



## **Exporter Verification Report**

### **Verification & Case Details**

<b>Initiation Date</b>	12 July 2018	<b>ADN:</b>	2018/111
<b>Case:</b>	Aluminium Extrusions - Review of Measures - China		
<b>Case Number</b>	482		
<b>Exporter</b>	Foshan Shunde Beijiao Jiawei Aluminium Factory		
<b>Location</b>	CHINA		
<b>Verification from</b>	19 September 2018	<b>to</b>	24 September 2018
<b>Review Period</b>	1 July 2017	<b>to</b>	30 June 2018

**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

Foshan Shunde Beijiao Jiawei Aluminium Factory (Jiawei) is a sole proprietorship enterprise that does not sell or export goods under any other business name. Jiawei was established in December 2002 and has a single owner.

Jiawei's head office and factory is located in the Shunde District, Foshan City in the Guangdong Province in China. Jiawei produces aluminium extrusions from the site where the verification took place and from another leased location in the Foshan area. Jiawei produce the goods to a mill finish at either location, then goods set to be powder coated or anodised finish are sent to a processing plant for finishing treatments. Lease agreement documents and service agreement documents were provided at the visit.

Jiawei engages a freight forwarding company responsible for transportation of the goods from one of the production facilities, or the processing plant, to the port for export to Australia. All domestic sales are sold at ex-works terms.

### 1.2 Related Parties

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

#### 1.2.1 Related Customers

Based in Jiawei's response to the Exporter Questionnaire, verified sales data and audited financial statements, the verification team did not identify any information that suggests Jiawei's customers were related to Jiawei.

#### 1.2.2 Related Suppliers

Based on Jiawei's response to the Exporter Questionnaire, verified cost data and audited financial statements, the verification team did not identify any information that suggests Jiawei's suppliers were related to Jiawei.

## 2 THE GOODS AND LIKE GOODS

### 2.1 Production Process

Jiawei purchases aluminium billet which is heated, extruded and then cut to length, to produce aluminium extrusions with mill finish. For powder coated and anodised finishes, the aluminium extrusions are sent off site to complete the finishing process.

Jiawei negotiated a service agreement with a processing plant that includes the finish treatment of the aluminium extrusions, further processing, such as punching or drilling, and packing in preparation for either export or domestic sale. These costs are included in the total cost of the services. A copy of this service agreement has been provided and is contained in the verification work program as a relevant attached, at **Confidential Attachment 1**.

Jiawei mostly produces aluminium extrusions using standard geometric shaped dies which are made in the factory. The verification team conducted a factory tour and confirmed that dies appear to be of mainly basic shapes such as rectangles, right angles, and did not view any complex designs. Jiawei mentioned that on occasion a customer will provide their own design for the die shape.

Jiawei does not differentiate between production processes for exported or domestically sold aluminium extrusions.

The verification team considers Jiawei to only be producing aluminium extrusions although it is noted that it also sells non-goods under consideration, such as fittings and fixings, which are supplied by other companies.

### 2.2 Model Control Codes (MCCs)

The introduction of the model control codes (MCC), to be used for model matching purposes when comparing export prices and normal values, was detailed in Anti-Dumping Notice (ADN) No. 2018/128, and published on the Commission's website on 9 August 2018. As this was subsequent to the initiation of review 482, Jiawei was not required to provide sales and cost data in its response to the exporter questionnaire in accordance with a specified MCC structure.

Jiawei provided sales and cost data in its response to the exporter questionnaire at a 'finish' level, being a milled, powder coated or anodised finish. Jiawei does not record sales or costs for goods at a level lower than finish and could, therefore, not provide any further breakdown of models.

### 2.3 The goods exported to Australia

The verification team were satisfied that Jiawei produced and exported the goods to Australia. Jiawei exported the goods to Australia with the following finishes during the period:

- milled;
- powder coated; and
- anodised.

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

The verification team were satisfied that Jiawei sold like goods in the domestic market.

