



# Exporter Verification Report

ADC Case: 469

## Verification & Case Details

<b>Initiation Date</b>	04/06/2018	<b>ADN:</b>	2018/86
<b>Case:</b>	PVC Electrical Cables – Investigation – China		
<b>Exporter</b>	Guilin International Wire & Cable Co Ltd (Guilin International)		
<b>Location</b>	CHINA		
<b>Verification from</b>	22/08/2018	<b>to</b>	27/08/2018
<b>Investigation Period</b>	01/01/2017	<b>to</b>	31/12/2017

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 COMPANY BACKGROUND**

### **1.1 Corporate Structure and Ownership**

Guilin International Wire & Cable Co. Ltd (Guilin International) was registered on 28 June 1993 and is a manufacturer and exporter of electric wires and cables. Shareholding details for Guilin International are available at Confidential Attachment 1.

Guilin International is related to a number of other manufacturing entities. As well as Guilin International, the goods under consideration were previously manufactured by related entities Guilin Feilong Wire & Cables Ltd, Guilin Xianglong Wire & Cable and Aoning Electric Cable Co Ltd. Guilin International has upgraded facilities and centralised production, and these entities did not manufacture the goods under consideration during the investigation period.

### **1.2 Related Parties**

The verification team examined the relationships between related parties involved in the manufacture and sale of the goods.

### **1.3 Related Customers**

Guilin International's primary customer in Australia, Electra Cables (Aust) Pty Ltd (Electra), is a related entity. Electra is owned by Elite Cables directly, and Guilin Xin Ao Wire & Cable Co Ltd (Xin Ao) through a holding company Meltglow Pty Ltd. Shareholding details for Electra are available at Confidential Attachment 1. Guilin International exported the goods to Australia via a number of distribution methods, however Electra was the only Australian customer during the investigation period. A representative of Electra was present throughout the onsite verification of Guilin International.

### **1.4 Related Suppliers**

The verification team identified that Guilin International purchased some raw materials from a related supplier. The volume of the raw materials purchased was considered immaterial and the price paid was market price. The verification team did not identify any arms-length issues.

## **2 THE GOODS AND LIKE GOODS**

### **2.1 Production Process**

The verification team visited the Guilin manufacturing facility and observed the goods being produced.

The manufacturing process is as follows:

- 8 mm diameter copper rod is drawn to smaller diameter copper wire in two stages, first from 8 mm to 2 mm on a large drawing machine, then from 2 mm to the desired wire diameter on another drawing machine.
- A number of the wires are mechanically stranded (twisted) to produce the conductor with a cross-sectional area of 2.5 mm<sup>2</sup>.
- The conductor is fed into a PVC extrusion process which insulates the conductor core with PVC. The PVC has colour of red, black or yellow/green in accordance with the requirements of the Australian Standard, and which is cooled in a water bath before being wound onto a drum.
- Three drums of conductor cores (one red, one black and one green/yellow) are simultaneously fed into another PVC extruder in a parallel configuration for the application of the white or black PVC sheathing to create the flat electric cable.
- The cable is subsequently printed with markings to the Australian Standard (manufacturer, model designation, year of manufacture, voltage rating) before passing through another water bath to cool the cable and being wound onto plastic reels.

Guilin International provided a flow chart of the production process with its response to exporter questionnaire.

### **2.2 The goods exported to Australia**

The verification team were satisfied that Guilin International produced and exported the goods to Australia.

### **2.3 Like goods sold on the domestic market**

Guilin International advised that the like goods it exported to Australia were not sold on the domestic market. The electric cable exported to Australia are manufactured exclusively for the Australian market according to the Australian Standards. The company explained that the requirements of electric cable according to the Australian Standard are incompatible with the domestic standards for electric cable, therefore the like goods cannot be sold on the domestic market.

The primary differences between the exported good and domestic good include the following:

#### Physical likeness

The domestic good is manufactured to a different technical standard, voltage capacity and is fire-resistant.

Commercial likeness

There is no marketing of the domestic good in the housing market in China whereas the export good is a key product that competes with other suppliers in the housing and construction market in Australia.

Functional likeness

Based on the operation of different wiring standards the domestic and export good are not interchangeable between Chinese and Australian markets.

Production likeness

There is significant production difference regarding the number and diameter of the wires used in the manufacturing of the domestic and export product.

