



Related supplier 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		
Entity	Ma'anshan Iron and Steel Co Ltd (MIS)		
Locations visited	1619 Tianmen Avenue Middle Section, Yushan District, Ma'anshan City, Anhui Province, People's Republic of China		
	8 Jiuhoa West Road, 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 views and recommendations.

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

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Introduction

Ma'anshan Iron and Steel Co Ltd (MIS) submitted data to the Anti-Dumping Commission (the commission) in response to a questionnaire for Continuation Inquiry 632 (case 632) into Ore Carriage Railway Wheels from the People's Republic of China (China) and the Republic of France.

The commission previously referred to MIS as 'Masteel' in Investigation 466, the original investigation to which case 632 relates.

A verification team has verified whether the data MIS 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 findings, including the evidence considered and material issues identified. Where MIS or the commission materially revised the submitted data, this report outlines the nature, extent and outcomes of these revisions.

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

Verification teams 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 Related parties

The commission assessed related party transactions in relation to the production and sales of steel billet used in the goods exported to Australia and like goods and other goods/services to MTM during the inquiry period.

1.1.1 Related suppliers

MIS primarily transacted with related party SOEs within the China Baowu Group, in relation to the supply of raw material inputs for steel billet.

A summary of the commission's examination of major suppliers of goods and services is at chapter 8.

1.1.2 Sales of goods and services to MTM

Steel billet

MIS was the sole supplier of steel billet to MTM, for the type of steel billet that MTM used to produce the goods for export to Australia and for domestic sale.² A summary of the commission's examination of MIS steel billet sales to MTM is at chapter 7 of this report.

Other goods and services

MIS supplied utilities and other services to MTM. A summary of the commission's examination of sales of other goods and services to MTM is at chapter 8 of this report.

1.2 Corporate structure and ownership

MIS is a Chinese SOE within Masteel Group,³ and one of the largest steel producers and sellers in China. MIS primarily sourced raw materials and services from Chinese SOEs, including related parties within the China Baowu Group. MIS also sourced raw materials and services from Chinese non-SOEs and foreign suppliers.

The exporter and manufacturer of the railway wheels during the inquiry period, MTM, is a Chinese SOE. MTM purchased all raw materials (steel billet) used to produce railway wheels from its parent entity, MIS.

MIS ownership changed on 19 September 2019, due to the SASAC of Anhui province transferring 51% equity in Masteel Group to China Baowu Steel Group Corporation Limited (China Baowu).⁴ Since then, Masteel Group has become one of the subsidiaries of China Baowu. China Baowu held 51% of the shares of Masteel Group, and the SASAC of Anhui Province held the remaining 49%. The direct controlling shareholder of MIS remained unchanged, that being Masteel Group. China Baowu became an indirect controlling

² EPR 632, document number 9 (file 'Exporter - Baowu Group Masteel Rail Transit Materials Technology Company Limited - Questionnaire submitted by Masteel'). See especially responses to questions G-7.7, H-13.1, H-13.7 and H-13.8.

³ 'Magang' approximates the Mandarin Chinese pronunciation of 'Masteel'. In English, Masteel companies referred to 'Magang' and 'Masteel' interchangeably.

⁴ MIS, [Maanshan Iron & Steel Co Ltd 2022 Financial Report](#), MIS website, 2023, accessed 25 March 2024, p 134.

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shareholder, and the actual controller of MIS was changed from the SASAC of Anhui Province to the SASAC of the State Council⁵ – MIS's primary owner was in effect the SOE SASAC both before and after this change.⁶

China Baowu is a state-owned capital investment company controlled and held by the State-owned Assets Supervision and Administration Commission of the State Council. It is mainly engaged in operating state-owned assets within the scope authorized by the State Council, as well as carrying out relevant state-owned capital investment and operation.⁷

Masteel Group is a state-owned holding enterprise and the controlling shareholder of the Company. It is mainly engaged in mining and sorting of mineral products, construction, manufacturing of construction materials, trading, storage and property management, as well as agriculture and forestry.⁸

The corporate structure of MIS and MTM are outlined in Figure 1 (noting that MTM was wholly owned by MIS during the inquiry period).⁹

⁵ MIS, [2022 Environmental, social and governance report](#), MIS website, 31 March 2023, accessed 25 March 2024, p 6.