The verification team considers that the goods manufactured for domestic consumption 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 for models sold domestically and for export are the same;
- are produced at the same facilities, using the same raw material inputs and manufacturing processes;
- are finished using the same processing service provider;
- the goods compete in the same market sector, are interchangeable and use similar distribution channels; and
- can be considered functionally alike, as they have similar end uses.

Jiawei sold like goods on the domestic market with the following finishes during the period:

- milled;
- powder coated; and
- anodised.

## **2.5 Model matching**

The verification team is satisfied that, consistent with previous reviews and the original investigation, that model matching in the event of normal values being established under section 269TAC(1) of the *Customs Act 1901* (the Act)<sup>1</sup>, should be completed on the basis of finish.

However, should a market situation determination be made (see section 9), the verification team notes that constructing normal values under 269TAC(2)(c) of the Act does not require matching domestic models to export models.

## **2.6 Like goods – assessment**

The verification team considers that the goods produced by Jiawei for domestic sales have characteristics closely resembling those of the goods exported to Australia and are therefore 'like goods' in accordance with subsection 269T(1) of the Act.

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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 conducted a comparison of the export sales of the goods recorded in the Australian Border Force’s imports database with the data provided in its REQ by Jiawei and found only small variances that were within acceptable levels. The revenue reported in Jiawei’s 2017 audited report was able to be demonstrated in the accounting system used by the exporter. This was further separated to show principle revenue by finish and sale market (export or domestic sale) during the review period.

Revenue reported in the export and domestic sales listings provided in Jiawei’s REQ were reconciled to the exporter’s accounting system. The verification team identified the 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 1.

**3.1.1 Exceptions during Verification of Sales Completeness and Relevance**

No.	Exception	Resolution	Evidence Relied On
1	There were small number of sales recorded with shipping terms of ‘CFR’. The exporter advised that this was a manual data entry error and that all export sales should be recorded as ‘FOB’.	The verification team manually corrected the shipping terms for these 20 data lines to ‘FOB’.	The verification team reconciled shipping terms to a number of selected invoices for those incorrectly entered.
2	A variance of 0.12 per cent for export sales was identified between the accounting system and the export sales listing for revenue.	The exporter was able to demonstrate that an invoice initially issued, and recorded as revenue in June 2017 was reissued in July 2017 and should be included in the review period.	The verification team were provided a copy of the invoice.
3	A variance was identified when reconciling sales to the general ledger for goods that were further processed (powder coated or anodised). This was due to sales for January 2018 being inadvertently downloaded twice.	The exporter was able to download the required data from the ledger again. This was then reconciled to the sales data provided.	The verification team was provided with the newly downloaded ledger data and screenshots.

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

The verification team are satisfied that the sales data provided in the exporter questionnaire response by Jiawei, including any required amendments as outlined as an exception above, 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 identified the 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 1.

**4.1.1 Exceptions during Verification of Sales Accuracy**

No.	Exception	Resolution	Evidence Relied On
1	Export sales contracts or sales orders for export sales were not originally provided when requested prior to the visit.	During the visit the verification team requested copies of the purchase order of the selected export sales. The verification team requested additional random export sales source documents, including purchase orders.  The verification team also requested copies of the emails sent from the importer to the exporter, containing the purchase orders.	The verification team were able to trace the requested purchase orders to the invoice and reconcile to the sales listing.

**4.2 Sales Accuracy Finding**

The verification team are satisfied that the sales data provided in the exporter questionnaire response by Jiawei, including any required amendments as outlined as an exception above, 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 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 1.

The verification team are satisfied that the cost to make and sell data provided in the exporter questionnaire response by Jiawei is complete and relevant.

