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Australian Government
**Department of Industry,
Innovation and Science**

**Anti-Dumping
Commission**

INVESTIGATION 384

**ALLEGED DUMPING OF ALLOY ROUND STEEL BAR
EXPORTED FROM
THE PEOPLE'S REPUBLIC OF CHINA**

VISIT REPORT - EXPORTER

SUZHOU SUXIN SPECIAL STEEL CO., LTD.

MAY 2017

**THIS REPORT AND THE VIEWS OR RECOMMENDATIONS CONTAINED THEREIN
WILL BE REVIEWED BY THE CASE MANAGEMENT TEAM AND MAY NOT REFLECT
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Contents

Contents	2
1 Background	3
2 The goods and like goods	4
2.1 The goods exported to Australia.....	4
2.2 Like goods sold on the domestic market.....	4
2.3 Model matching.....	4
2.4 Like goods – preliminary assessment.....	4
3 Verification of export sales to Australia	5
3.1 Verification of Australian sales to audited financial statements.....	5
3.2 Verification of Australian sales to source documents	5
3.3 The exporter	5
3.4 The importer	5
3.5 Related customers	5
3.6 Arms length.....	6
3.7 Export price – preliminary assessment	6
4 Cost to make and sell	7
4.1 Verification of costs to audited financial statements	7
4.2 Verification of costs to source documents.....	7
4.3 Related suppliers	8
4.4 Raw Materials	8
4.5 Cost to make and sell – summary.....	9
5 Verification of domestic sales	10
5.1 Verification of domestic sales to audited financial statements	10
5.2 Verification of domestic sales to source documents.....	10
5.3 Prime and non-prime products	10
5.4 Related customers	10
5.5 Arms length.....	11
5.6 Ordinary course of trade.....	11
5.7 Suitability of domestic sales	11
5.8 Domestic sales – summary	12
6 Adjustments	13
6.1 Inland transport.....	13
6.2 Handling and other.....	13
6.3 Export credit.....	13
6.4 Value Added Tax	13
6.5 Adjustments – conclusion.....	13
7 Normal value	15
8 Dumping margin	16
9 Appendices and Attachments	17

1 Background

On 10 January 2017, the Commissioner of the Anti-Dumping Commission (the Commissioner) initiated an investigation in respect of the alleged dumping of alloy steel round bar (round bar) exported from the People's Republic of China (China).

Anti-Dumping Notice (ADN) No. 2017/02 provides further information on the investigation and the background to the investigation is contained in *Anti-Dumping Commission Consideration Report No. 384* (CON 384). Both documents are available on the Anti-Dumping Commission's (the Commission's) electronic public record (EPR) at www.adcommission.gov.au.

Following initiation of this investigation, the Commission wrote to Suzhou Suxin Special Steel Co., Ltd (Suxin) inviting it to cooperate with the investigation regarding its exports of round bar to Australia. Suxin provided a complete exporter questionnaire response (REQ) including all relevant attachments for the investigation period (1 October 2015 to 30 September 2016).

2 The goods and like goods

2.1 The goods exported to Australia

During the investigation period, Suxin exported 10 different models of round bar which met the goods description to Australia. All goods were sold to the Australian grinding media industry.

All round bar produced by Suxin for its Australian customers was made to order, and therefore no stock was warehoused on site.

2.2 Like goods sold on the domestic market

During the investigation period Suxin sold round bar to domestic customers in varying diameters, grades and alloy content for a variety of end uses.

Suxin indicated that the goods for domestic sale were produced both to order and for a small quantity of sales, from warehouse inventory. As with its Australian customer, Suxin's domestic customers customised round bar with specifications dependent on end use and market segment.

The verification team verified that the goods manufactured by Suxin for domestic consumption are identical to, or have characteristics closely resembling, the goods that Suxin exported to Australia;

- possessing similar physical characteristics;
- are commercially like;
- are functionally like; and
- are produced at the same facility with the same raw material inputs and manufacturing processes.

2.3 Model matching

The verification team verified that Suxin's exports to Australia of round bar are of similar grades of steel and diameters in its domestic market. .

However, the verification team noted that not all models exported to Australia were sold domestically, and that there are a significant number of models sold domestically that are for different market segments and are not exported to Australia.

It is noted that OneSteel Manufacturing Pty. Ltd. (Subject to Deed of Company Arrangement) (OneSteel) has made claims that a particular market situation exists in the Chinese domestic round bar market that renders domestic sales unsuitable for determining normal value under subsection 269TAC(1) of the *Customs Act 1901* (the Act).

