



Australian Government
Department of Industry,
Science and Resources

Anti-Dumping
Commission

Exporter verification report

Verification and case details

Initiation date	14/08/2023	Anti-Dumping Notice (ADN)	ADN 2023/048
Case number	632		
The goods under consideration	Ore carriage railway wheels		
Case type	Continuation inquiry		
Exporter	Baowu Group Masteel Rail Transit Materials Technology Co Ltd		
Location	No 1799 Tianmen Avenue, Yushan district, Ma'anshan city, Anhui province, People's Republic of China		
Verification date	10/01/2024	to	17/01/2024
Inquiry period	1/07/2022	to	30/06/2023

The Anti-Dumping Commission will review this report, including its preliminary findings and recommendations.

This report may not reflect the Anti-Dumping Commission's final position.

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Introduction

Baowu Group Masteel Rail Transit Materials Technology Co Ltd (MTM) submitted data to the Anti-Dumping Commission (the commission) in response to an exporter questionnaire for Continuation Inquiry 632 (case 632) into Ore carriage railway wheels from the People's Republic of China (China) and the French Republic.

A verification team has verified whether the data MTM submitted is complete, relevant and accurate for use in case 632. [Anti-Dumping Notice \(ADN\) 2016/30](#) describes the commission's verification procedure.

This report explains the commission's key preliminary findings, including the evidence considered and material issues identified. Where MTM or the commission materially revised the submitted data, this report outlines the nature, extent and outcomes of these revisions.

The commission will review this report, including its views, preliminary findings and recommendations. This report may not reflect the commission's final position.

The commission prepared this report to publish on the electronic public record for case 632.

Verification commissions are authorised to conduct verifications under sections 269SMG and 269SMR of the *Customs Act 1901* (Cth) (the Act).¹

¹ All legal citations in this report are to the Act unless otherwise stated.

1 Company background

1.1 Corporate structure and ownership

MTM is a Chinese state-owned entity (SOE) and has operated as a manufacturer and seller of steel railway wheel products since October 2019. MTM's production facilities were previously within parent company, Ma'anshan Iron and Steel Co Ltd ('Masteel' or MIS), prior to MTM being created as a subsidiary of MIS.

Both MIS and MTM are part of the Masteel Group, also known as the Magang Group,² and the China Baowu Group. The major shareholder is State-Owned Assets Supervision and Administration Commission (SASAC) of the State Council.

The Masteel Group became part of the Baowu Group in 2019 when China Baowu Steel Group Corp acquired majority ownership of Magang (Group) Holding Co Ltd.

MTM's previous names were:

- Ma'anshan Iron and Steel Co Ltd Wheel Co, from October to November 2019
- Masteel Rail Transit Equipment Co Ltd, from December 2019 to April 2020.

1.2 Related parties

The commission examined the relationships between MTM and the parties involved in it producing or selling the goods.

1.2.1 Related suppliers

MTM purchased raw material steel billet solely from its related party MIS. MTM also received utility supply and services relating to production and logistics from related Masteel Group companies relevant to production or sale of the goods during the inquiry period. MTM provided a listing of related parties and identified related party suppliers in production and selling expense records.

1.2.2 Related or associated party customers

MTM sold domestic like goods to one customer during the inquiry period. The Chinese national government's State-Owned Assets Supervision and Administration Commission of the State Council, also known as SASAC, partly owns MTM. SASAC also owns its domestic customer.

The commission considers MTM and its domestic customer are associated parties because they share the same part ownership. The commission discusses its assessment of sales made between MTM and the domestic customer in chapter 8.

MTM did not sell Australian export goods to related party customers in the inquiry period.

² Magang (Group) Holding Co Ltd. 'Magang' is a transliteration of the Mandarin Chinese equivalent term for 'Masteel'. In English, Masteel companies referred to 'Magang' and 'Masteel' interchangeably.

1.3 Accounting records

Zhongshen Zhonghuan Certified Public Accountants LLP audited MTM's financial statement and included a statement that the financial accounts comply with auditing standards for Chinese certified public accountants.

Therefore, the commission considers that the accounting records held by the company comply with the generally accepted accounting principles of China.

2 Goods under consideration and like goods

2.1 Production process

MTM produces ore carriage railway wheels from steel billet.

The main production stages MTM identified in its wheel production process are, from start to finish:

1. billet cutting
2. heat treatment
3. preforming
4. forming
5. rolling
6. dishing
7. punching
8. slow cooling
9. heat treatment
10. quenching
11. tempering
12. sample testing (quality assurance)
13. machining
14. balance testing (quality assurance)
15. stamping
16. hardness, ultrasonic and magnetic particle inspection testing (quality assurance)
17. shot peening
18. dimension and surface inspection (quality assurance)
19. painting
20. packing and delivery.

MTM produces scrap steel and iron oxide scale as by-products in its production process, for sale to external parties or for internal transfer to related Masteel group companies for recycling.

The commission did not identify any important production differences between Australian export goods and domestic like goods. The commission notes that MTM's domestic customer uses the domestic like goods to assemble ore carriages ultimately destined for Australia.

MTM used one grade of steel billet to produce all models of Australian export goods and domestic like goods. MTM purchased other grades of steel billet, used to produce non-like goods.