**5.3 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.

<b>Cost Area</b>	<b>Methodology Applied</b>	<b>Evidence Relied On</b>
Raw Materials	Jiawei applies an actual cost allocation method where raw material costs are assigned by weight as mill finish. For goods further finished, i.e. powder coated or anodised, a transfer cost, based on the cost for mill finish, is included.	The verification team were provided copies of service agreements and selected raw material invoices which were able to be reconciled to the exporter's accounting system.
Scrap Allocation	Scrap material is recovered and sold to a third party to re-manufacture and is included in 'recovery of materials'.	The verification team were provided a copy of an invoice to the third party and were able to reconcile to the exporter's accounting system.
Manufacturing Overheads	Jiawei applies an actual cost allocation method where manufacturing overhead costs assigned by weight as mill finish. For goods further finished, i.e. powder coated or anodised, a transfer cost, based on the cost for mill finish, is included.	The exporter was able to demonstrate overhead costs in its accounting system. The exporter was also able to

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		provide copies of selected paid invoices relating to manufacturing overheads.
Labour	Jiawei applies an actual cost allocation method where labour costs are assigned by weight as mill finish. For goods further finished, i.e. powder coated or anodised, a transfer cost, based on the cost for mill finish, is included.	The exporter was able to demonstrate labour costs in its accounting system.
Depreciation	Jiawei uses straight line depreciation.	The exporter was able to demonstrate depreciation costs in its accounting system as well as a copy of their asset register. The verification team were also provided with invoices of the exporter's most recent large equipment purchase.
Packaging	Packaging costs are included in manufacturing costs as low value consumables. Jiawei has advised that packaging is an inconsequential cost that is the same for both domestic and export sales. Additional packaging for further finished goods for both domestic and export sales is included in the charge under the service agreement with the processing plant.	The exporter was able to demonstrate that packaging costs were included in its accounting system. The verification team requested and received a copy of the service agreement from the processing company, along with copies of invoices, to verify that export packaging was included in their fee.

The verification team identified the 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 1.

### 5.3.1 Verification of CTMS Allocation Methodology Exceptions

No.	Exception	Resolution	Evidence Relied On
1	Jiawei had stated that CTMS is identical for both domestic and export sales. However the freight forwarding 'all in charge' cost is only relevant to export sales, as domestic sales are sold EXW. This would result in the cost to make (CTM) being identical for production of domestically sold and exported goods, but the selling, general and administration costs (SG&A) being different for domestic and exported sales.	The verification team were able create a separate SG&A table for export sales that included the 'all in charge', removing this from domestic SG&A.	The exporter confirmed that the freight forwarding 'all in charge' is only applied to export sales. The verification team were provided domestic sales invoices with EXW terms, and export sales with FOB terms. The verification team were also provided invoices from the freight forwarding company and were able to verify these costs to the company's account ledgers.

### 5.4 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 Jiawei, including any required amendments as outlined as an exception above, is reasonable.

### 5.5 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.

### 5.6 Accuracy Finding of CTMS data

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 1.

The verification team are satisfied that the cost to make and sell data provided in the exporter questionnaire response by Jiawei is accurate.

## 6 EXPORT PRICE

### 6.1 The importers

In relation to the goods exported by Jiawei to Australia, the verification team considers that the customers listed for each shipment were the beneficial owners of the goods at the time of importation, and therefore were the importers 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 were satisfied that for all Australian export sales during the period the verification team considers Jiawei to be the exporter of the goods.

### 6.3 Arms length

In respect of Jiawei's Australian sales of the goods during the 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.<sup>2</sup>

The verification team therefore considers that all export sales to Australia made by Jiawei during the period were arms length transactions.

### 6.4 Export Price – assessment

In respect of Australian sales of the goods by Jiawei, the verification team 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.

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

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<sup>2</sup> Section 269TAA of the Act refers.

## 7 DOMESTIC SALES SUITABILITY

Due to market situation claims, normal values have been constructed under subsection 269TAC(2)(c) using the costs to make the goods exported to Australia, plus SG&A applicable to the goods sold domestically, and an additional amount for profit.

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

### 7.1 Arms length

In respect of domestic sales of the goods made by Jiawei to its customers during the review 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 not directly or indirectly reimbursed, compensated or otherwise received a benefit for, or in respect of, the whole or any part of the price.

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

### 7.2 Ordinary course of trade

Section 269TAA 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 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 review period. Those sales found to be unrecoverable were considered not to be in the ordinary course of trade.