Therefore, without pre-empting the Commissioner's decision on the existence of a market situation, the verification team has determined normal values under 269TAC(2)(c), which does not require matching domestic models to export models of round bar.

2.4 Like goods – preliminary assessment

The verification team is satisfied that round bar produced and sold domestically by Suxin can be regarded as like goods in accordance with subsection 269T(1) of the Act.

3 Verification of export sales to Australia

3.1 Verification of Australian sales to audited financial statements

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

The verification team did not identify any significant issues during the verification process.

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

3.2 Verification of Australian sales to source documents

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

3.2.1 Sales listing

Suxin provided a revised Australian sales listing prior to the verification visit. The verification team identified that this revised sales list contained the following errors:

- two individual diameter round bars on the one invoice were combined and listed as a single diameter round bar in the sales list; and
- the total quantity and value of round bar exported to Australia was incorrectly calculated.

Both errors were rectified by Suxin and a revised export sales list was provided at the visit. Both errors are considered to be immaterial.

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

3.3 The exporter

For all Australian export sales during the investigation period, the verification team considers Suxin to be the exporter of the goods.¹

3.4 The importer

The verification team considers that, in relation to the goods² exported by Suxin, the customers listed in the Australian sales list were the beneficial owners of the goods at the time of importation and therefore were the importers of the goods.

3.5 Related customers

The verification team verified that Suxin was not related to its Australian customers.

¹ The Commission generally identifies the exporter as a principal in the transaction, located in the country of export from where the goods were shipped, that gave up responsibility by knowingly placing the goods in the hands of a carrier, courier, forwarding company, or its own vehicle for delivery to Australia; or a principal in the transaction, located in the country of export, that owns, or previously owned, the goods but need not be the owner at the time the goods were shipped.

² Section 2.1

3.6 Arm's length

During the investigation period, the verification team found no evidence that:

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

The verification team therefore considers that all sales of round bar exported to Australia by Suxin during the investigation period were arm's length³ transactions.

3.7 Export price – preliminary assessment

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

Export prices were calculated at FOB terms.

The verification team's preliminary export price calculations are at **Confidential Appendix 1**.

³ Section 269TAA of the Act outlines the circumstances in which the price paid or payable shall not be treated as being at arms-length. These are where: there is any consideration payable for or in respect of the goods other than price; the price is influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or, the buyer, or an associate of the buyer, will, directly or indirectly, be reimbursed, be compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.

4 Cost to make and sell

4.1 Verification of costs to audited financial statements

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

The verification team was able to reconcile the CTMS data to audited financial statements.

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

4.2 Verification of costs to source documents

The verification team verified the accuracy of Suxin's costs in the audited financial statements by reconciling them to source documents in accordance with ADN No. 2016/30.

The verification team identified issues relating to the selling, general and administration expenses (SG&A), electricity and production capacity. No further issues were identified.

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

4.2.1 Selling, general and administration expenses (SG&A)

Suxin provided a revised SG&A spreadsheet as the original SG&A calculation double-counted research and development (R&D) costs. This revision was verified to source documents. The verification team also identified:

- transportation and handling costs were included as selling expenses by Suxin. The verification team removed these cost items from the selling expenses;
- the verification team also amended the cost of goods sold calculation by Suxin for allocating SG&A to the verified value;
- 2016 R&D and business entertainment expenses were not allocated in Suxin's calculation of administration expenses. The verification team allocated these expenses by allocating a percentage of the 2016 R&D expenses for the first nine months by using the R&D allocation data provided by Suxin for 2015.
- the verification team was not satisfied with the allocation methodology used by Suxin to allocate SG&A to domestic production of round bar. The verification team has used verified cost and sales data to calculate an SG&A cost per metric tonne (MT) produced for domestic consumption;

4.2.2 Electricity

The verification team identified an incorrect value for kWh per unit usage for three months of the CTM data. This was attributed to a simple calculation error and was corrected by the verification team. However, the unit value did not have an effect on the CTM calculations as the total value for the month was correct and verified.

4.2.3 Production capacity

The verification team identified that Suxin's production capacity data appeared to demonstrate a very low capacity. Suxin agreed there was a miscalculation and updated the table to show production of all products produced and sold (not just round bar).

4.3 Related suppliers

The verification team identified multiple related party suppliers which were not specifically identified as suppliers in Suxin's REQ nor the exact nature of the relationship;

- Related party gas supplier - Suxin did not identify a related party supplier of gas inputs into the manufacture of the goods;
- Related party supplier of transport and handling – Suxin did not identify a related party supplier of transport and handling services; and
- Related party raw material supplier - Suxin did not identify a related party supplier of raw materials (other than scrap steel).

