3.4 THE IMPORTER 5

3.5 RELATED PARTY CUSTOMERS 5

3.6 ARMS LENGTH..... 6

3.7 EXPORT PRICE – PRELIMINARY ASSESSMENT 6

4 COST TO MAKE AND SELL..... 7

4.1 VERIFICATION OF COSTS TO AUDITED FINANCIAL STATEMENTS..... 7

4.2 VERIFICATION OF COSTS TO SOURCE DOCUMENTS..... 8

4.3 RELATED PARTY PURCHASES..... 8

4.4 COST TO MAKE AND SELL – SUMMARY 8

5 VERIFICATION OF DOMESTIC SALES 9

5.1 VERIFICATION OF AUSTRALIAN SALES TO AUDITED FINANCIAL STATEMENTS 9

5.2 VERIFICATION OF DOMESTIC SALES TO SOURCE DOCUMENTS 9

5.3 RELATED PARTY CUSTOMERS 10

5.4 ARMS LENGTH..... 10

5.5 ORDINARY COURSE OF TRADE..... 10

5.6 SUITABILITY OF DOMESTIC SALES AND PROFIT 10

5.7 DOMESTIC SALES – SUMMARY 11

6 ADJUSTMENTS 12

6.1 INLAND FREIGHT..... 12

6.2 EXPORT-RELATED CHARGES 12

6.3 COMMISSIONS 12

6.4 PACKING 13

6.5 BANK CHARGES 13

6.6 ADJUSTMENTS – CONCLUSION 13

7 NORMAL VALUE..... 14

8 DUMPING MARGIN..... 15

9 APPENDICES AND ATTACHMENTS..... 16

1 BACKGROUND

On 14 July 2017, the Commissioner of the Anti-Dumping Commission (the Commissioner) gave public notice in Anti-Dumping Notice (ADN) Number 2017/95 of his decision to initiate a review of anti-dumping measures in relation to certain hollow structural sections (HSS) exported to Australia from the People's Republic of China, the Republic of Korea (Korea), Malaysia and Taiwan. The background relating to initiation of this review is contained in consideration report number 419 (CON 419).¹

Following initiation of the review, a search of the Australian Border Force (ABF) import database indicated that Far East Manufacturing Co., Ltd (Femco) exported HSS to Australia from Taiwan during the period 1 July 2016 to 30 June 2017 (the review period).

The Anti-Dumping Commission (the Commission) notified Femco of initiation of the review, and sought its cooperation through the completion of an Exporter Questionnaire.

¹ www.adcommission.gov.au

2 THE GOODS AND LIKE GOODS

2.1 The goods exported to Australia

During the review period Femco exported HSS to Australia. The HSS exported by Femco meets the description of 'the goods' subject to anti-dumping measures.

2.2 Like goods sold on the domestic market

During the review period Femco sold HSS to its domestic customers in Taiwan.

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

- have similar physical characteristics;
- are produced at the same facilities and with the same raw material inputs and manufacturing processes; and
- can be considered functionally and commercially alike.

2.3 Model matching

Femco exports HSS to the AS/NZS 1163 standard to Australia and sells domestically to the Japanese standards. The verification team was not able to model match the grade that is exported to Australia with any of the grades sold on the domestic market.

The verification team did not have information that would allow it to make a specification adjustment and consequently, constructed normal value in accordance with 269TAC(2)(c) using the costs to make the goods exported to Australia, plus SG&A applicable to the goods sold domestically, and an additional amount for profit.

2.4 Like goods – preliminary assessment

Whilst the verification team was not able to model match the exported grade to the grades sold domestically, the verification team considers that HSS produced by Femco for domestic sales has characteristics closely resembling those of the goods exported to Australia and are therefore 'like goods' in accordance with subsection 269T(1) of the *Customs Act 1901* (the Act).²

² References to any section or subsection in this report relate to provisions of the Act, unless specifically stated otherwise.

