



Investigation 466

**DUMPING IN RELATION TO CERTAIN
RAILWAY WHEELS EXPORTED FROM THE
PEOPLE'S REPUBLIC OF CHINA AND FRANCE
AND
COUNTERVAILING IN RELATION TO
CERTAIN RAILWAY WHEELS EXPORTED FROM
THE PEOPLE'S REPUBLIC OF CHINA**

VISIT REPORT - EXPORTER

MAANSHAN IRON AND STEEL CO LTD

THIS REPORT AND THE VIEWS OR RECOMMENDATIONS CONTAINED THEREIN
WILL BE REVIEWED BY THE CASE MANAGEMENT TEAM AND MAY NOT REFLECT
THE FINAL POSITION OF THE ANTI-DUMPING COMMISSION

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1. BACKGROUND

On 12 April 2018, the Commissioner of the Anti-Dumping Commission gave public notice of his decision to initiate a review of Anti-Dumping measures in respect of certain railway wheels (the goods) exported to Australia from the People's Republic of China (China) and France. The background to initiation of this matter is contained in Anti-Dumping Notice (ADN) No. 2018/59.

Following initiation of these matters, a search of the Australian Border Force import database indicated that Maanshan Iron and Steel Co Ltd (Masteel) exported railway wheels to Australia from China during the period 1 January 2017 to 31 December 2017 (the inquiry period).

The Anti-Dumping Commission (the Commission) sought Masteel's cooperation through the completion of an Exporter Questionnaire regarding the goods. Masteel provided a complete exporter questionnaire response and relevant attachments for the inquiry period.

2. THE GOODS AND LIKE GOODS

2.1 The goods exported to Australia

Masteel exported the goods to Australia during the inquiry period.

2.2 The goods exported to third countries

During the inquiry period, Masteel sold like goods to domestic customers in China, who later exported the goods to countries other than Australia. These goods are not considered to be goods manufactured for domestic consumption.

The verification team considers that these goods sold in the domestic market and later exported to countries other than Australia, are identical to, or have characteristics closely resembling, the goods exported to Australia, as they:

- are not distinguished from the exported goods during production (the exported goods and goods sold on the domestic market are produced in the same way, subject to individual customer specifications, and the costs of production are the same);
- are produced at the same facilities, using the same raw material inputs and manufacturing processes; and
- can be considered functionally and commercially alike, as they have similar end uses.

2.3 Like goods sold in the domestic market

During the inquiry period, Masteel did not sell like goods for domestic consumption to domestic customers in China. The goods sold to domestic customers differed from the like goods as they did not share all of the following characteristics:

- 38 inch or 966 mm to 970 mm diameter and of similar overall dimensional tolerances and shape;
- manufactured from a high carbon steel with the addition of micro alloying elements to achieve hardness and mechanical properties as defined in the user specifications;
- manufactured using a forging and rolling process in accordance with defined standards;
- suitable to operate at axle loads above 36 metric tonnes; and
- a multi-wear rim.

2.4 Model matching

The verification team is satisfied that due to the absence of like goods sold domestically during the investigation period, model matching has been conducted on goods exported to Australia.

Given the goods exported to Australia are manufactured specific to each end user's characteristic requirements, model matching has been carried out on the basis of the end user.

2.5 Like goods – preliminary assessment

The verification team considers that the goods produced by Masteel for domestic sale do not have characteristics closely resembling those of the goods exported to Australia and are not 'like goods' in accordance with subsection 269T(1) of the Customs Act 1901 (the Act).¹

¹ References to any section or subsection in this report relate to provisions of the Act, unless specifically stated otherwise.

3. VERIFICATION OF EXPORT SALES TO AUSTRALIA

3.1 Verification of Australian sales to audited financial statements

The verification team verified the completeness and relevance of Masteel's Australian sales listing by reconciling it to audited financial statements in accordance with ADN. No 2016/30. During this process the verification team did not identify any issues. Details of the verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

3.2 Verification of Australian sales to source documents

The verification team verified the accuracy of Masteel's Australian sales listing by reconciling it to source documents in accordance with ADN No. 2016/30. Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

3.2.1 Bank charges

The verification team noted in the source data provided by Masteel that for some payments, the bank charged a transaction fee. This fee was not captured in the Australian sales listing. Masteel rectified this in a revised Australian sales listing provided during the visit. The revised sales listing is contained at **Confidential Attachment 2**.

3.2.2 Payment terms

The verification team noted from that the source documents that the actual payment dates differed from payment terms in the Australian sales listing. Masteel amended the revised Australian sales listing to include the actual payment dates. The revised sales listing is contained at **Confidential Attachment 2**.