Suxin provided annual contracts between its related supplier of transport and handling services and Suxin and supporting invoices to show that these transactions are arm's-length. The verification team was satisfied that these transactions are arm's length.

Suxin advised that its related party supplier of gas invoiced Suxin at a transferred price. The verification team is not satisfied that these transactions are arm's length.

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

4.4 Raw Materials

4.4.1 Raw materials list

The verification team identified that purchases of scrap steel and billet were not listed on the REQ raw materials list. The list was updated twice by Suxin. The verification team was satisfied with the completeness and accuracy of the final list provided.

4.4.2 Original purchases by related party supplier of raw materials

Suxin claimed that its related party supplier of raw materials charged it the original invoice price for raw materials plus a fee for procuring raw materials on behalf of Suxin. The verification team was unable to verify whether the raw material purchases between the related party raw material supplier and Suxin were at arm's length as Suxin was unable to provide the original commercial invoice between the related party raw material supplier and the original supplier.

Without pre-empting the Commissioner's decision on the existence of a market situation, the verification considers that if a billet benchmark is utilised, this exception will be immaterial to the CTM calculation.

4.4.3 Original purchases by Suxin's related party gas supplier

The verification team was not satisfied that the gas purchases between Suxin and its related party gas supplier were at arm's length due to the cost of these inputs being internally transferred between the related parties.

Without pre-empting the Commissioner's decision on the existence of a market situation, the verification considers that if a billet benchmark is utilised, this exception will be immaterial to the CTM calculation.

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

4.5 Cost to make and sell – summary

Having verified Suxin's cost to make and sell (CTMS) data for round bar to audited financial accounts and source documents, the verification team is satisfied that the revised CTM spreadsheets are complete, relevant and accurate.

The verification team's analysis and calculation of Suxin's CTMS is at **Confidential Appendix 2**.

5 Verification of domestic sales

5.1 Verification of domestic sales to audited financial statements

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

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

5.2 Verification of domestic sales to source documents

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

5.2.1 Incorrect data entry

The verification team identified the following errors in the domestic sales list:

- three line items in the domestic sales list contained multiple diameters and quantities of round bar. The sales list was revised by Suxin;
- a customer was listed as being a related party, however the verification team confirmed with Suxin that this customer was a preferential customer and had no legal relationship with Suxin; and
- Suxin also alerted the verification team to a model that was incorrectly classified. This classification was amended manually by the verification team.

The verification team considers that these exceptions are immaterial and no other issues were identified.

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

5.3 Prime and non-prime products

The verification team noted a small quantity of non-prime products sold on the domestic market. It was identified that there was a substantial difference in price between prime and non-prime products. Non-prime products are classified as products with a defect or not meeting customers' technical standard. Non-prime products are offered to customers at a discounted rate.

Further, Suxin explained that non-prime products are not offered for export sales. The verification team therefore removed the small quantity of non-prime products from the domestic sales list.

5.4 Related customers

The verification team identified one related party as a domestic customer of round bar. Suxin explained that the sales related to inventory stock that can't be sold by Suxin. The stock is sold to its related party to utilise its distribution networks to offload the stock. The verification team verified that sales of this type constituted a small proportion of total domestic sales during the investigation period.

PUBLIC RECORD

The verification team considers that these sales were sold more cheaply to the related party customer than to unrelated customers. Accordingly, these sales were excluded from the domestic sales analysis.

5.5 Arm's length

In respect of Suxin's sales of round bar to unrelated customers during the investigation period, the verification team found no evidence that:

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

The verification team therefore considers that all domestic sales by Suxin to unrelated customers during the investigation period were arm's length transactions.

In respect of Suxin's sales of round bar to related customers during the investigation period, the verification team found that

- the price was influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller.

The verification team therefore considers that all domestic sales by Suxin to related customers during the investigation period were not arm's length transactions.

5.6 Ordinary course of trade

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

The verification team compared the revenue (i.e. net sales value) for each arm's length domestic sale of round bar to the corresponding quarterly domestic CTMS to test whether those sales were profitable.

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

5.7 Suitability of domestic sales and profit

Subsection 269TAC(2)(a)(i) provides that the normal value of goods exported to Australia cannot be ascertained under subsection 269TAC(1) where there is an absence, or low volume, of sales of like goods in the market of the country of export.

Low volume is defined by subsection 269TAC(14) as less than 5% of the total volume of the goods under consideration that are exported to Australia.