⁶ SASAC of the State Council generally owns shares of relatively large companies in China. SASAC of Anhui province owns shares of companies in Anhui province.

⁷ MIS, [\(1\) discloseable and connected transaction – absorption and merger of Masteel Finance and \(2\) continuing – financial services agreement](#), MIS website, 15 November 2022, accessed 25 March 2024.

⁸ MIS, [\(1\) discloseable and connected transaction – absorption and merger of Masteel Finance and \(2\) continuing – financial services agreement](#).

⁹ MIS, [Maanshan Iron & Steel Co Ltd 2022 financial report](#), pp 2–4, 135.

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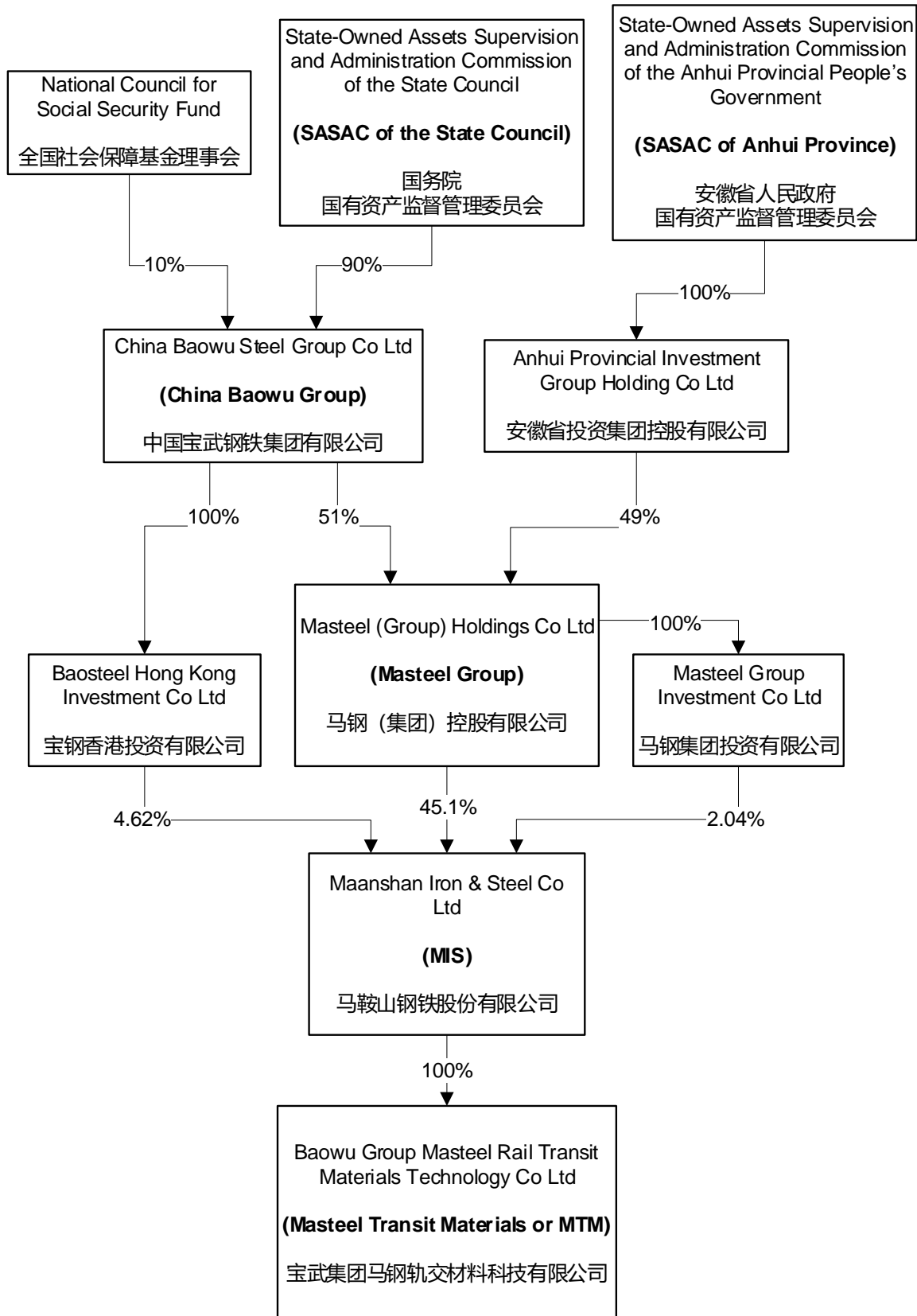