3.3 The exporter

For all Australian export sales during the inquiry period, the verification team considers Masteel to be the exporter of the goods.²

3.4 The importer

In relation to the goods exported by Masteel to Australia, the verification team considers the beneficial owners of the goods at the time of importation, and therefore the importers of the goods to be:

- for purchases by one Australian entity - Masteel; and

² 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.

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- For the other two entities, the Australian purchasers of the goods.

3.5 Arm's length

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

- there was any consideration payable for, or in respect of, the goods other than its price; or
- the price was influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- the buyer, or an associate of the buyer, was directly or indirectly reimbursed, compensated or otherwise received a benefit for, or in respect of, the whole or any part of the price.³

The verification team therefore considers that all export sales to Australia made by Masteel during the inquiry period were arm's length transactions.

3.6 Export price – preliminary assessment

The verification team is satisfied that for imports of the goods by parties other than Masteel (the exporter):

- The goods have been exported to Australia otherwise than by the importer; and
- The purchases of the goods were arm's length transactions.

The verification team considers that the export price be determined under subsection 269TAB(1)(a) as the price paid or payable for the goods by the importer, not including any costs after importation.

The verification team is satisfied that for imports of the goods by Masteel, the goods have been exported to Australia by the importer.

The verification team considers that the export price for these transactions be determined under subsection 269TAB(1)(c) as the price that the Minister determines having regard to all the circumstances of the exportation.

The verification team has calculated the export prices at free-on-board (FOB) terms.

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

³ Section 269TAA of the Act refers.

4. COST TO MAKE AND SELL

4.1 Verification of costs to audited financial statements

The verification team verified the completeness and relevance of Masteel's cost to make and sell (CTMS) spreadsheets by reconciling each to audited financial statements in accordance with ADN No. 2016/30. The verification team did not identify any issues.

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

4.2 Verification of costs to source documents

The verification team was able to verify the accuracy of Masteel's cost of production spreadsheet to source documents in accordance with ADN No. 2016/30. The verification team did not identify any issues.

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

4.3 Related party purchases

Masteel submitted a revised raw material purchases spreadsheet to include a column to distinguish between related and unrelated suppliers.

The verification team identified that there were suppliers of materials which are related to Masteel. These related party transactions were disclosed in Masteel's raw material purchases spreadsheet.

The verification team was unable to compare purchases from related and unrelated suppliers due to potential differences in specifications of the raw materials purchased from each. The verification team has referred this to the case management team for further analysis.

4.4 Cost to make and sell – summary

Having verified Masteel's CTMS spreadsheets to audited financial statements and source documents, the verification team is satisfied that the CTMS spreadsheets are complete, relevant and accurate.

The CTMS spreadsheets are 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 Masteel's domestic sales listing by reconciling it to audited financial statements in accordance with ADN No. 2016/30.

Masteel submitted a revised domestic sales listing at the commencement of the verification visit.

For the purposes of verifying Masteel's domestic sales listing, the verification team considered Masteel's domestic sales of goods not under consideration.

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

The verification team identified the following issue:

5.1.1 Domestic sales of like goods

As discussed at Chapter 2.2, the verification team identified sales of like goods in the domestic sales listing which Masteel had recorded as goods not under consideration.

Masteel is aware that these like goods are destined for export after being sold to a domestic customer. The verification team consider these transactions to be third country sales of like goods for the purposes of verifying the completeness and relevance of Masteel's domestic sales listing.

The verification team verified the accuracy of these sales by reconciling them to source documents in accordance with ADN No. 2016/30.

5.2 Verification of domestic sales to source documents

The verification team verified the accuracy of Masteel's domestic sales listing by reconciling it to source documents in accordance with ADN No. 2016/30. This included verification of transactions of like goods sold for export.

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

5.2.1 Invoice date

The verification team was unable to reconcile the invoice dates recorded in the domestic sales listing to the actual invoice dates. The invoice date recorded by Masteel is the date Masteel record the revenue in their accounting system. The verification team consider the invoice date to be the appropriate transaction date.

5.2.2 Packing expense

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The verification team considered the packing expenses for like goods sold domestically and destined for export. These expenses did not reconcile with the actual packing expenses and have been revised by the verification team.

The verification team observed the type of packaging used for these transactions and are satisfied that this is different to the packaging used for export to Australia.

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

5.3 Related party customers

Masteel did not make any domestic sales of the goods destined for export, to related parties during the inquiry period.

5.4 Arm's length

In respect of domestic sales of the goods destined for export by Masteel during the inquiry 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 of the goods destined for export by Masteel during the inquiry period were arm's length transactions.

5.5 Ordinary course of trade

Section 269TAA of the Act 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.

The verification team compared the revenue (i.e. net sales value) for each domestic sale of like goods 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 ordinary course of trade.