The results of the verification teams testing of the ordinary course of trade are as follows.

Number of Models	Models in OCOT
1. Mill Finish	1. Mill Finish
2. Powder Coat Finish	2. Powder Coat Finish
3. Anodise Finish	3. Anodise Finish

### **7.3 Profit**

Where the Commission is required to calculate a normal value under section 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 profit amount has been determined in accordance with section 45 of the *Customs (International Obligations) Regulation 2015* (the Regulations). The Regulations, at subsection 45(2), specifies that the profit must, if reasonably practicable, be worked out by using the production and sale of like goods in the exporter's domestic market, sold in the ordinary course of trade.

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**8 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).

**8.1 Rationale and Methodology**

<b>Adjustment Type</b>	<b>Rationale for Adjustment</b>	<b>Calculation Methodology</b>	<b>Evidence</b>	<b>Claimed in REQ?</b>
Domestic credit	The credit terms for export sales and domestic sales are different.	The credit period is based on the agreed payment terms in the sales contracts for domestic sales. The interest rate used was a rate for Chinese short-term loans during the review period.	Selected domestic invoices. CEIC – Global Economic Data.	No
Export credit	The credit terms for export sales and domestic sales are different.	Credit terms are not standard for export sales. The verification team calculated an average credit term using the accounts receivable turnover ratio.	Accounts receivable ledger in Jiawei's accounting system.	No
Export Inland transport and all-in charge	Domestic sales are sold at EXW terms, where export sales are sold at FOB terms. An adjustment is required to account for costs of delivery to the port, terminal and port costs, additional export packaging and other charges	Jiawei engages a freight forwarding company for export sales. The charge by the freight forwarding company covers all additional costs associated with the sale of exported goods and was used to determine adjustment amount.	Selected invoice from freight forwarding company and Jiawei's accounting system	Yes
Non-refundable VAT	The verification team considers an adjustment is appropriate for the portion of non-refundable VAT, on the assumption that the goods, instead of being sold domestically, were to have been exported to Australia.	The percentage of non-refundable VAT is applied to a VAT exclusive domestic sale price.	The verification team consider the domestic sales listing provided is VAT exclusive and have confirmed this in viewing selected domestic invoices.	No

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### 8.2 Adjustments

<b>Adjustment Type</b>	<b>Deduction/addition</b>
Domestic credit	<b>Deduct</b> the domestic credit
Export credit	<b>Add</b> export credit
Export Inland transport and all-in charge	<b>Add</b> the cost of inland transport and other export selling charges
Non-refundable VAT	<b>Add</b> the portion of non-refundable VAT, on the assumption that the goods, instead of being sold domestically, were to have been exported.

The verification team's preliminary assessment is that adjustment calculations are to be included to ensure a fair comparison of normal values and export prices.



## **9 NORMAL VALUE**

In the most recent review of measures applying to Jiawei the Commission determined that a particular market situation exists (pursuant to subsection 269TAC(2)(a)(i)) in relation to domestic sales of aluminium extrusions exported to Australia from China, rendering domestic prices of those goods unsuitable for determining a normal value under subsection 269TAC(1).

Furthermore, in relation to that review, the Commission did not consider that the records of the Chinese exporters of aluminium extrusions reasonably reflected competitive market costs associated with the production of those goods, for the purposes of section 43 of the Regulations. The Commission adjusted the cost of aluminium for Chinese exporters by referencing a market benchmark in order to establish a competitive market cost.

The case team will be reviewing these findings and determinations in preparing the statement of essential facts (SEF). The case team will determine normal values at that time. As such the verification team has not determined normal values at this time.

## **10 DUMPING MARGIN**

As detailed in section 9 above, normal values have not been determined as part of the verification process. As such, a dumping margin has not been assessed in respect of the goods exported to Australia by Jiawei for the review period.

Dumping margins will be determined and detailed in the SEF.

**11 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 Attachment 1</b>	Verification work program, with attachments