Figure 1: Corporate ownership structure of MIS and MTM

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MIS senior management, including the chairman, vice chairman, general manager and deputy general managers hold management positions in controlling shareholder companies, which are wholly-state owned.¹⁰ In addition, certain senior management are reported as being directly managed by China Baowu.¹¹

1.3 Accounting records

Guo Jing and Gong Wei (Ernst & Young Hua Ming LLP) audited MIS's financial statement and included a statement that the financial accounts are in accordance with the China Accounting Standards for Business Enterprises.¹²

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

¹⁰ MIS, [Maanshan Iron & Steel Co Ltd 2022 financial report](#), pp 83–87.

¹¹ MIS, [Maanshan Iron & Steel Co Ltd 2022 financial report](#), p 83.

¹² The Chinese Accounting Standards are also known as the Chinese Generally Accepted Accounting Principles.

2 Steel billet used to produce the goods and like goods

2.1 Production process

MIS produced the relevant grade of steel billet by smelting molten iron, scrap steel and other alloys in an electric arc furnace and ladle furnace. MIS then refined the molten steel through vacuum degassing. MIS transferred the molten steel to a casting machine to produce the steel billet.

MIS produced its own molten iron in a blast furnace. Key inputs into the blast furnace were sinter, iron ore pellets and coke fuel.

MIS generated various types of iron and steel scrap by-products in its manufacturing processes.

2.2 Level of specificity in cost and sale records

Of the grades of steel billet MIS produced, its related party customer MTM only used one grade of billet to manufacture the wheels subject to measures under inquiry in case 632. Wheels produced by other grades of billet are not subject to Australian anti-dumping measures.

MIS provided production costs specific to a general category of steel billet, internally referred to as 'special steel billet'. MIS could not provide cost records specific only to the grade of billet used to make the wheels subject to measures.

As part of the commission's verification of cost to make and sell accuracy (detailed in chapter 6), the commission verified that MIS's production records could provide cost information at the level of special steel billet but could not practicably specify cost records to one specific grade.

Unlike MIS's cost records, the company's sales records detailed the sales quantity and value of each grade of billet. MIS recorded the specific grade of billets in inventory when transferring product from its production inventory to sales inventory systems.

MIS provided a cost to make listing showing separate production costs for the blast furnace, steel smelting and refining, and steel billet casting. During verification, MIS also provided cost data relating to production of sinter, iron ore pellets and coke fuel that MIS consumed in the blast furnace.

2.3 Verification of steel billet product specifications

Table 1 details how the commission determined steel billet product codes and verified them to source documents.

Category	Sub-category verification method
Grade	The grade was matched to the product codes in the accounting system and on source documents (e.g. commercial invoices).
Diameter	The diameter was matched to the product codes in the accounting system and on source documents (e.g. commercial invoices).
Length	The length was matched to the product codes in the accounting system and on source documents (e.g. commercial invoices).