3 VERIFICATION OF EXPORT SALES TO AUSTRALIA

3.1 Verification of Australian sales to audited financial statements

The verification team verified the completeness and relevance of Femco's Australian sales listing by reconciling it to audited financial statements in accordance with ADN. No 2016/30.

Prior to the verification visit, the verification team identified several omissions in relation to export costs which Femco amended prior to the visit.

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

3.2 Verification of Australian sales to source documents

The verification team verified the accuracy of Femco's Australian sales listing by reconciling it to source documents in accordance with ADN No. 2016/30.

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

3.3 The exporter

For all Australian sales during the investigation period, the verification team considers Femco to be the exporter of the goods.³ Femco manufactured the goods in response to orders received by unrelated Australian companies.

3.4 The importer

In relation to HSS exported to Australia by Femco, the verification team considers that the customers listed in the 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 party customers

Based on Femco's response to the exporter questionnaire, sales data provided by the company, audited financial statements and the information gathered during the visit, the verification team did not find any evidence that suggests the Australian customers were related to Femco during the review period.

³ The Commission generally identifies the exporter as a principal in the transaction, located in the country of export from where the goods were shipped, that gave up responsibility by knowingly placing the goods in the hands of a carrier, courier, forwarding company, or its own vehicle for delivery to Australia; or a principal in the transaction, located in the country of export, that owns, or previously owned, the goods but need not be the owner at the time the goods were shipped.

3.6 Arms length

In respect of Australian sales of the goods by Femco to its customers during the review period, the verification team found no evidence that:

- there was any consideration payable for, or in respect of, the goods other than its price; or
- the price was influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- the buyer, or an associate of the buyer, was directly or indirectly reimbursed, compensated or otherwise received a benefit for, or in respect of, the whole or any part of the price.⁴

The verification team therefore considers that all exports of HSS to Australia by Femco during the review period were arms length transactions.

3.7 Export price – preliminary assessment

The verification team is satisfied that the Australian sales listing is complete, relevant and accurate and recommends that the export price be determined under subsection 269TAB(1)(a), as the price paid by the importer to the exporter less transport and other costs arising after exportation.

The revised Australian sales listing and the verification team's preliminary weighted average export price calculation is at **Confidential Appendix 1**.

⁴ Section 269TAA refers.

4 COST TO MAKE AND SELL

4.1 Verification of costs to audited financial statements

The verification team verified the completeness and relevance of Femco's cost to make and sell (CTMS) spreadsheets by reconciling it to audited financial statements in accordance with ADN No. 2016/30.

During the visit, the following alterations were made to the CTMS data:

- new CTMS data was provided for like goods sold on the domestic market that were previously omitted from Femco's exporter questionnaire;
- CTMS data was amended to capture actual costs;
- HRC purchases were amended to ensure completeness;
- selling, general and administrative expenses (SGA) were amended to include certain costs previously not allocated; and
- there was no evidence that packing costs are allocated in the CTMS

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

4.1.1 CTMS for domestic sales

Femco provided a revised domestic sales listing which included previously omitted sales of like goods. As a result of this, Femco also provided the verification team with revised CTMS information relevant to those like goods.

4.1.2 CTMS was based on standard costs

The verification team identified that Femco's CTMS was based on standard costs and not on actual costs. Femco revised the CTMS data adjusting it for actual costs. The verification team requested a reconciliation of the costs that demonstrated the movement from standard to actual costs. The verification team is satisfied that the resubmitted CTMS data reflects actual costs.

4.1.3 HRC purchases

The visit identified that the HRC purchases listed in the exporter questionnaire only related to HRC purchases used in the manufacture of exported HSS. The company resubmitted the exporter questionnaire with all HRC purchases used in the manufacture of both domestic and exported HSS.

4.1.4 Selling, general and administrative expenses (SGA)

The exporter questionnaire identified that administrative expenses were not allocated to SGA. The verification team allocated administrative expenses to SGA by calculating the percentage of administrative expense to sales revenue using Femco's annual report. The percentage was then converted to a dollar amount using Femco's management accounts over the period of investigation and applied to the CTMS.