## **2.4 Like goods – assessment**

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

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

## **3 UPWARDS VERIFICATION OF SALES**

### **3.1 Verification of Sales Completeness and Relevance**

Verification of relevance and completeness is conducted by reconciling selected data submitted "upwards" through management accounts up to audited financial accounts. The verification team verified the completeness and relevance of the export and domestic sales listings provided in the REQ by reconciling these to audited financial statements in accordance with ADN. No 2016/30.

The verification team did not identify any issues during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at Confidential Attachment 2.

### **3.2 Completeness and Relevance Finding**

The verification team are satisfied that the sales data provided in the exporter questionnaire response by Guilin International is complete and relevant.

## **4 DOWNWARDS VERIFICATION OF SALES**

### **4.1 Verification of Sales Accuracy**

The accuracy of data is verified by reconciling selected data submitted "downwards" to source documents. This part of verification involves the process of agreeing the volume, value and other key information fields within the sales data and cost data down to source documents. This verifies the accuracy of the data (e.g. for sales data, the volume and value of the records for selected transactions are accurate and reflect sales that did occur) The verification team verified accuracy of the export and domestic sales listings submitted in the REQ by reconciling these to audited financial statements in accordance with ADN. No 2016/30.

The verification team did not identify any issues during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at Confidential Attachment 2.

### **4.2 Sales Accuracy Finding**

The verification team are satisfied that the sales data provided in the exporter questionnaire response by Guilin International is accurate

**5 COST TO MAKE AND SELL**

**5.1 Verification of completeness and relevance of CTMS data**

The verification team verified the completeness and relevance the cost to make and sell (CTMS) information provided in the REQ by reconciling it to audited financial statements in accordance with ADN No. 2016/30.

**5.2 Completeness and Relevance Finding of CTMS data**

The verification team are satisfied that the cost to make and sell (CTMS) data provided in the exporter questionnaire response by Guilin International is complete and relevant.

The verification team identified issues outlined below during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at Confidential Attachment 2.

No.	Exception	Resolution	Evidence Relied On
1	Domestic promotional fees included in Australian CTMS but not included in the domestic CTMS.	Domestic promotional fees applied to domestic SG&A.	Australian CTMS and general ledger reports.
2	Australian and domestic packaging costs not included in CTMS.	Australian and domestic packaging cost reconciliation provided.	Cost reconciliation.

**5.3 Completeness and Relevance Finding of CTMS data**

The verification team are satisfied that the cost to make and sell data provided in the exporter questionnaire response noting the above exception by Guilin International is complete and relevant.

**5.4 Verification of CTMS Allocation Methodology**

The verification team verified the reasonableness of the methodology used to allocate the CTMS information provided in the REQ to the relevant models, in accordance with ADN No. 2016/30.



## PUBLIC RECORD

<b>Cost Area</b>	<b>Methodology Applied</b>	<b>Evidence Relied On</b>
Raw Materials	Weighted average actual cost to move goods from raw materials to finished goods then allocated to each product code based on standard unit consumption. A standard material cost is calculated based on the standard copper and PVC consumed in 1000m of cable.	General ledger Cost reconciliations Bill of materials
Scrap Allocation	Sold at market value to unrelated recyclable entities and is offset against costs.	The scrap offset was immaterial and no evidence was relied upon.
Manufacturing Overheads	Standard overhead costs applying actual overhead costs and calculating a standard unit consumption rate.	General ledger Cost reconciliations
Labour	Standard labour costs applying actual labour costs and calculating a standard unit consumption rate.	General ledger Cost reconciliations
Depreciation	Straight-line method based on type, original value, estimated useful life and residual value (5%-10% of the original value) of the fixed asset.	General ledger Fixed asset register
Packaging	Actual costs allocated to the cost to make of exported good.	Cost reconciliation

The verification team did not identify any issues during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at Confidential Attachment 2.

### **5.5 Verification of CTMS Methodology Finding**

The verification team are satisfied that the allocation methodology for the cost to make and sell (CTMS) data provided in the exporter questionnaire response by Guilin International, including any required amendments as outlined as an exception above, is reasonable.

### **5.6 Verification of Accuracy of CTMS data**

The verification team verified the accuracy of the CTMS information provided in the REQ by reconciling it to source documents in accordance with ADN No. 2016/30.

## **PUBLIC RECORD**

The verification team did not identify any issues during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at Confidential Attachment 2.

### **5.7 Accuracy Finding of CTMS data**

The verification team are satisfied that the cost to make and sell (CTMS) data provided in the exporter questionnaire response by Guilin International is accurate.

The verification team did not identify any issues during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at Confidential Attachment 2.