Table 1 Verification of product specifications

2.4 Production capacity exceptions

Exception 1: Revised capacity utilisation calculation

Description: MIS provided a capacity utilisation calculation relying on production capacity for railway wheel steel billet. MIS compared this production capacity to actual production of the grade of steel billet suitable to produce wheels matching the goods description. MIS excluded actual production of other grades of railway wheel billet and, as a result, understated its capacity utilisation.

Resolution: MIS revised its capacity utilisation calculation to include actual production of all grades of railway wheel steel billet.

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 MIS 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:

- reconciling the total revenue for the most recently completed financial year (2022) to MIS audited financial report, trial balance and financial system
- reconciling the total revenue for the inquiry period, by subtracting the amount for the first half of FY 2022 and adding the amount for the first half of FY 2023 – these amounts were reconciled to MIS trial balance and financial system.
- verifying the breakdown of total revenue in MIS financial system for different product types, according to the account codes and product categorisation
- reconciling the total revenue reported for all 'special steel' products from MIS financial system to its sales system – the commission verified the total revenue applicable to all special steel products
- verifying the categorisation of products within 'special steel'
 - The commission verified the revenue and quantities applicable to 'special steel' billet' and other product categories.
 - The commission confirmed that all 'special steel billet' sales were classified as being sold to domestic customers.
- verifying the revenue and quantities for 'special steel' billet used in railway wheels and for other product types
 - The commission verified differences between the gross and net revenue for applicable products.

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**.

3.1 Sales completeness and relevance exceptions

Exception 2: Business income unrelated to 'special steel'

Description: During the reconciliation of total 'special steel' income, MIS excluded a small volume of sales, on the basis that they were not related to 'special steel' income.

The commission accepted MIS explanation based on the product and customer descriptions. However, the commission found that these sales were included in the sales listings.

Resolution: The commission excluded these sales having regard to the information provided by MIS.

3.2 Sales completeness and relevance finding

The commission is satisfied that the sales data MIS submitted is complete and relevant, except for the issues including any revisions 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.

MIS questionnaire reported sales of all grades of steel billet used in the production of railway wheels, including the grade of billet that MTM used to produce the goods exported to Australia and domestic like goods.

The commission verified the accuracy of the sales listing and 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: Sales accuracy – allocation of sales adjustments (including reimbursements and discounts)

Description: For sales to MTM of steel billet used for railway wheels, the commission found that sales price adjustments (discounts and reimbursements) were arbitrarily allocated to certain sales during the inquiry period. The price adjustments were not necessarily associated with those sales.

Preliminary Assessment: This allocation issue affected the net selling prices. In one instance, this allocation issue significantly reduced the price recorded for the grade of steel billet used in the production of the subject goods. The commission discusses its findings about domestic sales in chapter 7.2 of this report.

Exception 4: Sales accuracy – removal of voided invoice

Description: A single invoice was found to have been voided.

Resolution: The voided invoice has been removed from the sales listing.

4.2 Sales accuracy finding

The commission found that MIS domestic sales listing was accurate, insofar as it reflected the actual amounts invoiced and paid, in accordance with MIS records.

However, as outlined above (Exception 3), the commission found that reimbursements and discounts were arbitrarily allocated for sales to MTM of steel billet used for railway wheels. This meant that net selling prices did not reflect the amounts that would have otherwise been applicable for those sales.

The allocation issue affects the costs recorded by MTM. The commission is unable to accurately reallocate the reimbursements based on the information provided. The commission discusses its findings about domestic sales in chapter 7.2 of this report.

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. ADN 2016/30 further describes this verification process.

The commission verified whether the CTM and SG&A listings MIS 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 operating costs for the 2022 financial year (January to December) in MIS's audited financial report to the trial balance
2. reconciling total operating costs for the inquiry period to the trial balance
3. reconciling inquiry period total operating costs to total production costs
4. reconciling production costs for the general category of goods to total production costs
5. reconciling the general category of goods to a narrower subset of the general category, which reconciled to the cost to make listing.