4.1.5 Packing

Femco's response to the exporter questionnaire advised that packing expenses are included in the division's manufacturing overheads and direct labour cost and that the packing cost is reflected in the cost of goods sold. The verification team found no evidence that packing costs are allocated to the cost of goods sold.

The verification team determined that packing costs are only applied to exports and not to domestic products. Consequently, the verification team calculated a unit cost on a metric tonne basis using export volumes.

4.2 Verification of costs to source documents

The verification team verified the accuracy of Femco's CTMS spreadsheet by reconciling it to source documents in accordance with ADN No. 2016/30.

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

4.3 Related party purchases

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

4.4 Cost to make and sell – summary

Having verified Femco's CTMS spreadsheet and reconciling it to audited financial statements and to source documents, the verification team is satisfied that the CTMS spreadsheet is complete, relevant and accurate.

Femco's revised CTMS spreadsheet is at **Confidential Appendix 2**.

5 VERIFICATION OF DOMESTIC SALES

5.1 Verification of Australian sales to audited financial statements

The verification team verified the completeness and relevance of Femco's domestic sales listing by reconciling it to audited financial statements in accordance with ADN. No 2016/30.

The verification team found that certain models of HSS sold on the domestic market were omitted from Femco's domestic sales listing. Femco resubmitted its exporter questionnaire with a new domestic sales listing that included all like goods sold on the domestic market.

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

5.2 Verification of domestic sales to source documents

The verification team verified the accuracy of Femco's domestic sales listing by reconciling it to source documents in accordance with ADN No. 2016/30.

The verification team identified issues in relation to the net invoice value and inland transport.

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

5.2.1 Net invoice value

Prior to the verification visit, the verification team identified that the net invoice values reported in the exporter questionnaire were not correlating to the source documents of selected sales. Femco revised the net invoice values and the new data correlated with the source documents.

As a result of the omitted domestic sales, the verification team selected additional source documents to verify the accuracy of the new domestic sales data and was able to reconcile the net invoice values on the domestic sales listing to the source documents.

5.2.2 Inland Transport

The verification team identified that the charges for inland transport in the domestic sales listing did not correlate with the contractor's scheduled fees. We compared the destination to the schedule that details the inland transport on a destination basis and found some inland transport charges were incorrect. Femco amended the inland transport charges and the additional sampling of the new data satisfied the verification team that the revised data is accurate.

5.3 Related party customers

Based on Femco's responses to the exporter questionnaire, sales data, audited financial statements and information gathered at the visit, the verification team did not find any evidence that suggests that the domestic customers were related to Femco during the review period.

The verification team found no evidence of any relationship, other than a commercial relationship, between Femco and its domestic customers.

5.4 Arms length

In respect of domestic sales of HSS made by Femco during the review period, the verification team found no evidence that:

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

The verification team therefore considers that all domestic sales made by Femco during the review period were arms length transactions.

5.5 Ordinary course of trade

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

The verification team compared the net sales value for each domestic sale of HSS to the corresponding quarterly domestic CTMS to test whether those sales were profitable.

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

5.6 Suitability of domestic sales and profit

As mentioned under section 2.3, the verification team considers that there are no comparable grades of HSS sold in the domestic market that can be used for model matching against the grade of HSS exported to Australia during the review period.

The verification team did not have information that would allow it to make a specification adjustment and consequently, constructed normal value in accordance with 269TAC(2)(c) using the costs to make the goods exported to Australia, plus SG&A applicable to the goods sold domestically, and an additional amount for profit.

PUBLIC RECORD

An amount for profit 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 ordinary course of trade.⁵

5.7 Domestic sales – summary

The verification team is satisfied that the domestic sales listing is complete, relevant and accurate.

The domestic sales listing, ordinary course of trade test and profitability calculation are at **Confidential Appendix 3**.

