



Australian Government
Australian Customs and
Border Protection Service

**INVESTIGATION INTO THE ALLEGED DUMPING OF
FORMULATED GLYPHOSATE**

EXPORTED FROM

THE PEOPLE'S REPUBLIC OF CHINA

EXPORTER VISIT REPORT

**ZHEJIANG XINAN CHEMICAL INDUSTRIAL GROUP
CO., LTD**

AND

ZHEJIANG WYNCA IMPORT AND EXPORT 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 CUSTOMS AND BORDER
PROTECTION**

MAY 2012

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2 BACKGROUND

2.1 Background to the current investigation

On 21 December 2011, an application requesting that the Minister for Home Affairs (the Minister) publish a dumping duty notice in respect of formulated glyphosate exported to Australia from The People's Republic of China (China), was lodged on behalf of Nufarm Limited (Nufarm) and Accensi Pty Limited (Accensi)¹, members of the Australian industry manufacturing formulated glyphosate.

The initiation of the investigation was publicised in *The Australian* on 6 February 2012. Australian Customs Dumping Notice No. 2012/05 provides further details on the investigation and is available at www.customs.gov.au.

Following initiation of the investigation, a search of Customs and Border Protection's import database indicated that Zhejiang Xinan Chemical Industrial Co., Ltd (Zhejiang Xinan) and Zhejiang Wynca Import and Export Co., Ltd (Wynca I/E) exported formulated glyphosate to Australia from China during the investigation period (1 January 2011 to 31 December 2011).

Customs and Border Protection wrote to Zhejiang Xinan advising the company of the initiation of the investigation, requesting co-operation with the investigation and providing the company with a copy of the exporter questionnaire to complete.

Wynca IE is identified by Zhejiang Xinan as being a wholly owned subsidiary of Zhejiang Xinan that was established in April 2011, and commenced commercial operations in September 2011. We understand that from September 2011 Wynca has been responsible for all import and export activities on behalf of Zhejiang Xinan.

This report will categorise export sales made by Zhejiang in two tiers as follows:

- direct exports: comprising all export sales executed directly between Zhejiang Xinan and Australian importers from January 2011 to August 2011; and
- indirect exports: comprising all export sales made between Zhejiang Xinan and Australian importers via Wynca IE, in capacity as intermediary export agent, from September to December 2011.

Zhejiang Xinan completed the exporter questionnaire on behalf of both Zhejiang Xinan and Wynca. The response provides details regarding both

¹ Unless otherwise specified, Nufarm and Accensi are herein referred to as "the applicants".

companies and the commercial relationship that exists between them, overseas supplier information, imports and expenses.

2.2 Purpose of meeting

The purpose of the visit was to verify information submitted by Zhejiang Xinan in their exporter questionnaire response. The exporter questionnaire response was supported by confidential appendices and attachments, including confidential spreadsheets containing sales and costs data requested in the exporter questionnaire.

A non-confidential version of the exporter questionnaire response was placed on the public record.

Customs and Border Protection will use the verified information gathered at the visit to make preliminary assessments of:

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

2.3 Meeting and preliminary issues

We advised Zhejiang Xinan of the following:

- The investigation period is 1 January to 31 December 2011.
- Customs and Border Protection will examine the Australian market from 1 January 2008 for injury analysis purposes.
- A preliminary affirmative determination (PAD) may be made no earlier than the 60th day following the date of initiation of the investigation (being 10 March 2012). Provisional measures may be imposed at the time of the PAD or at any time after the PAD has been made. We advised that Customs and Border Protection would not make such a determination until it was satisfied that there appears to be sufficient grounds for the publication of a dumping duty notice.
- A Statement of Essential Facts will be placed on the public record by 29 May 2012 or such later date as the Minister allows. The Statement of Essential Facts will set out the material findings of fact on which Customs and Border Protection intends to base its recommendations to the Minister. The Statement of Essential Facts will invite interested parties to respond, within 20 days from its release date, to the issues raised. Submissions received in response to the Statement of Essential Facts will be considered when compiling the report and recommendations to the Minister.
- Customs and Border Protection's report to the Minister is due no later than 10 July 2012, unless an extension to the Statement of Essential Facts is approved by the Minister.

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We advised Zhejiang Xinan that we would prepare a confidential report on the visit, a copy of which would be provided to them to provide them opportunity to review the report for accuracy. Zhejiang Xinan was also advised that a non-confidential version of this visit report would be prepared in consultation with the company and placed on the public record.

2.4 Meeting dates and attendees

Verification meetings were held at the offices of Zhejiang Xinan which are located in Jiande in Zhejiang province.

The following people were present at various stages of the meeting:

Zhejiang Xinan, Wynca I/E	
Mr. Lin, Jia Shan	President, Zhejiang Xinan
Mr. Liu, Xia	Vice-President, Zhejiang Xinan
Mr. Jiang, Yong Ping	CFO, Zhejiang Xinan
[CONFIDENTIAL TEXT DELETED – names of employed staff]	Deputy Manager of Agrochemical Department
	General Manager, Wynca I&E
	Factory Manager
	Manager – Agrochemical Department
	Deputy Manager, Financial Department
	Deputy Manager, Financial Department
	Manager - Legal Department
	Manager - International Department
	Deputy Manager, International Department
	Vice-Director, R&D Department
Consultants	
Mr. Daniel Moulis	Principal, Moulis Legal
Mr. Charles Zhan	Solicitor, Moulis Legal
Australian Customs and Border Protection	
Mr. Mick Kenna	Manager, Operations 1
Mr. Edward Macgregor	Supervisor, Operations 1
Ms. Pamela Garabed	Supervisor, Operations 1

3 COMPANY INFORMATION**3.1 Company backgrounds and relationship between companies****3.1.1 Zhejiang Xinan**

Zhejiang Xinan is a share limited company, established in China in 1965. The company commenced manufacture of glyphosate at its pesticide factory in 1987.

The company has two major shareholders², Transfar Group Co., Ltd ([CONFIDENTIAL TEXT DELETED]%) and KaiHua State Owned Assets Management Co., Ltd ([CONFIDENTIAL TEXT DELETED]%). Zhejiang Xinan was listed on the Shanghai Stock Exchange in 2001.