2.2 Models

The sales and costs data complies with the model specification information that the commission requested in its exporter questionnaire.

2.3 Verification of models

Table 1 details how the commission determined model specifications and verified them to source documents.

Category	Sub-category verification method
Grade	Reviewed technical specification information for each model. Identified grade in MTM's accounting records and sales source documents.
Wheel diameter	Reviewed technical specification drawings for each model and identified diameter in MTM's accounting records and sales source documents.

Table 1: model sub-category determination

2.4 The Australian export goods and domestic like goods

2.4.1 Australian export goods (the goods under consideration)

The commission was satisfied that, during the inquiry period, produced the goods under consideration (Australian export goods) and exported them to Australia.

2.4.2 Domestic like goods (like goods sold in the domestic market)

The commission is satisfied that MTM produced and sold like goods for home consumption in its domestic market, being the country of export (domestic like goods).

The commission considers that the domestic like goods were identical to, or had characteristics closely resembling, the Australian export goods, because:

- the Australian export goods and domestic like goods are produced in the same way, subject to individual customer specifications, and the cost inputs for models sold domestically and for export are very similar
- MTM produced all goods at the same facilities, using the same raw material inputs and similar production processes
- all goods compete in the same market sector and use similar distribution channels
- the domestic like goods MTM produced were used to construct ore carriages ultimately destined for Australia
- all goods are functionally alike, as they have similar end uses – being railway wheels for ore carriages.

2.5 List of models

MTM produced, sold or both produced and sold 5 models during the inquiry period. Each model had the same nominal width but slight differences to physical specifications. Of the 5 models, MTM sold 2 models in the Australian market and the other 3 models in the domestic market.

2.6 Like goods assessment

The commission considers that goods MTM produced and sold for domestic home consumption had characteristics closely resembling those of the Australian export goods and were therefore 'like goods' according to section 269T(1).

The commission notes that MTM produced and sold some wheels intended for quality assurance testing. The commission considers wheels sold for quality assurance testing were not physically, commercially or functionally like the Australian export goods and were therefore not 'like goods' according to section 269T(1).

2.7 Production capacity exceptions

Exception 1: Revised production capacity

Description: MTM calculated capacity utilisation by relying on production capacity of a production line that included non-like goods. MTM calculated actual production quantity based on production of the goods under consideration and like goods only.

The commission considers that MTM understated its actual production quantity by excluding non-like goods produced in the relevant production line.

Resolution: MTM provided a revised capacity utilisation calculation that included total production for the relevant production line.

3 Verification of sales completeness and relevance

The commission typically verifies sales as complete and relevant by reconciling the revenue and quantity in sales listings up to management accounts and then audited financial accounts. ADN 2016/30 further describes this verification process.

The commission verified whether the sales listings MTM submitted are complete and relevant by reconciling them to the audited financial statements, consistent with ADN 2016/30.

The commission verified whether the sales data was complete and relevant by:

1. reconciling total company revenue in the 2022 calendar year trial balance and income statement to the audited financial statement
2. reconciling the change in total company revenue in the trial balance between the 2022 calendar year and the inquiry period
3. reconciling total company revenue for the inquiry period to a detailed sales report
4. reconciling the detailed sales report to MTM's Australian export and domestic sales listings.

The commission identified the issue outlined below. The commission detailed this process in the verification work program and its relevant attachments in **confidential attachment 1**.

3.1 Sales completeness and relevance exceptions

Exception 2: Revised Australian export sales listing – excluding sale exported outside inquiry period

Description: MTM's Australian export sales listing included a sale entered into MTM's accounting system in July 2022 but exported in June 2022.

To identify the export date, MTM showed the bill of lading for this sale during verification. MTM confirmed the bill of lading date reflected the date of export.

The commission also identified the same export date in a document detailing credit insurance for this sale and in data provided by Australian Border Force.

Resolution: The commission revised MTM's Australian export sales listing to exclude the sale exported before the inquiry period.

3.2 Sales completeness and relevance finding

The commission is satisfied that the sales data MTM submitted is complete and relevant, including any revision outlined in an exception above.

4 Verification of sales accuracy

The commission typically verifies sales as accurate by reconciling a selection of volume, revenue and other key data in the sales listings down to source documents. ADN 2016/30 further describes this verification process.

The commission verified whether the export and domestic sales listings MTM submitted are accurate by reconciling them to source documents, consistent with ADN 2016/30.

The commission identified the issues outlined below. The commission detailed this process in the verification work program and its relevant attachments in **confidential attachment 1**.

4.1 Sales accuracy exceptions

Exception 3: Revised Australian export sales listing – selling expense allocation

Description: MTM's Australian export sales listing contained formula errors that incorrectly allocated bank charges, credit insurance and fees for fixing and binding.

Resolution: The commission revised MTM's Australian export sales listing to correctly allocate the affected selling expenses.

Exception 4: Revised domestic sales credit terms

Description: MTM provided different information about average credit term days in its domestic sales listing and its written response to the exporter questionnaire.

During verification, MTM provided accounting system screenshots from its domestic customer linking batch payments to sample sales invoices. MTM also provided its accounts receivable ledger for the domestic customer.