5.6 Suitability of domestic sales and profit

Subparagraph 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.

As there were no domestic sales of the goods during the investigation period the normal value cannot be ascertained under subsection 269TAC(1). Therefore, the verification team has determined that the normal value should be determined using a constructed method, as permitted under subsection 269TAC(2)(c). The verification team considers that certain adjustments, in accordance with subsection 269TAC(9), are necessary to ensure fair comparison of normal values with export prices. These adjustments are outlined in Section 6 of this report.

A profit may be unable to be determined under Regulation 45(2) of the *Customs (International Obligations) Regulation 2015 (the Regulation)* in the absence of sales of like goods by the exporter or producer of the goods in the ordinary course of trade.

The verification team has determined profit as per Regulation 45(3)(a) of the Regulation.

5.7 Domestic sales – summary

The verification team is satisfied that the revised domestic sales listing is complete, relevant and accurate, and can be used for assessing the profitability of sales in the ordinary course of trade for the purposes of constructing a normal value in accordance with subsection 269TAC(2)(c), should this be the preferred method for calculating a normal value by the case management team.

The domestic sales listing is at **Confidential Appendix 3**.

6. ADJUSTMENTS

To ensure the normal value is comparable to the export price of the goods exported to Australia at free on board (FOB) terms, the following adjustments were made to the normal value⁴.

For the purposes of adjustments, the verification team considered domestic sales of like goods sold for export to be an appropriate means for making downwards adjustment to ensure a fair comparison to the FOB export price.

6.1 Packaging

As stated in Chapter 2.2, during the inquiry period, Masteel sold like goods to domestic customers for export to a third country. While these goods are not considered to be goods manufactured for domestic consumption, they were delivered to a domestic customer in packaging similar to that used for domestic consumption. The verification team considers the domestic packaging of these goods to be suitable for use for the purposes of adjustments to the normal value.

The verification team considers that a downward adjustment to the normal value for domestic packaging is necessary to ensure a fair comparison to the FOB export price. The verification team recommends applying this adjustment based on the weighted average of Masteel's packaging costs for domestic packaging.

The verification team consider that an upwards adjustment to the normal value for export packaging is necessary to ensure a fair comparison to the FOB export price. The verification team recommends applying this adjustment based on the weighted average of Masteel's packaging costs for export sales.

6.2 Inland transport

The verification team verified the inland transport for export sales and was satisfied that the amounts provided in the sales listings are accurate and based on the monthly weighted average inland transport costs incurred.

The verification team considers that an upwards adjustment to the normal value for export inland transport is necessary to ensure a fair comparison to the FOB export price.

The verification team recommends an upwards adjustment based on the weighted average cost (per piece) for these expenses over the inquiry period.

6.3 Handling charges

The verification team has verified the export handling charges against the contract between Masteel and its freight forwarder.

⁴ In accordance with subsection TAC(9)

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The verification team recommends an upwards adjustment to the normal value based on the actual cost per piece.

6.4 Bank charges

As stated at Chapter 3.2.1, Masteel incurs bank fees when receiving payments for some of its Australian sales. The verification team has verified all of the bank charges. The verification team also noted that these charges were not applicable to the domestic sales.

The verification team recommends an upwards adjustment to the normal value based on the weighted average cost (per piece) for these expenses over the inquiry period.

6.5 Credit costs

The verification team confirmed that all domestic sales of like goods sold for export were fully paid prior to shipment, and thus no credit was provided and no downward credit adjustment is warranted.

As stated at Chapter 3.2.2, Masteel provided and the verification team confirmed the actual payment days for all export sales made during the investigation period.

The verification team recommends an upwards adjustment to the normal value based on the weighted average credit cost, determined on the basis of actual payment days and short term borrowing rate over the inquiry period.

6.6 Adjustments – conclusion

The verification team is satisfied that there is sufficient and reliable information to justify the following adjustments. The verification team considers these adjustments are necessary to ensure a fair comparison of normal values and export prices.

Adjustment Type	Deduction/addition
Domestic Packing	Deduct the cost of domestic packing
Export Packing	Add the cost of export packing
Export Inland transport	Add the cost of export inland transport
Export Handling charges	Add the cost of export handling charges
Export Bank charges	Add the cost of export bank charges
Export Credit costs	Add the cost of export credit

7. NORMAL VALUE

The verification team notes that the application for the publication of a dumping duty notice (the application) made claims that a particular market situation exists in the Chinese domestic steel market.

In the event that a market situation is found, normal values can be constructed under 269TAC(2)(c) using:

- Masteel's cost to make that reasonably reflective competitive market costs⁵; plus
- SG&A on the assumption that the goods, instead of being exported, were sold domestically; plus
- A rate of profit, being an amount for profit using the actual amounts realised by Masteel from the sale of the same general category of goods in the domestic market⁶

The verification team has not determined whether there is a particular market situation or whether the costs of production in the exporter's records reasonably reflect competitive market costs. Therefore, the verification team has not calculated a normal value and has referred the calculation of the normal value to the case management team.