Zhejiang Xinan is the parent company of a large number of subsidiary companies. A diagram representing the organisational structure of Zhejiang Xinan and its affiliated subsidiaries was provided with the response to the exporter questionnaire. It is attached at **confidential attachment GEN 1**.

We confirmed that four wholly owned subsidiaries of Zhejiang Xinan undertook commercial activities related to the production and sale of the goods under consideration (GUC) during the period of investigation (POI). These are:

- Wynca I/E: was responsible for all export sales after September 2011 (see 3.1.2 below);
- [CONFIDENTIAL TEXT DELETED]: operates a chemical factory at [CONFIDENTIAL TEXT DELETED] and produced glyphosate acid and formulated glyphosate 41% which was supplied to Zhejiang Xinan during the POI³;

² For the purposes of this report, 'major' shareholding is taken to be held by any shareholder able to cast, or otherwise control the casting of, 5% or more of the votes that are capable of being cast at a general meeting of the company.

³ We understand that [CONFIDENTIAL TEXT DELETED] manufactures glyphosate acid and formulates various formulations of glyphosate for sale in the Chinese domestic market under the [CONFIDENTIAL TEXT DELETED] product brand. We understand that all domestic sales of product produced by [CONFIDENTIAL TEXT DELETED] during the POI were arranged and executed by Zhejiang Xinan, under an agency arrangement between the two companies.

We confirmed that [CONFIDENTIAL TEXT DELETED] supplied glyphosate acid and 41% glyphosate to Zhejiang Xinan during the POI which was used in the formulation process, or, in the case of 41%, sold in the domestic market as Wynca branded product by Zhejiang Xinan. Wynca indicated that the company produced around [CONFIDENTIAL TEXT DELETED] of acid during the POI of which a very small quantity was supplied to Zhejiang Xinan and the rest sold domestically.

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- **[CONFIDENTIAL TEXT DELETED]**: was responsible for the production of some packing materials used by Zhejiang Xinan for both domestic and export sales of the GUC during the POI; and
- **[CONFIDENTIAL TEXT DELETED]**: responsible for some inland transportation of the GUC within China related to both domestic and export sales of the GUC during the POI⁴.

We understand that Zhejiang Xinan is the name by which the company is legally registered in accordance with relevant corporations' law in China. Zhejiang Xinan, historically, used its registered trading name in relation to its commercial operations within China, but used the name 'Wynca' as a trading name of the company in relation to commercial activities with entities outside of China.

We understand that, relatively recently, Zhejiang Xinan has adopted the 'Wynca' moniker in relation to both its domestic and export operations. Its subsidiaries are referred to as being part of the 'Wynca Group'.

We confirmed that 'Wynca' is not a legally registered trading name or subsidiary of Zhejiang Xinan. We understand that the practice of using unregistered trading names is consistent with Chinese corporations' law.

3.1.2 Wynca IE

Wynca IE is a limited liability company registered in Zhejiang Province in April 2011. It is a wholly owned subsidiary of Zhejiang Xinan and is recognised as operating within the 'Wynca' group of companies.

We are advised that Wynca IE was established to take responsibility for all import and export transactions on behalf of Zhejiang Xinan. We understand that, prior to the establishment of Wynca IE, all import and export activities were executed directly by a specific operational division within Zhejiang Xinan.

We understand that Wynca IE, whilst a registered company with a separate legal entity in China, is comprised of the staff previously employed by Zhejiang Xinan to undertake the same functions, and operates from the same premises as the former import and export division of Zhejiang Xinan.

We have confirmed that, for the purposes of the investigation, Wynca IE commenced operations in relation to the export of the GUC to Australia in September 2011.

⁴ Zhejiang Xinan indicated that around **[CONFIDENTIAL TEXT DELETED]** of logistics services were provided by **[CONFIDENTIAL TEXT DELETED]**. It was submitted that logistics services were provided at market price between **[CONFIDENTIAL TEXT DELETED]** and Zhejiang Xinan.

NON-CONFIDENTIAL VERSION**3.2 Commercial operations****3.2.1 General**

The manufacture of glyphosate acid, and the formulation of fully formulated glyphosate herbicides involves the interrelated operation of numerous departments within Zhejiang Xinan.

For ease of understanding we have categorised the relevant departments into two categories:

- administrative; and
- production/formulation

Administrative

Zhejiang Xinan's head office is located in Jiande in Zhejiang Province in China. Within its offices, four separate departments are responsible for distinct functions in relation to the development, marketing and sale of the GUC. These are as follows;

- Agrochemical division; **[CONFIDENTIAL TEXT DELETED – details of functions undertaken within separate area of the company];**
- Agrochemical marketing department: **[CONFIDENTIAL TEXT DELETED – details of functions undertaken within separate area of the company];**
- Agrochemical administration office: **[CONFIDENTIAL TEXT DELETED – details of functions undertaken within separate area of the company];**
- Agrochemical research institute: **[CONFIDENTIAL TEXT DELETED – details of functions undertaken within separate area of the company]**

Production/formulation

We confirmed with Zhejiang Xinan that two facilities are involved in the production of the GUC. These are as follows:

- Jiande No 2 Chemical Plant: responsible for producing glyphosate acid; and

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- Jiande Pesticide Plant: responsible for the formulation of formulated glyphosate products.⁵

We conducted a visit to both sites and observed the production processes of each facility in relation to the GUC.

The most salient observations are discussed below.

3.2.2 Energy requirements

We confirmed that all energy requirements are supplied to the two plants at Jiande by coal-fuelled power plants operated by Zhejiang Xinan at each of the manufacturing sites.

3.2.3 Production process

Zhejiang Xinan explained that liquid glyphosate formulations are produced by the combination of glyphosate acid with other specific chemical additives in a three-stage process as follows:

- 1) glyphosate acid (in 'wet-cake' form⁶) is combined with a salt⁷ (mono-isopropylamine or ammonium salt⁸) and 'soft water' in a controlled, acid-base, chemical reaction⁹ – the product of this process is a soluble salt of the glyphosate acid;
- 2) the soluble salt is then blended with surfactants¹⁰, and other inert ingredients to produce fully formulated glyphosate herbicide; and
- 3) the end product is then filter pressed and packed for sale.

⁵ For completeness, we note that **[CONFIDENTIAL TEXT DELETED]** a subsidiary of Zhejiang Xinan, was involved in the manufacture of glyphosate acid and the formulation of 41% glyphosate that was supplied to Zhejiang Xinan during the POI. (see 3.1.1 above).