Resolution: The commission revised MTM's domestic sales listing to reflect the average days between invoice and payment, based on MTM's accounts receivable ledger and the domestic customer's accounting system screenshots.

Exception 5: Domestic sales – discounts

Description:

The commission found that invoice prices of certain domestic sales incorporated discounts. The discounts were applied after contract prices had been set.

MTM provided details of a supply agreement with the customer in relation to the discounts/preferential prices for sales of like goods and other products.

MTM provided details of the application of price discounts. The commission found that the application of discounts to sales during the period were subject to the customer's request. Discounts were not uniformly applied or applied in accordance with the terms of the written agreement.

Preliminary assessment: Refer to chapter 8 of this report.

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Exception 6: Revised domestic inland freight expense

Description: MTM's domestic sales listing included a formula error for inland freight expenses relating to one sales invoice.

Resolution: The commission revised MTM's domestic sales listing to correct the formula error for inland freight expenses.

4.2 Sales accuracy finding

The commission is satisfied that the sales data MTM submitted is accurate, including any revision outlined in an exception above.

5 Verification of cost to make and sell completeness and relevance

The commission typically verifies cost to make and sell (CTMS) as complete and relevant by reconciling the total cost to make (CTM) and selling, general and administrative (SG&A) expenses, in cost listings up to management accounts and then audited financial accounts. and 2016/30 further describes this verification process.

The commission verified whether the CTM and SG&A listings MTM submitted are complete and relevant by reconciling it to audited financial statements, consistent with ADN 2016/30.

The commission verified the CTM data as complete and relevant by:

1. reconciling total cost of goods sold (COGS) in the 2022 financial statement to MTM's accounting system trial balance
2. reconciling total COGS for the inquiry period to MTM's accounting system trial balance
3. reconciling total COGS to total production costs for the inquiry period in MTM's accounting system production report
4. reconciling total production costs to the Australian export and domestic cost to make (CTM) listings.

The commission verified the SG&A data as complete and relevant by:

1. reconciling MTM's SG&A listing totals to the trial balances for the 2022 financial year and the inquiry period
2. reconciling the list of expenses excluded from the SG&A calculation as direct selling expenses.

The commission identified the issues outlined below. The commission detailed this process in the verification work program and its relevant attachments in **confidential attachment 1**.

5.1 Cost to make and sell completeness and relevance exceptions

Exception 7: Revised domestic cost to make listing – spreadsheet error

Description: MTM's domestic cost to make listing incorrectly swapped data for some models and quarters.

Resolution: The commission revised MTM's domestic cost to make listing to display the correct data for each model and quarter.

Exception 8: Revised SG&A listing – including research and development expenses

Description: MTM excluded relevant research and development (R&D) expenses from its SG&A listing.

MTM stated that it incurred R&D expenses related to domestic like goods production.

Resolution: The commission included R&D expenses from MTM's trial balance in the SG&A expense listing. The commission allocated SG&A expenses (including R&D) using the total SG&A expenses apportioned as a percent of total company sales revenue.

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Exception 9: Revised SG&A listing – excluding foreign exchange gains and losses

Description: MTM included foreign exchange gains and losses in its SG&A listing.

MTM stated that its foreign currency transactions did not relate to the production or sale of domestic like goods.

Resolution: The commission excluded foreign exchange gains and losses from the SG&A expense listing.

Exception 10: Revised SG&A listing – excluding write-off for 2021 transaction

Description: MTM's SG&A listing included an account with a transaction incurred in the inquiry period that wrote off performance bonuses from 2021.

Because MTM incurred the original expense before the start of the inquiry period, the commission considers the write-off transaction does not relate to MTM's operations for the inquiry period.

Resolution: The commission excluded the 2021 write-off transaction from the SG&A listing.

Exception 11: Revised SG&A listing – excluding reversal for estimated expense incurred before inquiry period

Description: The commission calculated SG&A expenses for the normal value based on the inquiry period expenses. MTM's SG&A listing included an account with transactions about welfare for dismissed employees.

MTM recorded an estimate for dismissal welfare. After MTM later recorded the actual costs, MTM also recorded an estimate reversal to offset the estimated amount (the estimate and the reversal sum to zero, meaning the estimate records have no net effect). Once the estimate is reversed and offset, MTM's account ledger totalled only the actual costs incurred.

For one month, MTM recorded the estimated costs in the 2022 financial year but before the start of the inquiry period. MTM then recorded the estimate reversal in the inquiry period, together with the actual costs.

Because MTM's inquiry period SG&A listing included the estimate reversal but not the original estimate, MTM's inquiry period records did not total to the actual costs incurred. Instead, the inquiry period records totalled to actual costs minus the estimated costs.

Resolution: The commission excluded the transactions reversing the estimated dismissal welfare from the inquiry period SG&A listing because the original estimate amount was not in the inquiry period records. As a result, the remaining dismissal welfare costs summed to the actual costs for the inquiry period.

The commission notes that the 2022 financial year SG&A listing correctly included both the estimated expense and the write-off transactions, which cancelled each other out.