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

1. reconciling MIS's SG&A listing to the 2022 financial year and inquiry period trial balances
2. reconciling a sample of SG&A accounts to detailed transaction ledgers.

The commission did not identify any issues. 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 finding

The commission is satisfied that the CTMS data MIS submitted is complete and relevant.

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 MIS submitted are accurate by reconciling them to source documents, consistent with ADN 2016/30.

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**.

6.1 Cost to make and sell accuracy exceptions

Exception 5: Revised iron ore purchase listings

Description: MIS provided raw material purchase listings for iron ore, steel scrap and alloy purchases.

MIS's iron ore purchase listing included a mix of wet and dry weight quantities. As a result, MIS's purchase listing used inconsistent units.

For many orders, the listing repeated total order quantity for each row.

Some of MIS's iron ore orders used provisional and revision invoices to calculate the final purchase amount. MIS included invoices based on the specific invoice date but, as a result, some orders included only the provisional or only the revision invoices and did not record the total, final amount ordered or paid.

Resolution: MIS revised its iron ore purchase listings to indicate dry weight for all purchases by relying on a conversion coefficient for purchases recorded with wet weight quantity.

MIS revised the same listings to remove repeated order quantities.

MIS revised the same listings to include all provisional and revision invoices for a purchase order. The commission assessed MIS's total raw material purchases in the inquiry period based on the purchase order date.

Exception 6: Incomplete scrap steel listing

Description: MIS's scrap steel raw material purchase listing from MTM is not a complete listing of steel scrap provided by MTM because it does not include steel scrap transfers from MTM that were used to offset steel billet sales.

Assessment: The commission is unable to confirm the total value of internal transfers of scrap from MTM based on the information available. The commission does not believe that the incomplete purchase listing reflects inaccurate scrap steel input costs in MIS's steel billet cost to make listing.

6.2 Cost allocation method

Table 2 outlines how the commission allocated each cost component.

Cost component	Method applied
Raw materials	MIS allocated raw material costs based on actual consumption quantity and the weighted average inventory value of the raw material in inventory.
Scrap offsets	MIS allocated scrap offsets based on the actual scrap generated and the actual sales or internal transfer price of scrap.
Labour	MIS allocated labour costs based on actual labour costs incurred by the relevant production facility.
Manufacturing overheads	MIS allocated manufacturing overheads based on total manufacturing overhead expenses incurred by the relevant production facility.
Depreciation	MIS allocated depreciation based on total depreciation incurred by relevant production facility.

Table 2 Cost allocation method

6.3 Related party suppliers

MIS purchased raw materials from related party suppliers during the inquiry period.

The commission verified a sample of raw material purchases to source documents to verify the accuracy of MIS's purchase ledgers.

A summary of the commission's examination of major suppliers is in chapter 8.

6.4 Cost to make and sell accuracy finding

The commission is satisfied that the CTMS data MIS submitted is accurate, insofar as the costs reflect the actual amounts recorded in MIS records, including any revision outlined in an exception above.

7 Domestic sales – steel billet

7.1 Background

This chapter discusses the commission's preliminary assessment of MIS domestic sales of steel billet used for railway wheels exported to Australia and like goods, and domestic sales of 'special steel' billet to unrelated customers.

7.2 Domestic sales

7.2.1 Steel billet used in the production of the exports of the goods to Australia and like goods

All sales of the steel billet grade used in exports of the goods to Australia and like goods were to MTM.¹³ MIS had pricing agreements with MTM, that concerned all sales of steel billet used in the production of railway wheels (including the grade used in the production of the exported goods and like goods).

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 MTM's verification report in the Statement of Essential Facts for case 632 (SEF 632), including confidential appendix E of SEF 632.