⁶ For explanation of wet-cake see discussion of production process of glyphosate acid.

⁷ Salts are used to solubilise Glyphosate technical so that it will dissolve in water.

⁸ Derived from liquid ammonia.

⁹ Glyphosate acid is a weak acid herbicide – it comprises a hydrogen ion held to a phosphorous group by a weak electrostatic charge. It can be used as a herbicide in root acid form but itself doesn't make a stable formulation or mix well with other products. Hence – manufacturers remove the hydrogen ion and replace it with a salt. The salt is held to the glyphosate molecule by an electro static charge.

¹⁰ Surfactants are chemical compounds that lower the surface tension of a liquid, or that between a liquid and a solid. They are commonly introduced to products to act as a detergent, emulsifier or wetting agent. We understand in the case of formulated glyphosate, surfactants are used to aid the uptake of the herbicide by the plant tissue.

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Zhejiang Xinan submits that the formulation process for 757 glyphosate is substantially different from the formulation process for liquid formulations outlined above. This is discussed below at 3.2.10.

3.2.4 Summary of production

For the most part, formulation of glyphosate is a standard process and there are only a number of variables that a formulator of glyphosate has the ability to manipulate which will effect the chemical composition and effectiveness of the finished product.

In summary, from our observations of the production process and discussions with Zhejiang Xinan, we understand that:

- glyphosate acid can be produced by several routes of manufacture comprising different chemical processes and ingredients;¹¹
- the salt that is combined with the glyphosate acid will have a bearing on the effectiveness of the product;
- the concentration of glyphosate acid that is present in the formulated product affects the ultimate effectiveness of the product¹²; and
- the quality and correct quantity of surfactants used also significantly affects the efficiency of the uptake of the herbicide on the plants.

3.2.5 Production of glyphosate acid

Zhejiang Xinan confirmed that all glyphosate herbicides produced during the POI and sold in both the domestic market and Australian export market were formulated using glyphosate acid produced by Zhejiang Xinan at its Jiande No 2 Chemical Plant or by **[CONFIDENTIAL TEXT DELETED]**.

Glyphosate acid can be produced through a number of different chemical processes, each of which involves the combination of different chemical ingredients and catalysts with a root chemical source to yield glyphosate acid.

Zhejiang Xinan confirmed that all glyphosate acid produced at Jiande No 2 is manufactured through a process using **[CONFIDENTIAL TEXT DELETED]**

¹¹ We are satisfied that the manufacturing process that produces the glyphosate acid used in formulating glyphosate does not have a bearing on the issue of whether products are appropriately characterised as 'like' goods. Manufacturing routes, and the differences in the raw materials used in different routes, is more relevant to the consideration of costs that will be discussed in detail later in this report.

¹² A higher concentration of glyphosate technical means farmers have to buy smaller volumes of the products to achieve their desired outcomes

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as the key chemical ingredient (referred to in the industry as the [CONFIDENTIAL TEXT DELETED] of manufacture).

Zhejiang Xinan summarised the [CONFIDENTIAL TEXT DELETED] manufacture in the response to the exporter questionnaire. We confirmed the below production process summary:

- 1) [CONFIDENTIAL TEXT DELETED – raw materials used by Zhejiang Xinan]¹³;
- 2) [CONFIDENTIAL TEXT DELETED – steps in production process undertaken by Zhejiang Xinan];
- 3) [CONFIDENTIAL TEXT DELETED – steps in production process undertaken by Zhejiang Xinan]¹⁴;
- 4) [CONFIDENTIAL TEXT DELETED – steps in production process undertaken by Zhejiang Xinan]¹⁵.

For completeness, Zhejiang Xinan confirmed that the above process produces glyphosate acid in 'wet-cake' form, which requires drying prior to sale. For the purposes of formulation, wet-cake glyphosate acid is used.

3.2.6 Formulation of liquid glyphosate

Zhejiang Xinan confirmed that glyphosate acid, in wet-cake form, is transported from Jiande No 2 facility to Jiande Pesticide Plant using the company's own vehicles.

As summarised above, Zhejiang Xinan submitted that the formulation process of glyphosate products sold domestically and for export is a relatively standard process. A copy of the standards in relation to the liquid product is at **confidential attachment GEN 2**.

Zhejiang Xinan confirmed however that there are key variables that distinguish the formulations of glyphosate it produces, as set out below.

¹³ Zhejiang Xinan confirmed that all [CONFIDENTIAL TEXT DELETED] used in the production of glyphosate acid at the Jiande No 2 facility is produced on-site through a reaction of different chemical pre-cursors.

¹⁴ [CONFIDENTIAL TEXT DELETED – raw materials and steps in production process undertaken by Zhejiang Xinan] recycled into step one of the manufacturing process. [CONFIDENTIAL TEXT DELETED – by-products generated by the production process, and what is done with them] is separately sold by Zhejiang Xinan.

¹⁵ Waste water from the crystallisation process is recycled for use in treatment pools. [CONFIDENTIAL TEXT DELETED – raw materials and steps in production process undertaken by Zhejiang Xinan] recycled into the first stage of production.

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Salt of glyphosate

Zhejiang Xinan blend either an IPA salt or, in the case of 30% glyphosate, liquid ammonia with glyphosate acid in an exothermic chemical reaction performed on site at Jiande Pesticide plant.

The salt is an identifier used by Zhejiang Xinan in the marketing of its products both domestically and for export.

Zhejiang Xinan submitted that the salt used in the process is relevant to the end user due to the relative effectiveness of IPA salt compared to ammonium-salt products. We understand that both ammonium and IPA based glyphosate will achieve the same end result in application, however IPA salt is significantly more active and achieves the desired result more rapidly than ammonium-salt based products.

Acid concentration

The concentration of acid present in the salt of glyphosate is manipulated and expressed as a percentage of the weight of the glyphosate salt on weight by weight basis.

The percentage of concentration, on a weight by weight basis, is the key identifier used by Zhejiang Xinan in the marketing of different glyphosate products both domestically and for export – for example, 41% and 51%.

*3.2.7 Surfactants and inert ingredients**a) General*

Zhejiang Xinan submitted that different glyphosate products produced during the POI are formulated using different surfactants.