The verification team recommends that in the event of the case team constructing normal values under 269TAC(2)(c), certain adjustments in accordance with section 269TAC(9), are necessary to ensure fair comparison of normal values with export prices as outlined in Chapter 6 above.

⁵ Section 43(2) of the *Customs (International Obligations) Regulation 2015*

⁶ Section 45(3)(a) of the *Customs (International Obligations) Regulation 2015*

8. DUMPING MARGIN

The verification team has referred the determination of the normal value to the case management team and therefore, the verification team has not calculated a preliminary dumping margin.

9. Subsidies

The verification team noted that Masteel benefited from the following subsidy programs:

Subsidy program
Repayment of Administration for Port & Shipping of Ma'anshan
International Market Development Funds from Bureau of Commerce of Ma'anshan received by Overseas Business Department
Import Subsidies Funds from Bureau of Commerce of Ma'anshan received by Overseas Business Department
Overseas Network Construction Funds from Bureau of Commerce of Ma'anshan received by Overseas Business Department
Fourth Quarter Incentive Funds from Bureau of Commerce of Ma'anshan received by Overseas Business Department
Industrial Investment Comprehensive Compensation Funds of 2017 from Economic and Information Commission of Ma'anshan
National Industrial Transformation Financial Subsidy of 2017 (First Major Technical Equipment Insurance Project)
Provincial 115 Industry Innovation Team Funds from Finance Bureau of Ma'anshan
The Second Tranche of Provincial Foreign Trade Policy of 2016 from Business Bureau of Ma'anshan
Industrial Policy Funds of 2017 from Finance Bureau of Ma'anshan
Industrial Policy Funds from Finance Bureau Corporate Section of Ma'anshan
Environmental Assistance from Environmental Protection Bureau of Ma'anshan
Foreign Trade Policy Funds of 2016 from Business Bureau of Ma'anshan
Trade Friction Public Service Fund Subsidies of 2016 from Business Bureau of Ma'anshan
Provincial Foreign Trade Policy Funds of 2016 from Business Bureau of Ma'anshan
Technical Special Fees
Export Credit Subsidy
Annual Transformation Development Financial Aid Fund of 2017
Employees' Distributive Resettlement Expenses for resolving excess capacity
Pension Insurance Award
Tax Incentives
Government Incentives
Government of Yangxing Town, Baoshan District, Shanghai
Industry Support Fund of Industrial Park
Tax Incentive Funds
Taxpayer Award Funds of 2015
Corporate Transformation and Development Fund and Special Fund for Science and Technology of 2016
Municipal Industry Support Funds of 2016
Stable Post Subsidy
Land Use Tax Subsidies
Land Use Tax Return
Digital Workshop Subsidies
Receive Stable Post Subsidy
Tax Incentive Funds of 2016
Land Use Tax Incentives
Patent Funding
Export Credit Insurance
Patent Funding
Export Credit Insurance
Transformation and Upgrade Policy Award
Industrial Investment Comprehensive Compensation Fund of 2017
Stable Post and Employment Subsidies of 2017
Development Zone Tax Preferential Policy of 2016
Development Zone Tax Preferential Policy of 2015
Government Support Funds
Others
Deferred Income Amortization

9.1 Preferential Tax Programs

Masteel provided their corporate income tax declarations from 2013 to 2017 as part of the response to the exporter questionnaire (REQ). The verification team note that Masteel have not received an income tax benefit during the investigation period

9.2 Financial Grant Programs

The verification team verified the completeness of the grants list declared in the exporter questionnaire by reconciling the amounts to the non-operating income and other income ledgers over the investigation period. The team was satisfied that all grants obtained by Masteel were accurately captured in the exporter questionnaire response.

Details of the verification are contained within the verification work program at **Confidential Attachment 1**.

9.3 Preferential Loans

The verification team verified Masteel's credit loan agreements declared in the REQ. In particular, the verification team identified a preferential loan, however upon verification of the loan documents for this, it was identified that this loan was for a specific capital project unrelated to the production of the goods under consideration.

9.4 Subsidy Margin

The verification team has referred the calculation of the less than adequate remuneration subsidy programs to the case management team. The verification team has therefore not calculated a preliminary subsidy margin.

APPENDICES AND ATTACHMENTS

Confidential Appendix 1	Australian export sales
Confidential Appendix 2	CTMS
Confidential Appendix 3	Domestic sales listing
Confidential Attachment 1	Verification work program, with attachments