5.2 Cost to make and sell completeness and relevance finding

The commission is satisfied that the CTMS data MTM submitted is complete and relevant, including any revision outlined in an exception above.

6 Verification of cost to make and sell accuracy

The commission typically verifies CTMS as accurate by reconciling a selection of volume, cost and other key data in the CTM and SG&A listings down to source documents. ADN 2016/30 further describes this verification process.

The commission verified whether the CTM and SG&A listings MTM submitted are accurate by reconciling them to source documents, consistent with ADN 2016/30.

The commission identified the issues outlined below. The commission detailed this process in the verification work program and its relevant attachments in **confidential attachment 1**.

6.1 Cost to make and sell accuracy exceptions

Exception 12: Revised raw material purchase listing

Description: MTM's original raw material purchase listing did not report any discounts or rebates.

During verification, MTM identified one steel billet purchase invoice which included a price adjustment embedded in the invoice price. MTM stated the price adjustment related to a discount applicable to multiple models and purchase months.

This listing also excluded purchases of some non-prime billet used for testing, not to produce wheels for sale.

Resolution: MTM provided a revised raw material purchase listing that included the value of the price adjustment allocated to the relevant steel billet purchase.

The revised purchase listing also included information about purchases of non-prime billet used for testing.

Exception 13: Revising cost to make listing for outlier low billet costs not matching inventory

Description: MTM's raw material costs included steel billet costs calculated based on the weighted average cost of steel billet taken from inventory to produce the finished wheels.

For one month and model in MTM's Australian export cost to make listing, MTM recorded steel billet unit costs for finished wheels that were below the unit cost of billet taken from inventory in that month and 6 months earlier. The commission therefore found that MTM's steel billet production input costs did not align with inventory costs.

For context, MTM held separate inventory subledgers for prime billet and non-prime billet. MTM used prime billet to produce finished goods for sale. MTM used non-prime billet to test the wheel production machinery, not for sale. Non-prime billet cost materially less per tonne than prime billet added to inventory in the same month.

Based on the evidence available, the commission preliminarily finds that MTM's steel billet costs for one month and model do not accurately reflect steel billet costs from inventory. The evidence available indicates that MTM's production costs include the cost of non-prime steel billet.

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Resolution: The commission preliminarily found that MTM's steel billet purchase price did not reasonably reflect the cost of production: see chapter 6.4 of this report. The commission calculated steel billet costs relying on cost and profit records from MTM's related steel billet supplier, MIS: see chapter 10 of this report.

The commission therefore did not directly rely on MTM's steel billet costs to calculate a normal value.

Exception 14: Revised cost to make listings to account for outlier price adjustment

Description: MTM's raw material costs included steel billet costs calculated based on the weighted average cost of steel billet taken from inventory to produce the finished wheels.

MTM's steel billet inventory ledger included a price adjustment.

MTM stated this price adjustment related to several months of steel billet purchases and different grades of steel billet. MTM's accounting system applied the price adjustment disproportionately to one grade of steel billet entered in one month.

The price adjustment materially reduced the weighted average value of billet for one quarter of the inquiry period in MTM's inventory ledger. The commission also identified reduced steel billet costs due to the disproportionate price adjustment in MTM's production cost data.

Resolution: The commission preliminarily found that MTM's steel billet purchase price did not reasonably reflect the cost of production: see chapter 6.4 of this report. The commission calculated steel billet costs relying on cost and profit records from MTM's related steel billet supplier, MIS: see chapter 10 of this report.

The commission therefore did not directly rely on MTM's steel billet costs to calculate a normal value.

Exception 15: Revised cost to make listings – packaging expense adjustment

Description: MTM's cost to make listing included an amount for packaging expenses.

MTM provided copies of internal guidelines for packaging expenses specific to each model of Australian export goods and domestic like goods.

MTM's cost to make listing packaging expenses allocated total factory packaging expenses to each model using a standard coefficient for each model.

The commission preliminarily finds that MTM's cost to make listings did not accurately allocate packaging expenses, compared to MTM's internal packaging expense guidelines.

Resolution: The commission revised MTM's cost to make listings to allocate packaging expenses using MTM's actual production quantity and the internal guidelines' unit packaging expenses for each model.

6.2 Cost allocation method

Table 2 outlines how the commission allocated each cost component.

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Cost component	Method applied
Raw materials	Allocated based on the value of steel billet consumed in a production order. Steel billet valued using the weighted average inventory value of steel billet consumed to produce semi-finished product (blank wheels).
Scrap allocation	Allocated monthly based on: <ul style="list-style-type: none"> • actual sales or internal transfer value of total scrap steel generated • standard rate of scrap generated by each model • actual production quantity of each model.
Other materials	Allocated monthly based on: <ul style="list-style-type: none"> • actual total factory other material costs • standard rate of direct labour used to produce each model • actual production quantity of each model.
Labour	Allocated monthly based on: <ul style="list-style-type: none"> • actual total factory direct labour costs • standard rate of direct labour used to produce each model • actual production quantity of each model.
Manufacturing overheads	Allocated monthly based on: <ul style="list-style-type: none"> • actual total costs for each component of manufacturing overheads • standard rate of manufacturing overheads used to produce each model • actual production quantity of each model.
Depreciation	Allocated monthly based on: <ul style="list-style-type: none"> • actual total costs for depreciation • standard rate of depreciation attributed to each model • actual production quantity of each model.