In summary, different types, and relative volumes, of surfactant are required in the formulation of different products due to differing levels of acid concentration - a product with a higher acid concentration will require less volume of surfactants on a per unit basis compared to a formulation with a lower acid concentration.

b) Domestic and imported surfactant

We were advised that Zhejiang Xinan sources domestically produced and imported surfactants for the formulation of its products.

We understand that domestically produced surfactants **[CONFIDENTIAL TEXT DELETED – comparison of surfactants]** imported surfactants.¹⁶

¹⁶ This difference **[CONFIDENTIAL TEXT DELETED]** reflects a correlative difference in cost. This will be discussed in greater detail in the discussion regarding cost to make.

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Zhejiang Xinan typically uses [CONFIDENTIAL TEXT DELETED] surfactants for formulations of 'Wynca' consumer branded product [CONFIDENTIAL TEXT DELETED – comparison of surfactants]. As explained below, Wynca consumer branding is affixed to retail pack products sold domestically.

[CONFIDENTIAL TEXT DELETED] Zhejiang Xinan normally use [CONFIDENTIAL TEXT DELETED] surfactant for non-Wynca branded product (that is, industrial and exported product). Zhejiang Xinan advised that in some instances, [CONFIDENTIAL TEXT DELETED] surfactants are specifically requested by importers and domestic industrial product customers and are used in formulation on a per-order basis. [CONFIDENTIAL TEXT DELETED – market intelligence re customer requirements].

We confirmed with Zhejiang Xinan that the following surfactants are used in the formulation process of each product. We also clarified which surfactants were domestically produced and which were imported:

- 30% glyphosate;
 - [CONFIDENTIAL TEXT DELETED]
- 41% glyphosate;
 - [CONFIDENTIAL TEXT DELETED]
 - [CONFIDENTIAL TEXT DELETED]
 - [CONFIDENTIAL TEXT DELETED]
- 51% glyphosate;
 - [CONFIDENTIAL TEXT DELETED]¹⁷;
 - [CONFIDENTIAL TEXT DELETED]; and
 - [CONFIDENTIAL TEXT DELETED]¹⁸;
- 757 glyphosate;
 - [CONFIDENTIAL TEXT DELETED]
 - [CONFIDENTIAL TEXT DELETED]

3.2.8 *Process differences between granular and liquid glyphosate*

¹⁷ Zhejiang Xinan advised this surfactant was used in very small quantities at the specific request of [CONFIDENTIAL TEXT DELETED - market intelligence re customer requirements].

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Zhejiang Xinan submits that the processes for formulating liquid glyphosate products and granular glyphosate products are different.

Zhejiang Xinan advised that the production process of liquid formulations of glyphosate, 30% 41% and 51% are as summarised in 3.2.2 above.

757 glyphosate, however, is produced from ammonium glyphosate, a chemical compound which is produced by the synthesis of glyphosate acid with liquid ammonia and water which is then crystallized when the solution is processed through a centrifuge and methanol is extracted to produce ammonium glyphosate¹⁹.

757 glyphosate is formulated by the blending of ammonium glyphosate with water, and either ammonium chloride or ammonium sulphate, along with surfactants and dyes in a mixer, then granulated in a granulator machine before being dried and packed.

The differences in the formulation of 757 glyphosate require different facilities at the Jiande Pesticide Plant to be used. Specifically, as indicated above, production of 757 granular glyphosate involves a crystallizer, mixer, granulator and dryer, which are not used in the production of liquid forms of glyphosate.

Unlike liquid glyphosate, production of 757 glyphosate does not use filter pressing prior to packing. A copy of the standards in relation to the granular product is at **confidential attachment GEN 3**.

3.2.9 'Specialty' products

Zhejiang Xinan advised that they produced two unique variants of 757 glyphosate and 41% glyphosate during the POI, which differed in terms of the standardised method of production.

These two products are

a) 757 [CONFIDENTIAL TEXT DELETED]; and

b) 41% [CONFIDENTIAL TEXT DELETED]

757 [CONFIDENTIAL TEXT DELETED] is produced in the same manner as standard 757 glyphosate, except that [CONFIDENTIAL TEXT DELETED – Zhejiang Xinan production methods].

41% [CONFIDENTIAL TEXT DELETED] according to the specifications of a particular domestic customer. This product was produced in the same manner as standard 41% glyphosate, except [CONFIDENTIAL TEXT DELETED – details of raw materials used].

¹⁹ We note that this is not to be confused with the ammonium salt of glyphosate (as seen in the production of 30% glyphosate) but is a separate chemical under patent.

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Zhejiang Xinan provided separate costs for each of these products.

3.2.10 Production capacities and actual rates of production

We were informed that both Jiande factories operate on a **[CONFIDENTIAL TEXT DELETED – details for factory operation shifts and hours]**.

We observed that a substantial proportion of the production process of glyphosate acid is automated.

Production capacity of the glyphosate acid at Jiande no 2 is considered to be **[CONFIDENTIAL TEXT DELETED]** metric ton per year. Zhejiang Xinan advised that they achieved **[CONFIDENTIAL TEXT DELETED]**% of total capacity in 2011, producing a total volume of **[CONFIDENTIAL TEXT DELETED]** metric tonnes (MT) of glyphosate acid.

The total production capacity of liquid glyphosate from Jiande Pesticide is **[CONFIDENTIAL TEXT DELETED]** kilolitres. During the investigation period it produced **[CONFIDENTIAL TEXT DELETED]** kilolitres (**[CONFIDENTIAL TEXT DELETED]**% of capacity). The total production capacity of 'dry' 757 glyphosate granular at Jiande Pesticide is **[CONFIDENTIAL TEXT DELETED]** MT of which **[CONFIDENTIAL TEXT DELETED]**% was achieved in 2011, with a total output of **[CONFIDENTIAL TEXT DELETED]** MT.

For completeness, Zhejiang Xinan advised that **[CONFIDENTIAL TEXT DELETED]** produced a total of approximately **[CONFIDENTIAL TEXT DELETED]** MT of glyphosate acid during the POI, of which a very small proportion was supplied to Zhejiang Xinan in acid form and as formulated 41% glyphosate. We were advised that the significant majority of acid and formulated glyphosate 41% produced by **[CONFIDENTIAL TEXT DELETED]** during the POI was sold on the domestic market, via Zhejiang Xinan, pursuant to an agency arrangement negotiated between Zhejiang Xinan and **[CONFIDENTIAL TEXT DELETED]**.