However, as discussed in section 2.3, OneSteel has made claims that a particular market situation exists in the Chinese domestic round bar market that renders domestic sales unsuitable for determining normal value under subsection 269TAC(1) of the Act.

PUBLIC RECORD

Therefore, without pre-empting the Commissioner's decision on market situation, the verification team has determined normal values under 269TAC(2)(c) using the CTM of the exported goods, plus SG&A applicable to the goods sold domestically and an additional amount of profit, calculated from domestic goods sold in the OCOT.

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

5.8 Domestic sales – summary

The verification team is satisfied that the domestic sales list provided by Suxin is complete, relevant and accurate.

Calculation of domestic sales in the OCOT and domestic sales profit are at **Confidential Appendix 3**.

6 Adjustments

To ensure the normal value is comparable to the export price of the goods exported to Australia, the following adjustments were made to the normal value⁴.

6.1 Inland transport

The verification team considers an upward adjustment for export inland transport is required to ensure a fair comparison to the export price. The verification team applied an upwards adjustment based on the verified weighted quarterly average of inland transport expenses by model for exports to Australia during the investigation period.

The verification team did not consider a downwards adjustment for domestic inland freight and insurance as a constructed normal value was calculated at Ex Works (EXW).

6.2 Handling and other

The verification team considers an upward adjustment for export handling and other is required to ensure a fair comparison to the export price. The verification team applied an upwards adjustment based on verified weighted quarterly average for handling and other expenses by model for export sales to Australia during the investigation period.

The verification team did not consider a downwards adjustment for domestic packing as a constructed normal value was calculated at EXW.

6.3 Export credit

The verification team considers an upward adjustment for export credit is required to ensure a fair comparison to the export price. The verification team applied an upwards adjustment based on the verified average number of days between invoice date and payment date and applied the foreign currency account interest rate charged to Suxin for exports to Australia during the investigation period.

The verification team did not consider a downwards adjustment for domestic credit as domestic sales were all made at cash equivalent terms.

6.4 Value Added Tax

An upwards adjustment for Value Added Tax (VAT) of 4 per cent, to reflect the residual VAT liability (non-refundable) for the exported goods was applied.

6.5 Adjustments – conclusion

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

⁴ In accordance with subsection TAC(9)

PUBLIC RECORD

Adjustment Type	Deduction/addition
Export inland transport	Add an amount for export inland transport
Export handling and other	Add an amount for export handling and other.
Export credit	Add an amount for export credit.
Value Added Tax	Add an amount for non-refundable VAT.

7 Normal value

As stated in section 2.3, OneSteel has claimed that a particular market situation exists. Without pre-empting the Commissioner's decision on market situation, the normal value for Suxin has been constructed under subsection 269TAC(2)(c) using Suxin's actual cost to make round bar exported to Australia, plus an amount for SG&A on the assumption that the goods, instead of being exported were sold domestically. An upwards adjustment for profit based on domestic sales of like goods sold in OCOT has been applied.

The verification team discussed the market situation claim with Suxin and advised that the normal value for the purposes of the verification could be determined under subsection 269TAC(2)(c). Suxin did not raise any objection to calculating normal value using this approach.

The verification team recommends that it may be appropriate to apply an uplift to the raw material costs due to the existence of a market situation. The case team will be responsible for making the final determination in relation to this.

To ensure the comparability of normal values and export prices the following adjustments to normal value were made under subsection 269TAC(9) of the Act (Chapter 6 refers):

- an upwards adjustment for inland freight and export handling charges;
- an upwards adjustment for export credit; and
- an upwards adjustment for Value Added Tax (VAT), to reflect net VAT liability for the exported goods.

The normal values were calculated at FOB terms.

Normal value calculations are at **Confidential Appendix 4**.

8 Dumping margin

The preliminary dumping margin has been determined by comparing weighted average Australian export prices to the corresponding quarterly weighted average normal value for the investigation period.

The preliminary dumping margin in respect of round bar exported to Australia by Suxin for the investigation period is **31.5%**.

Details of the preliminary dumping margin calculation are at **Confidential Appendix 5**.

9 Appendices and Attachments

Confidential Appendix 1	Export price calculation under subsection 269 TAB(1)(a)
Confidential Appendix 2	CTMS calculation
Confidential Appendix 3	Domestic sales and calculation of sales in OCOT and domestic profit
Confidential Appendix 4	Normal Value calculation under subsection 269TAC(2)(c)
Confidential Appendix 5	Dumping Margin
Confidential Attachment 1	Verification work program, with attachments