Table 2: Cost allocation method

6.3 Related party suppliers

MTM purchased steel billet (raw materials) solely from parent entity MIS during the inquiry period. MTM also sourced utilities/energy and services relating to production and logistics from related parties.

For steel billet purchases, the commission considers that the price MTM paid was influenced by its relationship with MIS.

6.4 Cost to make and sell accuracy finding

6.4.1 Finding – costs except for steel billet raw material

For MTM’s costs besides steel billet, the commission is satisfied that the CTMS data MTM submitted is accurate, insofar as it reflects the actual amounts in MTM’s cost records and including any revision outlined in an exception above.

6.4.2 Finding – steel billet raw material costs

The commission has preliminarily found that MTM’s steel billet costs did not reasonably reflect raw material input costs associated with production of the goods in China.

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Specifically, the commission found that MTM purchased steel billet from MIS in transactions that were not at 'arms length'. The commission assessed the steel billet purchase price as influenced by the relationship between MTM and MIS, based on the available evidence.

The commission details this further in the Statement of Essential Facts for case 632 (SEF 632), including confidential appendix E of SEF 632.

Separately, the commission also identified that MTM's steel billet cost and purchase records contained inaccuracies described in Exception 12, Exception 13 and Exception 14. The commission did not rely on MTM's steel billet costs to preliminarily calculate a normal value: see chapter 10 of this report.

7 Export price

7.1 Background

Section 269TAB states the general rules for calculating export price. Under this section, the commission assesses the following to identify the correct method of calculating export price:

- Who is the importer?
- Who is the exporter?
- Did the importer purchase from the exporter at arms length?

This chapter discusses how the commission assessed MTM's Australian export sales.

7.2 The importers

The commission considers that the customer listed for each sale of the Australian export goods was the beneficial owner of these goods at the time of importation into Australia and, therefore, the importer. For each sale, the relevant customer:

- was named as the customer on the commercial invoice
- was named as the consignee on the bill of lading
- was named as the importer on the importation declaration to ABF.

7.3 The exporter

The commission considers MTM to be the exporter of the Australian export goods³ because MTM:

- produced the Australian export goods
- is named as the supplier on the commercial invoice
- is named as consignor on the bill of lading
- arranged and paid for inland transport to the port of export
- arranged and paid for port handling charges at the port of export.

7.4 Australian export arms length assessment

7.4.1 Unrelated customers

The commission assessed whether MTM sold the Australian export goods at arms length to any unrelated customers during the inquiry period.

The commission has preliminarily found no evidence that:

- there was consideration payable for, or in respect of, the goods other than its price
- the price appeared to be 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

³ The commission generally identifies the exporter as a principal in transacting the Australian export goods, located in the country of export and either:

- gave up responsibility by knowingly placing the goods in the hands of another company, or its own vehicle, for delivery to Australia
- owned the goods, either at the time the goods were shipped or previously.

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

For these sales, the/The commission notes that MTM:

- sold goods at similar prices to all unrelated customers
- appeared to genuinely negotiate the price with unrelated customers.

The commission therefore considers that, for all the unrelated customer sales, MTM sold the Australian export goods at arms length.⁴

7.5 Export price assessment

In respect of Australian sales of the goods by MTM, the commission recommends that the export price be determined under section 269TAB(1)(a), being the price paid by the importer to the exporter less transport and other costs arising after exportation.

⁴ See section 269TAA(1).

8 Domestic sales

8.1 Background

Section 269TAC states the general rules for calculating normal value. Under this section, the commission assesses the following to identify the correct method of calculating normal value:

- Did like goods sell domestically at arms length?
- Did like goods sell domestically in the ordinary course of trade (OCOT)?
- Did like goods not sell domestically, or sold domestically in low volumes?

8.2 Domestic arms length assessment

MTM sold like goods domestically to its related customer CRRC Logistics Co Ltd (CRRC) in the inquiry period. MTM did not sell like goods domestically to any other customer.

The commission considers that MTM's domestic sales of like goods to CRRC are not 'arms length' transactions, as the price appears to be 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.⁵

In summary:

- MTM and its domestic customer are both SOEs and share the same majority shareholder
- MTM and its domestic customer have a preferential pricing agreement for products including domestic like goods
- the agreement included terms not reflective of genuine commercially-negotiated terms, specifically for price-setting factors and price reductions
- in practice, MTM's domestic customer received price reductions in a manner that did not follow the agreed terms and did not reflect arrangements negotiated at arms length.

The commission details its reasons for making these preliminary findings further in **confidential attachment 1** and in SEF 632.⁶

⁵ Section 269TAA(1)(b).

⁶ Including SEF 632's confidential appendix E.

9 Adjustments

To properly compare an export price of the Australian export goods to the corresponding normal value, the commission considered applying each of the following adjustments.