Of the total volume of units of the GUC sold by Zhejiang Xinan during the investigation period (excluding agency sales), **[CONFIDENTIAL TEXT DELETED]** MT (**[CONFIDENTIAL TEXT DELETED]**%) were sold domestically, **[CONFIDENTIAL TEXT DELETED]** MT (**[CONFIDENTIAL TEXT DELETED]**%) were sold to Australia and **[CONFIDENTIAL TEXT DELETED]** MT (**[CONFIDENTIAL TEXT DELETED]**%) were sold to third country export markets.

3.3 Accounting

Zhejiang Xinan indicated that both Zhejiang Xinan and Wynca IE maintain their accounts and produce financial statements according to the Generally Accepted Accounting Principles (GAAP) of China. Both companies use the calendar year as their financial year.

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Zhejiang Xinan advised that it uses the UFIDA software accounting system. At the visit we confirmed this to be the case and were provided with a demonstration of the system in operation.

Under Chinese law, both companies are required to have their accounts audited. Zhejiang Xinan provided a consolidated audit report for both companies for the 2011 Chinese financial year.

We requested, and were provided with, a translation of the auditor's statement from the audit report provided by Fu Fangfang and Liang Zhiyong. This is included as **confidential attachment GEN 4**.

The auditor's opinion was expressed in the following terms:

In our opinion, the financial statements give a true and fair view of the financial position of the company as of December 31, 2011, and of its financial performance and its cash flows for the year then ended in accordance with the Accounting Standards for Business Enterprises.

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4 GOODS UNDER CONSIDERATION AND LIKE GOODS

4.1 The goods

4.1.1 General description

The goods the subject of the application (the goods) is formulated glyphosate. The application specifies that:

The imported product the subject of this application is formulated glyphosate, a non-selective herbicide, imported in varying strengths of the active glyphosate acid ingredient ("glyphosate technical"). A non selective herbicide is one that controls weeds in all situations.

Formulated glyphosate products are used for the non-selective control of weeds and are absorbed by the leaves and green tissue of susceptible plants. Translocated throughout the plant, formulated glyphosate based herbicides inhibit a specific enzyme, EPSP synthase, which plants need in order to grow. Without that enzyme, plants are unable to produce other proteins essential to growth, so they yellow and die over the course of several days or weeks.

4.1.2 Glyphosate formulations

The application states that in the Australian market the different formulations (of glyphosate) are described according to grams of glyphosate technical per litre or kilogram, whereas on the global market the formulations are commonly described by the percentage of glyphosate technical contained in the formulations on a weight for weight basis. The application contains the following indicative comparison of the glyphosate formulations described by grams per litre / kilogram or percentage basis of glyphosate technical.

Unit of product	Glyphosate technical (grams)	Percentage of glyphosate technical
Litre	360	41.6%
Litre	450	50.6%
Litre	570	61.5%
Kilogram	680	75.7%

The application specifies that:

This application is concerned with imported glyphosate in all its fully formulated liquid forms including glyphosate 360, glyphosate 450 and glyphosate 570 and the fully formulated dry form including glyphosate 680.

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The applicants claim that:

- the imported formulated glyphosate products (at varying strengths) have the same end use;
- all formulation strengths are substitutable;
- the imported dry formulation can be substituted for liquid forms; and
- all imported formulations are applied within the approved application rates indicated on the product label, expressed on a litre per hectare basis.

Therefore, at this stage of the investigation, Customs and Border Protection considers that the goods covered by this application, and thus any subsequent investigation, includes formulated glyphosate in any form (that is, not limited to liquid forms) and at any concentration (whether described according to weight of glyphosate technical by volume or percentage of glyphosate technical).

4.1.3 Exclusion of certain goods from investigation

The application specifies that it is important to distinguish between formulated glyphosate (the goods) and glyphosate acid, which is the primary ingredient in the manufacture of formulated glyphosate. Glyphosate acid is **not** the subject of the application.

4.2 Tariff classification

Formulated glyphosate is classified under the tariff subheading 3808.93.00 (statistical code 48) of Schedule 3 to the *Customs Tariff Act 1995*. The current rate of duty applying to formulated glyphosate imported to Australia from China is 5%.

There are currently no Tariff Concession Orders applicable to the relevant tariff subheadings.

4.3 Like Goods

4.3.1 General

During the investigation period Zhejiang Xinan sold three concentrations of formulated glyphosate on the domestic market (30% glyphosate, 41% glyphosate and 75%, known commercially as 757 glyphosate).

All three variants of formulated product were sold domestically in retail packs (referring to smaller sized, branded containers) and industrial packs (referring to large, unbranded containers).²⁰

²⁰ More detailed explanation of pack sizing is included in the discussion of domestic sales.

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Zhejiang Xinan exported [CONFIDENTIAL TEXT DELETED – details of types] glyphosate to the Australian market.

The products sold domestically and for export to Australia by Zhejiang Xinan are set out in the table below:

Exported product	Container sizes	Unit of packaging
[CONFIDENTIAL TEXT DELETED – details of exported glyphosate]		
Domestic products	Container sizes	Unit of packaging
30% glyphosate (retail)	200g bottles	50 bottles per carton
	230g bottles	50 bottles per carton
	250g bottles	50 bottles per carton
	500g bottles	20 bottles per carton
	1kg bottles	12 bottles per carton
	5kg drums	3 drums per carton
41% glyphosate (retail)	200 ml bottles	50 bottles per carton
	200g bottles	50 bottles per carton
	230g bottles	50 bottles per carton
	500g bottles	20 bottles per carton
	1 litre bottles	12 bottles per carton
	1 kg bottles	12 bottles per carton
	2.5kg bottles	4 bottles per carton
	5 kg bottles	3 bottles per carton

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	10kg drums	Individual drums
	20 litre drums	Individual drums
	25kg drums	Individual drums
757 glyphosate (retail)	50g sachets	100 sachets per carton
	500g bottles	20 bottles per carton
41% glyphosate (industrial)	200 litre drums	Individual drums
757 industrial	10kg bags	1 bag per carton/individual cartons
	15kg bags	1 bag per carton/individual cartons
	25kg bags	1 bag per carton/individual cartons

4.3.2 'Like goods'

We consider that formulated glyphosate products sold by Zhejiang Xinan on the domestic market of China are like goods to the goods under consideration exported to Australia by Zhejiang Xinan in the investigation period. Although there are some differences in packaging and a difference in acid concentration between the [CONFIDENTIAL TEXT DELETED]% domestic product and the [CONFIDENTIAL TEXT DELETED]% exported product, we consider that the domestic products have characteristics that closely resemble the goods under consideration. The domestically sold and exported goods are made in the same facilities using similar raw materials in similar processes. The goods have the same end use and are functionally and commercially alike.