## 6 EXPORT PRICE

### 6.1 The importers

In relation to the goods exported by Guilin International to Australia, the verification team considers that the customer listed for each shipment was the beneficial owner of the goods at the time of importation, and therefore was the importer of the goods.

### 6.2 The exporter

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.

The verification team identified two modes of export sales through trading companies. Guilin International negotiates the price and ships the goods directly to port and therefore the verification team still considers Guilin International to be the exporter regarding these sales.

The verification team were satisfied that for all Australian export sales during the period the verification team considers Guilin International to be the exporter of the goods.

### 6.3 Arms length

As detailed in the Commission's Dumping and Subsidy Manual, in assessing the arm's length nature of transactions the Commission will also examine relevant information to determine whether there has been genuine bargaining between buyer and seller.

In respect of exports to Australia by Guilin International to its related entity Electra during the investigation period, the verification team considers 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 has relied upon information obtained during the exporter verification process and information obtained during the Electra importer verification, which indicated joint shareholding of individuals and other companies at both Electra and Guilin, various inter-company loans between Electra, Guilin and other shareholding companies, a price negotiation process where the importer has more influence on the purchase price than it would have otherwise not been able to have and the finding that the importer subsequently selling the goods at a loss. The verification team therefore considers that sales between the exporter and importer of the goods during the investigation period were not arms' length transactions.

#### **6.4 Export Price – assessment**

In respect of Australian sales of the goods by Guilin International to Electra, the verification team recommends that the export price be cannot be determined under paragraph 269TAB(1)(a). The verification team considers that the purchase of the goods by the importer was not an arms length transaction. As the goods were subsequently sold by the importer in the condition that they were imported, the verification team recommends that the export price be determined under paragraph 269TAB(1)(b), being the price at which the goods were so sold by the importer less the prescribed deductions.

The verification team's preliminary export price calculations are at **Confidential Appendix 5**.

## 7 SUITABILITY OF DOMESTIC SALES

As discussed in section 2.3 above, the verification team considers that there were no sales of like goods on the domestic market in China. As such the verification team did not undertake an extensive verification of domestic sales at the visit.

### 7.1 Ordinary course of trade

Section 269TAAD 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 (OCOT).

As the verification team were satisfied that there were no like goods sold in the domestic market it has not conducted an ordinary course of trade test. There is no requirement under Regulation 45(3)(a) to conduct an ordinary course of trade test for the same general category of goods.

### 7.2 Suitability of domestic sales

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 like goods sold in the domestic market, normal values cannot be ascertained under subsection 269TAC(1).

### 7.3 Profit

Where the Commission is required to calculate a normal value under subsection 269TAC(2)(c), an amount of profit must be determined. The verification team has calculated an amount of profit as follows should a normal value be required under this provision.

The verification team identified a general sub-category of goods sold on the domestic market as being cables used in housing and building construction for power supply. The verification team determined that the sales in general category of goods were profitable and considers that this profit rate be used in calculation of the normal value under subsection 269TAC(2)(c).

## 8 NORMAL VALUE

As there were no like goods sold in the domestic market, normal values cannot be ascertained under subsection 269TAC(1). The verification team considers that the normal value can be assessed under subsection 269TAC(2)(c).

Therefore, the verification team considers that the normal value should be determined under subsection 269TAC(2)(c), using the cost of production or manufacture of the goods in the country of export; and, on the assumption that the goods, instead of being exported, had been sold for home consumption in the ordinary course of trade in the country of export, the SG&A costs associated with such a sale and the profit on that sale.

As required by subsections 269TAC(5A) and 269TAC(5B), the costs of production or manufacture, the SG&A costs and profit must be established in accordance with *Customs (International Obligations) Regulation 2015* (Regulations) 43, 44 and 45 of the Regulations, respectively.

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, as outlined in Section 9.

The verification team's preliminary normal value calculations are at **Confidential Appendix 4**.

**9 ADJUSTMENTS**

To ensure the normal value is comparable to the export price of goods exported to Australia at free-on-board (FOB) terms, the verification team has considered the following adjustments in accordance with subsection 269TAC(9).