9.1 Rationale and method

Adjustment type	Adjustment assessment	Calculation method and evidence	Did MTM claim this adjustment?	Does the commission recommend the adjustment be applied?
Domestic credit terms	MTM sold to domestic and Australian customers with different credit terms overall.	<p>Calculated based on:</p> <ul style="list-style-type: none"> • average actual payment days for sampled domestic sales • the interest rate for short-term borrowings MTM incurred in the inquiry period. <p>Evidence relied on:</p> <ul style="list-style-type: none"> • accounts receivable ledger • loan agreement evidence <p>accounting system screenshots from domestic customer.</p>	Yes	No The commission calculated a constructed normal value at an ex-works price that already excluded domestic direct selling expenses.
Domestic packaging	MTM used different packaging between Australian export sales and domestic sales.	Calculated based on internal packaging cost calculation report for relevant models.	Yes	No MTM recorded packaging expenses in its cost to make records. The commission calculated a constructed normal value using cost to make records for the Australian export goods, including packaging.
Domestic inland transport	MTM incurred different inland transport costs between Australian export and domestic sales.	<p>Calculated based on actual inland freight costs incurred.</p> <p>Relied on transport cost agreement terms covering first half of the inquiry period.</p>	Yes	No The commission calculated a constructed normal value at an ex-works price that already excluded domestic direct selling expenses.

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Adjustment type	Adjustment assessment	Calculation method and evidence	Did MTM claim this adjustment?	Does the commission recommend the adjustment be applied?
Domestic product liability insurance	MTM incurred different rates of product liability insurance between Australian export and domestic sales.	Calculated based on the unit cost of product liability insurance in MTM's insurance agreement covering 11 months of the inquiry period.	Yes	No The commission calculated a constructed normal value at an ex-works price that already excluded domestic direct selling expenses.
Export credit terms	MTM sold to domestic and Australian customers with different credit terms overall.	Calculated based on: <ul style="list-style-type: none"> • payment days • the interest rate for short-term borrowings MTM incurred in the inquiry period. Evidence relied on: <ul style="list-style-type: none"> • sales source documents • proof of payment documents • loan agreement evidence. 	Yes	Yes
Export packaging	MTM used different packaging between Australian export and domestic sales.	Calculated based on internal packaging cost calculation report for relevant models.	Yes	MTM recorded packaging expenses in its cost to make records. The commission calculated a constructed normal value using cost to make records for the Australian export goods, including packaging. The commission revised cost to make listing packaging costs: see Exception 15.
Export inland transport	MTM incurred different inland transport costs between Australian export and domestic sales.	Calculated based on actual inland freight costs incurred. Relied on sample inland freight invoices and settlement detail lists.	Yes	Yes

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Adjustment type	Adjustment assessment	Calculation method and evidence	Did MTM claim this adjustment?	Does the commission recommend the adjustment be applied?
Export port handling charges	MTM only incurred port handling expenses for Australian export sales.	Calculated based on actual port handling charges incurred. Relied on sample port handling invoices and settlement detail lists.	Yes	Yes
Export bank charges	MTM only incurred bank charges for Australian export sales.	Calculated based on actual bank charges incurred. Relied on sample bank charge details.	Yes	Yes
Export credit insurance	MTM only incurred credit insurance expenses for Australian export sales.	Calculated based on actual credit insurance expenses incurred. Relied on sample accounting system screenshots detailing credit insurance allocation.	Yes	Yes
Export fixing and binding fee	MTM only incurred fixing and binding expenses for Australian export sales.	Calculated based on fixing and binding fee agreement with logistics service provider.	Yes	Yes
Export product liability insurance	MTM incurred different rates of product liability insurance between Australian export and domestic sales.	Calculated based on the unit cost of product liability insurance in MTM's insurance agreement covering 11 months of the inquiry period.	Yes	Yes

Table 3: Assessment of adjustments

9.2 Adjustments

In constructing a normal value under section 269TAC(2)(c), the commission considers that certain adjustments are necessary to ensure that the normal value is properly comparable with the export price under section 269TAC(9).

In accordance with section 269TAC(9) of the Act, the commission preliminarily finds that the following adjustments are necessary to ensure a fair comparison of normal values and export prices.

Adjustment type	Deduction/addition
Export inland transport	Add an amount for export inland transport
Export port handling charges	Add an amount for export port handling charges

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Adjustment type	Deduction/addition
Export credit insurance	Add an amount for export credit insurance
Export fixing and binding fee	Add an amount for export fixing and binding
Export bank charges	Add an amount for export bank charges
Export product liability insurance	Add an amount for export product liability insurance
Export credit terms	Add an amount for export credit terms

Table 4: Normal value adjustments

10 Normal value

10.1 Normal value – summary

The commission has preliminarily found that MTM sold domestic like goods during the inquiry period, but the sales were not ‘arms length’ transactions. Therefore, the normal value cannot be determined under section 269TAC(1).⁷ Further details regarding this finding can be found in SEF 632.⁸

Because there are no domestic sales of like goods that are ‘arms length’ transactions, the commission has calculated a normal value under section 269TAC(2)(c) using the sum of:

- the cost of production of the goods in China
- MTM’s selling, general and administrative (SG&A) expenses for domestic like goods
- an amount for profit.

Further detail regarding each of the above three components of the constructed normal value under section 269TAC(2)(c) can be found in this chapter.