Notwithstanding, Zhejiang Xinan's submission that granular 757 glyphosate is not like goods to liquid formulated glyphosate products (discussed further below), we have treated them as like goods for the purposes of the dumping determination.

4.3.3 Request for exclusion of granular product from scope of investigation

As a caveat to their view on like goods, Zhejiang Xinan submitted that they believe there are significant differences between formulated glyphosate liquid and formulated glyphosate in granular ('dry') form such that granular glyphosate should be excluded from the scope of the investigation. It claimed

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that the Australian industry producers manufacture only liquid formulated glyphosate products that are not like goods to glyphosate in the granular form.

In summary Zhejiang Xinan claim dry and liquid formulated glyphosate are substantially different in terms of:

- production process difference; and
- chemical composition difference

Prior to the visit Zhejiang Xinan made a separate submission on this issue. The differences between products identified by Zhejiang Xinan in their formal submissions, and reiterated at the visit, are summarised in our observations regarding production processes in section 3 above.

For the purposes of this report we have included sales of 757 glyphosate within the scope of analysis. The issue as to whether to include 757 within the scope of the investigation will be considered by the case management team.

4.3.4 Conclusion on like goods

We are satisfied that formulated glyphosate products sold on the domestic market by Zhejiang Xinan are like goods to the goods under consideration exported to Australia by Zhejiang Xinan over the investigation period.

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5 EXPORT SALES**5.1 General**

As discussed above at 2.1, we have characterised exports made by Zhejiang Xinan during the POI into two categories, as follows:

- direct exports: comprising all export sales executed directly between Zhejiang Xinan and Australian importers from January 2011 to August 2011; and
- indirect exports: comprising all export sales made between Zhejiang Xinan and Australian importers via Wynca IE, in its capacity as intermediary export agent from September 2011 to December 2011.

Zhejiang Xinan provided details of both direct and indirect exports to Australia in the period of investigation in the Australian Sales spreadsheet as part of its response to the exporter questionnaire.

5.1.1 Direct exports

During the period January 2011 to August 2011 Zhejiang Xinan exported **[CONFIDENTIAL TEXT DELETED – details of types]** glyphosate to **[CONFIDENTIAL TEXT DELETED]** separate companies registered in Australia:

- **[CONFIDENTIAL TEXT DELETED – names of Australian customers]**

We confirmed that Zhejiang Xinan exported a total of **[CONFIDENTIAL TEXT DELETED]** MT of **[CONFIDENTIAL TEXT DELETED]** glyphosate and a total volume of **[CONFIDENTIAL TEXT DELETED]** glyphosate directly to Australia from January to August 2011. All exports of **[CONFIDENTIAL TEXT DELETED]** were made to **[CONFIDENTIAL TEXT DELETED – names of Australian customers]** whilst **[CONFIDENTIAL TEXT DELETED]** was exported to **[CONFIDENTIAL TEXT DELETED – names of Australian customers]**.

All but one of the direct exports of **[CONFIDENTIAL TEXT DELETED]** glyphosate liquid was made in industrial bulk form comprising 1000 litre (L) Intermediate Bulk Containers (IBCs). The remaining **[CONFIDENTIAL TEXT DELETED]** glyphosate liquid was exported in **[CONFIDENTIAL TEXT DELETED]** packs.

5.1.2 Indirect exports

During the period September to December 2011, Zhejiang Xinan indirectly exported **[CONFIDENTIAL TEXT DELETED – details of types]** glyphosate

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via Wynca IE. All exports were made to [CONFIDENTIAL TEXT DELETED] separate companies registered in Australia:

- [CONFIDENTIAL TEXT DELETED – names of Australian customers]

We confirmed that Zhejiang Xinan indirectly exported [CONFIDENTIAL TEXT DELETED] MT of [CONFIDENTIAL TEXT DELETED] glyphosate in [CONFIDENTIAL TEXT DELETED] transaction to [CONFIDENTIAL TEXT DELETED]. This was exported in 1000L IBCs. In relation to [CONFIDENTIAL TEXT DELETED] glyphosate, we confirmed a total of [CONFIDENTIAL TEXT DELETED] MT of [CONFIDENTIAL TEXT DELETED] glyphosate across three transactions to [CONFIDENTIAL TEXT DELETED] in 1000L IBCs. Zhejiang Xinan also indirectly exported [CONFIDENTIAL TEXT DELETED] MT of [CONFIDENTIAL TEXT DELETED] glyphosate during the POI to [CONFIDENTIAL TEXT DELETED] Australian importers. This was exported in both [CONFIDENTIAL TEXT DELETED] bags.

5.1.3 Overview of Australian export market

Zhejiang Xinan indicated that all of its Australian customers [CONFIDENTIAL TEXT DELETED – customer details] source formulated glyphosate from them in industrial bulk form (the one exception was a sample retail shipment of glyphosate packed in [CONFIDENTIAL TEXT DELETED]).

Once the goods are exported to Australia, the importers [CONFIDENTIAL TEXT DELETED]. Distributors may then either label the goods and distribute directly to retailers or end-users in the industrial market, or can repackage into smaller volume bottles and sell the goods to retailers for purchase by end-users.

Zhejiang Xinan submitted that this description of the Australian export market illustrates the difference in the target market channel of goods sold in bulk industrial form compared to retail pack goods sold domestically in China, which are the equivalent of sales occurring at the re-packing level of the sales chain of products exported to Australia.

Zhejiang Xinan does not operate any agency or distributorship arrangements with any customers or other entities in the Australian domestic market.