MIS's steel billet factory is co-located with subsidiary MTM, and the parties had common management during the period that the steel billet pricing mechanism was established.

MIS prices to MTM were set according to a different pricing mechanism than MIS special steel billet sales to unrelated customers.¹⁴ Prices to MTM were less variable, included various price reductions, and were not equally aligned to the applicable costs or market conditions.

The commission found that MIS steel billet sales to MTM for railway wheels during the inquiry period were made at a loss. This included the sales of the steel billet grade used in exports of the goods to Australia and like goods.

The commission's domestic profit calculation is at **confidential appendix 1**.

7.2.2 Preliminary assessment

The commission considers that 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.

The commission notes the commission does not assess whether the internal pricing policy is compliant or non-compliant to any applicable revenue law. This section concerns the analysis of domestic transactions in an anti-dumping context only.

¹³ MIS is the only known Chinese manufacturer and seller of the grade of steel billet.

¹⁴ MIS sales to unrelated customers of steel billet were produced at the same facilities. These sales did not relate to steel billet used in railway wheels, except for a single low volume sale (non-subject goods) which MIS described as being a test product.

8 Related party transactions and domestic market situation

8.1 Steel billet – domestic production and sales

8.1.1 Steel billet

MIS did not import or export steel billet. There are no known competitors in the Chinese market for the grade of steel billet used in the production of the goods exported to Australia and like goods.

8.1.2 Raw materials

MIS reported raw materials, which related to the production of steel billet and other products. The major raw materials used in the production of steel billet are as follows:

Raw material	Suppliers
Scrap steel	All scrap steel was sourced from the Chinese domestic market. Scrap steel was predominantly supplied and manufactured by related party SOEs.
Iron ore	Iron ore was imported and sourced from the Chinese domestic market. Imported iron ore was supplied by related party SOEs and directly by unrelated manufacturers. Domestic iron ore was predominantly supplied and manufactured by related party SOEs.
Alloys	All alloys were sourced from the Chinese domestic market. Alloys were primarily supplied by unrelated parties.
Coking coal	Coking coal was imported and sourced from the Chinese domestic market. Domestic coking coal was predominantly supplied and manufactured by Chinese SOEs, including related parties. Imported coking coal was predominantly supplied by related party SOEs, with other supply from unrelated party SOEs and non-SOEs.

Table 3: List of major raw materials and suppliers

Preferential pricing for domestic iron ore

The commission found that MIS received preferential prices for purchases of domestic iron ore from a related party supplier in the Masteel Group.¹⁵

Preferential pricing for logistics/transportation services

The commission found that MIS received preferential prices for logistics/transportation services provided by a related party supplier in the Masteel Group.¹⁶

8.1.3 Utilities

MIS purchases of electricity, gas and water were subject to state-prescribed prices. MIS received discounts to the state-prescribed rates for gas and a fee exemption for industrial water.

¹⁵ This supplier was also in the China Baowu Group. As noted in chapter 1, the China Baowu Group has controlling ownership of the Masteel Group.

¹⁶ See footnote 15.

8.2 Tax benefits

The commission found that MIS benefitted from corporate income tax reductions in the most recently finalised calendar period (2022).

MIS was also eligible for lower corporate income tax in China due to being classified as a 'high-tech enterprise'.¹⁷

8.3 Financial grants

The commission verified the financial grants listing MIS submitted as complete and relevant by reconciling it to MIS'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**.

8.3.1 Financial grants listing exceptions

Exception 7: Financial grants

Description: MIS did not report financial grants relating to deferred income, although these are recognised as revenue during the inquiry period.

Resolution: MIS provided a supplementary list of grants with deferred income that MIS amortised during the inquiry period.

¹⁷ MIS did not receive any benefit due to this program, as no corporate income tax was payable.

9 Appendices and attachments

Confidential appendix 1	Domestic steel billet sales
Confidential appendix 2	Cost to make and sell steel billet
Confidential attachment 1	Verification work program