For the cost of production of the goods in China, the commission considers that MTM’s production records for raw material costs for steel billet did not reasonably reflect raw material costs associated with production of the goods. The reasoning for this finding and the commission’s approach to calculating steel billet costs is outlined in this chapter.

For the remaining components in the cost of production, the commission used MTM’s production records.

In constructing normal value under 269TAC(2)(c), the commission considers that certain adjustments are necessary to ensure that the normal values are properly comparable with export prices, in accordance with section 269TAC(9) and as outlined in chapter 9.

The commission’s normal value calculations are at **confidential appendix 3**.

10.2 Normal value – constructed under 269TAC(2)(c)

10.2.1 Cost of production

Steel billet is the main component of the cost of production for the goods. All steel billet was purchased from MTM’s related party parent company and supplier, MIS.

The commission has preliminarily found that MTM’s steel billet costs did not reasonably reflect raw material input costs associated with production of the goods in China. Specifically, the commission found that MTM purchased steel billet from MIS in transactions that were not at ‘arms length’. The commission assessed the steel billet purchase price as influenced by the relationship between MTM and MIS, based on the available evidence.⁹

The commission details this finding further in SEF 632.

⁷ As there is an absence of sales of like goods that would be relevant for the purpose of determine a price under section 269TAC(1), as section 269TAC(2)(a)(i) refers.

⁸ Including SEF 632’s confidential appendix E.

⁹ Section 269TAA(1)(b).

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The commission assessed the information available about the price of steel billet in China. For this assessment, the commission reviewed information from cooperating stakeholders to this inquiry and benchmark price information.

The third-party market information reviewed included benchmark prices for steel billet. The commission notes that, compared to the benchmark prices for steel billet, the grade of billet used to produce the goods typically:

- costs more to make
- attracts a higher sales price
- is physically and chemically distinct.

To address these differences, the commission further adjusted the benchmark prices to reflect the premium for the specialised type of steel billet suitable to produce the goods. This assessment is included in Appendix B of SEF 632.

This approach to the benchmark prices is consistent with submissions from stakeholders in this inquiry, the commission's verification findings and assessment in Appendix B.

After assessing the information available, the commission relied on MIS's information to calculate a steel billet raw material cost based on the cost to make and sell steel billet plus an amount for profit.

MIS provided production cost records specific to a general category of steel billet that included the grade of billet used to produce the goods and other grades. Specifically, the general category of MIS's production costs was for production of 'special steel billet'. The commission notes that 'special steel' is an industry term for steel with higher strength or toughness and steel with higher proportions of microalloying elements. The commission has used MIS's production cost records for special steel billet because MIS could not isolate production costs specific only to the grade of billet used to produce the goods.

The commission relied on MIS's domestic SG&A expense records for sales of the grade of steel billet used to produce the goods, allocated using the sales revenue and quantity of the general category of steel billet.

To work out a reasonable amount of profit, the commission relied on MIS's domestic sales of steel billet in the same general category as the grade used to produce the goods to unrelated customers. The amount for profit was the difference between this sales revenue and the sum of the general category production costs and domestic SG&A expenses (unit SG&A expenses allocated using grade-specific sales data).

The commission replaced MTM's steel billet raw material costs with the steel billet cost calculated as described above, plus an amount for raw material delivery based on MTM's inland transport expense records.

For all other cost components for production of the goods, the commission relied on MTM's production records.

As specified above, the commission discusses how it assessed MIS's steel billet production cost records in Appendix B.

10.2.2 Selling, general and administrative expenses

As part of the constructed normal value under section 269TAC(2)(c), the commission has calculated MTM's selling, general and administrative (SG&A) expenses for domestic like

goods. This is in accordance with regulation 44(2) of the *Customs (International Obligations) Regulation 2015* (Cth) (the Regulation).

10.2.3 Profit

To determine the profit for the constructed normal value under section 269TAC(2)(c), the commission considered regulation 45.

Regulation 45(2) requires the Minister to work out an amount for profit under section 269TAC(2)(c)(ii) using sales data in the ordinary course of trade, among other requirements. The commission therefore preliminarily assessed if MTM's domestic sales of like goods were in the ordinary course of trade. In conducting this assessment, the Commissioner is reasonably satisfied that MTM's domestic sales of like goods were *not* in the ordinary course of trade. This preliminary finding has been made on the basis of the following reasons:

- The commission considers there is sufficient evidence which indicates that MTM and its domestic customer agreed to sales prices, including price-setting and price reductions (see SEF 632 for further detail of the arrangement).
- The Commissioner is reasonably satisfied that this agreement was not reflective of genuinely commercially negotiated terms for the sale of like goods in the Chinese market.

The commission notes that its policy in the *Dumping and Subsidy Manual* (the Manual) states:

*Depending on the circumstances, profitable sales may not be in the ordinary course of trade. These circumstances may include sample sales, promotional sales made at special prices, end of season sales, low quality sales, or sales in **other unusual circumstances**.*¹⁰ [emphasis added]

Having regard to all the circumstances, the Commissioner is reasonably satisfied that MTM's domestic sales of like goods were not in the ordinary course of trade, on the basis that they represented sales in other unusual circumstances.