5.2 Export sales process

5.2.1 Direct and indirect

Zhejiang Xinan advised that its export sales process for all direct and indirect exports during the POI was as follows:

- all orders were placed with Zhejiang Xinan/Wynca IE by importers in Australia on an on-the-spot basis;

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- price is negotiated on a per order basis between Zhejiang Xinan/Wynca IE and the particular importer, taking into account the volume of the order, the market price of the specific formulations ordered and considerations of profitability;
- once price has been negotiated a sales agreement is executed between Zhejiang Xinan/Wynca IE and the customer crystallising, inter alia, volume, price and terms of sale as negotiated;
- products are manufactured to order, which takes approximately [CONFIDENTIAL TEXT DELETED] for the liquid products, or between [CONFIDENTIAL TEXT DELETED] for the granular product, or sold from existing inventory depending on the formulation ordered and the volumes required;
- Zhejiang Xinan/Wynca IE then arranges transportation of the GUC from the warehouse to the port of export using trucks supplied by either [CONFIDENTIAL TEXT DELETED], a wholly owned subsidiary of Zhejiang Xinan or an unrelated logistics company;
- once delivered to the port of export, the goods are packed in 40 foot FCL containers;
- goods are sold subject to negotiation on FOB, CIF or CFR terms;
- ownership of the product passes from Zhejiang Xinan/Wynca IE to the Australian customer from the date of release of the Bill Of Lading;
- Zhejiang Xinan/Wynca IE invoiced importers specifying payment in the agreed terms.

Zhejiang Xinan indicated it takes approximately [CONFIDENTIAL TEXT DELETED] days from the date of the executed sales agreement to manufacture the goods and make them ready for shipping from the Shanghai port in China.

5.3 Pricing

Zhejiang Xinan advised that price is negotiated taking into account a number of variables including the market price of the ordered formulation and profitability.

Zhejiang Xinan advised that market prices for formulated glyphosate are closely related to the market price of glyphosate acid. Both market prices are extremely volatile and subject to regular and unpredictable fluctuations caused by an excess of supply in the Australian market (and globally) and inconsistent trends in demand from the agricultural industry.

5.3.1 Discounts, rebates and allowances

Zhejiang Xinan stated in its response that [CONFIDENTIAL TEXT DELETED – details of terms negotiated with Australian customers] that the price on the invoice is the price paid.

We found no evidence to indicate that this was not the case.

NON-CONFIDENTIAL VERSION**5.4 Export sales verification - reconciliation to financial statements and source documents****5.4.1 Selected transactions**

Prior to the visit, we selected eight invoices, four of each from direct and indirect exports, from the Australian Sales spreadsheet. We requested supporting commercial documents in relation to the following selected invoices for direct exports of Zhejiang Xinan:

Export Invoice #	Product	Invoice date
1. 00000271-2011	[CONFIDENTIAL TEXT DELETED]	23/03/2011
2. 00000274-2011		30/03/2011
3. 00000446-2011		15/04/2011
4. 00000431-2011		08/08/2011

We also requested supporting commercial documentation in relation to the following selected invoices for indirect exports via Wynca IE:

Export Invoice #	Product	Invoice date
1. 00002213-2011	[CONFIDENTIAL TEXT DELETED]	20/10/2011
2. INV2691-2011		21/12/2011
3. INV201110021		17/11/2011
4. INV2660-2011		12/12/2011

We requested that Zhejiang Xinan provide the following commercial documents related to all selected transactions:

- commercial invoice from Zhejiang Xinan to the importer;
- documentation relating to inland transport (logistics) to wharf;
- handling and other FOB-related charges;
- bill of lading; and
- proof of payment.

These documents were provided and are at **confidential attachment EXP 1**.

5.4.2 Further invoices requested

We observed an irregularly high unit price in relation to **[CONFIDENTIAL TEXT DELETED]** exports of **[CONFIDENTIAL TEXT DELETED]** glyphosate

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to [CONFIDENTIAL TEXT DELETED]. During the verification visit, we requested invoices in relation to these transactions:

Export Invoice #	Product	Invoice date
1. 00000433-2011	[CONFIDENTIAL TEXT DELETED]	08/08/2011
2. 00000431-2011		08/08/2011
3. 00000430-2011		08/08/2011
4. 00000432-2011		11/08/2011

These invoices are at **confidential attachment EXP 2**.

These invoices confirmed that these exportations were of [CONFIDENTIAL TEXT DELETED]. Zhejiang Xinan advised that these exportations were sample retail pack requested by [CONFIDENTIAL TEXT DELETED – customer details] to supply a client within Australia wanting to sell a small bottled granular glyphosate to domestic and small end-users. These products were labelled by [CONFIDENTIAL TEXT DELETED] with a design supplied by [CONFIDENTIAL TEXT DELETED] prior to exportation. The product name was [CONFIDENTIAL TEXT DELETED] and it was intended to be sold through [CONFIDENTIAL TEXT DELETED]. Zhejiang Xinan confirmed that it had been advised [CONFIDENTIAL TEXT DELETED – details of sales and marketing of a particular product]. The information in relation to this retail product is at **confidential attachment EXP 3**.

The Australian Sales spreadsheet was updated by the verification visit team to reflect that these exportations were of a retail product rather than an industrial product as originally specified.

5.4.3 Verification (completeness and accuracy)

To check the completeness and relevance of both direct and indirect export sales to Australia, we verified the information contained in the exporter spreadsheets upwards through management reports to audited financial statements for both Zhejiang Xinan and Wynca IE.

The audited accounts in relation to Zhejiang Xinan are at **confidential attachment EXP 4**. The sales from Zhejiang Xinan to Wynca IE are at **confidential attachment EXP 5**.

We examined Zhejiang Xinan's sales ledgers through a link to its accounting system and were satisfied that the company could not provide a line by line download of exports to Australia during the investigation period as its accounting system did not differentiate between countries of destination. Given that some of the Australian importers also had operations in other

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countries, it was also not possible to simply obtain a listing of sales to the Australian customers to reconcile with the Australian sales listing. This was also the same for Wynca IE.