**9.1 Rationale and Methodology**

<b>Adjustment Type</b>	<b>Rationale for Adjustment</b>	<b>Calculation Methodology</b>	<b>Claimed in REQ?</b>
Export packaging costs	To ensure fair comparison to the FOB export price.	Weighted average of export packaging costs for export sales.	N
Export credit terms	To arrive at cash terms for the cost of credit.	Weighted average number of collection days for export sales.	N
Export inland transport costs	To ensure fair comparison to the FOB export price.	Weighted average of inland transport costs for export sales.	N
Export inventory carrying cost	To ensure fair comparison to the FOB export price	Weighted average number of inventory days for export sales	N
Domestic packaging costs	To ensure fair comparison to the FOB export price.	Weighted average of domestic packaging costs for the general category of goods.	N

**PUBLIC RECORD**

Domestic credit terms	To reflect the domestic cost of credit for the general category of goods.	Weighted average number of collection days for domestic sales of the general category of goods.	N
Domestic inventory carrying cost	To ensure fair comparison to the FOB export price	Weighted average number of inventory days for domestic sales of the general category of goods.	N

**9.2 Adjustments**

<b>Adjustment Type</b>	<b>Deduction/addition</b>
Export packaging costs	<b>Add</b> the cost of export packaging
Export credit cost	<b>Add</b> the cost of export credit
Export inland transport costs	<b>Add</b> the cost of export inland transport
Export inventory carrying cost	<b>Add</b> the cost of export inventory carrying
Domestic credit cost	<b>Deduct</b> the cost of domestic credit
Domestic packaging costs	<b>Deduct</b> the cost of domestic packaging
Domestic inventory carrying cost	<b>Deduct</b> the cost of domestic inventory carrying

The verification team's preliminary adjustment calculations are included in normal value calculations at **Confidential Appendix 4**.



## **10 DUMPING MARGIN**

The preliminary dumping margin has been assessed by comparing weighted average Australian export prices which are calculated under subsections 269TAB(1)(b), to the corresponding quarterly weighted average normal value for the investigation period, in accordance with paragraph 269TACB(2)(a) of the Act.

The preliminary dumping margin in respect of the goods exported to Australia by Guilin International for the investigation period is **7.18 per cent**.

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

## **11 SUBSIDIES**

### **11.1 Preferential Tax Programs**

In its exporter questionnaire response Guilin International advised that it received a benefit under program 5 for the investigation period.

Guilin International advised that to be eligible to a reduced tax rate under program 5 a company should be recognised as a high and new technological enterprise.

Guilin International provided relevant documents supporting the calculation of the benefit received in relation to this reduced tax rate.

### **11.2 Grants**

In its response to the exporter questionnaire, Guilin International provided a list of grants it received government benefits under the assistance programs specified in the exporter questionnaire.

The verification team verified the grants received during the investigation period by reconciling the grant amounts to Guilin International's non-operating income ledger.

### **11.3 Provision of inputs at less than adequate remuneration**

In its exporter questionnaire response, Guilin International provided a spreadsheet listing all its purchases of raw materials during the investigation period. The verification team verified purchases of raw materials as part of the raw materials section in the verification program.

The visit team was able to verify the spreadsheet to source documents. The visit team then compared the prices paid Guilin for its copper purchases from state owned or invested enterprises (SOE) and non-SOE suppliers of copper. Further to that, the visit team also calculated a competitive market cost for copper in China based on the Shanghai Futures Exchange (SHFE) daily price for copper cathode plus conversion premium of cathode into copper rod in China plus delivery costs.

The verification team then assessed if any benefit was conferred by provision of copper at less than adequate remuneration (LTAR) by having regard to the difference between the weighted average purchase prices of the copper rod Guilin paid in its purchases from SOEs, to the competitive market costs of copper rod in China.

The verification team preliminarily calculated that Guilin did not receive any benefit from this program.

#### **11.4 Subsidies - conclusion**

The verification team calculated the total benefit conferred to Guilin through the identified subsidy programs which are relevant to the good under consideration and calculated the preliminary rate of countervailable subsidies at **0.72 per cent**. Guilin's total preliminary countervailable subsidy rate calculation is at **Confidential Appendix 6**.

Details of the verification are contained within the verification work program at **Confidential Attachment 2**.

**12 APPENDICES AND ATTACHMENTS**

<b>Confidential Appendix 1</b>	Export price
<b>Confidential Appendix 2</b>	Cost to make and sell
<b>Confidential Appendix 3</b>	Domestic sales, OCOT and profitability
<b>Confidential Appendix 4</b>	Normal Value
<b>Confidential Appendix 5</b>	Dumping Margin
<b>Confidential Appendix 6</b>	Subsidy Margin
<b>Confidential Attachment 1</b>	Shareholding details for Guilin International and Electra
<b>Confidential Attachment 2</b>	Verification work program