On this basis, the commission considers that, because MTM did not sell any domestic like goods in the ordinary course of trade in the inquiry period, the Minister cannot work out an amount for profit under regulation 45(2).

The commission has therefore calculated a profit under regulation 45(3)(a). The application of this regulation is enlivened in circumstances where the Minister is unable to work out the amount by using the data mentioned in regulation 45(2). In accordance with regulation 45(3)(a), the commission has calculated a profit by identifying the actual amounts realised by the exporter from the sale of the same general category of goods in the domestic market. Having regard to the circumstances, the commission considers the same general category to be the like goods sold on the domestic market together with railway wheels with the next closest diameter of wheel size. The commission was able to calculate the actual amounts realised using the verified records of MTM.

¹⁰ Department of Industry, Science and Resources (DISR), [Dumping and Subsidy Manual](#), Anti-Dumping Commission, DISR, Australian government, 8 December 2021, chapter 7.2 (the Manual).

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The commission notes that its policy in the Manual states the following:

*The purpose of the constructed normal value is to estimate as closely as possible, using costs and profit, what the price of the exported goods would have been had they been sold in the ordinary course of trade in the exporter's domestic market.*¹¹

The commission considered whether the same general category of goods should be interpreted narrowly or broadly. In this instance, the commission considers that a narrower interpretation of the same general category of goods should be applied. The commission notes that the sales included in the same general category substantially increases the volume of sales considered for the calculation of profit, beyond the sales of like goods.

The commission considered whether a broader general category should be applied, but notes that there are significant fluctuations in the unit cost to make, selling prices and profitability for different specifications of railway wheels sold in the domestic market, even when limited to the subset of wheels sold for end use in freight carriages. A broader interpretation of the same general category would lead to significant variations of products and profitability. It would include products with profit rates that are markedly different to the sales of the narrower general category selected, that have greater product differences, and that are incompatible with the profit rates achievable for sales of the like goods in China. The commission further notes that the general category determined has a profit that is consistent with the direct evidence of the profit MTM was targeting on the domestic sales of the goods.

¹¹ [The Manual](#), chapter 9.2.

11 Dumping margin

The commission calculated MTM's dumping margin by comparing weighted average Australian export prices to the corresponding weighted average normal values for the inquiry period.

The commission calculated MTM's dumping margin as **13.3%**.

The dumping margin calculation is at **confidential appendix 4**.

12 Related party transactions and domestic market situation

12.1 Related suppliers

MTM sourced steel billet and other goods and services from related party suppliers, relevant to the production and sales of the goods.

12.1.1 Raw materials (steel billet)

MTM sourced all steel billet used to produce the goods under consideration and like goods from its parent entity MIS.¹² Steel billet costs accounted for greater than 60% of MTM's cost to make for the goods and like goods.

Refer to the MIS verification report for further assessment of MTM's steel billet purchases from MIS.

12.2 Tax benefits

MTM did not commission tax information in its response to the exporter questionnaire. The commission identified the issue outlined below. The commission detailed this process in the verification work program and its relevant attachments in **confidential attachment 1**.

The commission verified the income tax information MTM submitted as complete and relevant by reconciling it to MTM's tax returns. The commission verified the information as accurate by reconciling it to proof of payment documents.

12.2.1 Income tax information exceptions

Exception 16: Tax benefits

Description:

In response to H-7.5 of MTM's response to the exporter questionnaire 'Did your company pay less than the general tax rate for enterprises referred to in question H-7.4 [the general rate for enterprises]?', MTM submitted that, 'The company's corporate tax rate has not changed, and this question is not applicable.' Consequently, MTM did not report taxation in its response to the exporter questionnaire.

The commission has preliminarily found that the response was inconsistent with MTM's audited financial statement for 2022.

Resolution:

MTM provided a revised response to section H-7.4 and H-7.5 of the response to the exporter questionnaire. MTM confirmed that it paid less corporate tax income due to being classified as a High Tech Enterprise.

¹² EPR 632, item 9, file 'Exporter - Baowu Group Masteel Rail Transit Materials Technology Company Limited - Questionnaire submitted by Masteel', responses to questions G-7.7, H-13.1, H-13.7 and H-13.8.

12.3 Financial grants

The commission verified the financial grants listing MTM submitted as complete and relevant by reconciling it to MTM's general ledger. The commission verified the listing as accurate by reconciling it to source documents.

The commission identified the issue outlined below. The commission detailed this process in the verification work program and its relevant attachments in **confidential attachment 1**.

12.3.1 Financial grants listing exceptions

Exception 17: Financial grants

Description: MTM excluded grants for deferred income from its list of grants. MTM provided information about deferred income grants for January 2022 to June 2023.

Resolution: The commission revised MTM's list of received grants to include deferred income transactions recorded between January 2022 and June 2023.

13 Appendices and attachments

Confidential appendix 1	Export price
Confidential appendix 2	Cost to make and sell
Confidential appendix 2A	Cost replacement
Confidential appendix 3	Normal value
Confidential appendix 3A	Profit margin for normal value
Confidential appendix 4	Dumping margin
Confidential attachment 1	Verification work program