⁵ Section 45(2) of the *Customs (International Obligation) Regulation 2015*

6 ADJUSTMENTS

To ensure the normal value is comparable to the export price of goods exported to Australia at free-on-board (FOB) terms, the verification team has considered the following adjustments in accordance with subsection 269TAC (9).

6.1 Inland Freight

The verification team has verified the inland freight costs for domestic and export sales and was satisfied that the amounts provided in the sales listing are accurate.

The verification team considers that a downwards adjustment for domestic inland freight costs and an upwards adjustment to the normal value for export inland freight costs are necessary to ensure a fair comparison to the FOB export price.

The verification team has applied these adjustments based on the weighted average cost (per MT) for these expenses over the review period.

6.2 Export-related charges

A number of other charges were incurred on all the exports of the goods to Australia during the review period:

- Harbour construction fee
- Trade promotion fee
- Wharfage fees
- Customs duties
- Port charges

The verification team was able to verify the accuracy of these fees in the source documents relating to the Australian export sales, and considers that these charges warrant an upwards adjustment to the normal value. For harbour construction and wharfage fees, the adjustment was based on the verified Government charges on a per metric tonne basis. The trade promotion adjustment was based on the verified Government charge and applied against the free on board price. The adjustment for customs duties and port charges was applied using the weighted average cost on a per metric tonne basis.

6.3 Commissions

The verification team applied an upward adjustment for commissions paid in relation to particular exports to Australia. The verification team calculated the weighted average cost of the commissions on a per metric tonne basis. No domestic commissions were paid for like goods sold domestically.

6.4 Packing

The verification team applied an upward adjustment for packing costs based on the weighted average cost (per MT) over the review period using the volume of exports. Femco confirmed during the site visit that no packaging cost is incurred for domestic sales.

6.5 Bank charges

The verification team considers that a downwards adjustment for domestic bank charges and an upwards adjustment to the normal value for export bank charges are necessary to ensure a fair comparison to the FOB export price. The verification team has applied these adjustments based on the weighted average cost (per MT) for these expenses over the review period.

6.6 Adjustments – conclusion

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

Adjustment Type	Deduction/addition
Domestic inland transport	Deduct the cost of inland transport.
Domestic bank charges	Deduct the cost of bank charges.
Export inland freight	Add the cost of inland freight.
Export harbour construction fee	Add the cost of harbour construction fee.
Export trade promotion fee	Add the cost of trade promotion fee.
Export wharfage fee	Add the cost of export wharfage fee.
Export customs duties	Add the cost of customs duties.
Export port charges	Add the cost of port charges.
Export commissions	Add the cost of commissions.
Export packing	Add the cost of packing.
Export bank charges	Add the cost of bank charges.

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

7 NORMAL VALUE

The verification team has constructed the normal value for Femco under subsection 269TAC(2)(c) using Femco's:

- cost to make the goods exported to Australia; plus
- SG&A amounts on the assumption that the goods, instead of being exported, were sold domestically, and,
- an amount for profit based in accordance with Regulation 45(3)(a) of the *Customs (International Obligations) Regulation 2015*, having regard to all relevant information.

The verification team considers that certain adjustments, in accordance with subsection 269TAC(9), are necessary to ensure fair comparison of normal values with export prices, as outlined in Section 6 of this report.

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

8 DUMPING MARGIN

The dumping margin has been assessed by comparing weighted average export prices to the corresponding quarterly weighted average normal value for the review period, in accordance with subsection 269TACB(2).

The preliminary dumping margin in respect of certain hollow structural sections exported to Australia by Femco from Taiwan for the review period is **69.1%**.

A detail of the preliminary dumping margin calculation is at **Confidential Appendix 5**.

9 APPENDICES AND ATTACHMENTS

Confidential Appendix 1	Australian export sales
Confidential Appendix 2	CTMS spreadsheet
Confidential Appendix 3	Domestic sales
Confidential Appendix 4	Normal value calculations
Confidential Appendix 5	Dumping margin calculations
Confidential Attachment 1	Verification work program and Attachments