To test the completeness of the Australian sales listing we selected a sample of customers and products and sought to reconcile information from Zhejiang Xinan's sales ledgers to the Australian sales spreadsheet. We first selected sales of **[CONFIDENTIAL TEXT DELETED]** glyphosate to the major Australian customer, **[CONFIDENTIAL TEXT DELETED]**, of 1000L IBCs. Zhejiang Xinan provided the ledgers from its accounts showing sales to **[CONFIDENTIAL TEXT DELETED]** of 1000 L and 20 L product in 2011. This identified, inter alia, product name, packing type, invoice number and invoice date, invoice quantity (in MT) and invoice value. This document indicated that one exportation to **[CONFIDENTIAL TEXT DELETED]** during the POI had been incorrectly categorised as relating to a shipment of 1000L drums, when it was an export of **[CONFIDENTIAL TEXT DELETED]** drums. We subsequently requested details of all **[CONFIDENTIAL TEXT DELETED]** sales, which were verified to be correctly reflected in the Australian Sales sheet. Other than this discrepancy we were able to match the sales information in Zhejiang Xinan accounts to the Australian sales spreadsheet.

Details of Zhejiang Xinan's 1000L IBC and **[CONFIDENTIAL TEXT DELETED]** sales of **[CONFIDENTIAL TEXT DELETED]** glyphosate to **[CONFIDENTIAL TEXT DELETED]** are at **confidential attachment EXP 6**.

Further, we requested a detailed breakdown of sales to **[CONFIDENTIAL TEXT DELETED]**. We verified that the information contained here was accurately reflected in the Australian Sales spreadsheet. **[CONFIDENTIAL TEXT DELETED]** sales information is at **confidential attachment EXP 7**.

We verified total domestic and export sales for the goods under consideration against the turnover spreadsheet and financial statements of Zhejiang Xinan and Wynca IE. We also verified the total quantity and value of sales between the export sales spreadsheets of Zhejiang Xinan and Wynca IE to each company's turnover and financial statement.

Given that both **[CONFIDENTIAL TEXT DELETED]** sales to **[CONFIDENTIAL TEXT DELETED]** and sales to **[CONFIDENTIAL TEXT DELETED]** were consistent with the Australian Sales spreadsheet, we are satisfied that the inconsistency in relation to 1000L sales to **[CONFIDENTIAL TEXT DELETED]** was a mere clerical error. Given this, we are satisfied that the export sales spreadsheet supplied by Zhejiang Xinan is a complete listing of exports of the GUC to Australia during the investigation period and that no irrelevant sales are included in the spreadsheets.

In relation to the selected transactions identified above at 5.1.2, we were able to trace the sales volume and values using the commercial invoices and packing lists provided during the verification visit to the export sales spreadsheets. There were no discrepancies identified in relation to sales

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volume or value in the documents provided with respect to the sampled shipments of direct exports. In relation to indirect exports of Wynca IE, the incorrect conversion rate of [CONFIDENTIAL TEXT DELETED] was used to determine quantity and unit price of [CONFIDENTIAL TEXT DELETED] glyphosate exported to [CONFIDENTIAL TEXT DELETED]. This value was changed to use the correct conversion rate of [CONFIDENTIAL TEXT DELETED] so that the quantity of the shipment was amended to [CONFIDENTIAL TEXT DELETED]. This subsequently impacted the unit selling price.

An amended version of the Australian Sales spreadsheet reflecting this change is at **confidential attachment EXP 8**.

5.4.4 Payment terms

Zhejiang Xinan advised that all direct exports sales between Zhejiang Xinan and Australian customers were invoiced in USD using the exchange rate of CNY to USD published on the day on which the invoice was prepared. Payment was made in USD using the exchange rate of AUD to USD applicable on the date of invoice.

The payment terms offered by Zhejiang Xinan varied during the period of direct export sales as follows:

[CONFIDENTIAL TEXT DELETED – details of payment terms]

All indirect export sales made by Zhejiang Xinan via Wynca IE were invoiced by Wynca IE to Australian customers in USD. Payment was made in USD by Australian customers using the exchange rate applicable on the date payment was made.

The payment terms applicable to indirect exports varied similarly to direct export sales and were:

[CONFIDENTIAL TEXT DELETED – details of payment terms]

During the verification visit Zhejiang Xinan was able to provide sufficient supporting documentation of proof-of-payment in relation to all selected shipments using bank vouchers and transfer confirmations. In relation to two of the selected shipments, we were required to request two further invoices to confirm that the payment related to two separate exports that were jointly paid by the importer. These invoices have been attached to the commercial documentation at **confidential attachment EXP 1**.

We are satisfied that the invoice price shown in the Australian Sales spreadsheet was the price paid by the relevant Australian customer.

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The export sales spreadsheet provided by Zhejiang Xinan reflects that all export sales to Australia during the POI were made on CIF, CNF or FOB terms.

As such, no costs for ocean freight and marine insurance were included in the sales price invoiced to the Australian customer by Zhejiang Xinan/Wynca IE for FOB shipments, but was reflected in the invoice price of sales with CIF or CNF terms. We confirmed for the selected transactions that were in CIF or CNF terms that the ocean freight price reflected in the Australian Sales spreadsheet was an accurate reflection of the cost of ocean freight.

From the evidence of payment we also confirmed that the agreed terms of shipment were reflected in commercial invoices and, in turn, was the price paid.

5.4.6 Inland freight and export charges

We sought to confirm the inland and port and terminal handling charges. Zhejiang Xinan advised that it utilises both a wholly owned subsidiary of Zhejiang Xinan, [CONFIDENTIAL TEXT DELETED] and unrelated logistics companies to transport the goods from the Pesticide Factory in Jiande to the port at Shanghai.

Freight and handling costs were calculated together for each invoice and were reflected in the export sales spreadsheet as 'handling and other'.

We raised that in relation to the four transactions outlined at 5.1.2 above, no 'handling and other' expenses were recorded in the Australian Sales spreadsheet. Zhejiang Xinan confirmed the 'handling and other' costs for these transactions. Invoices confirming these amounts are at **confidential attachment EXP 9**.

Zhejiang Xinan also noted during verification that handling costs in relation to invoice number 00001153-2011 were incorrectly noted in the Australian Sales spreadsheet. An invoice confirming the correct amount was provided and is included at **confidential attachment EXP 9**.

The Australian Sales spreadsheet was updated to reflect the above changes.

5.4.7 Packing

Zhejiang Xinan advised that goods are packed at the Jiande factory using plastic packaging containers and cartons produced by [CONFIDENTIAL TEXT DELETED], a wholly owned subsidiary of Zhejiang Xinan.

Packing costs were totalled for each product over the POI and a weighted average cost per unit (MT) was calculated and then apportioned to each