



Exporter Verification Report

Verification & Case Details

Initiation Date	12/07/2018	ADN:	2018/111
Case:	Aluminium Extrusions - Review of Measures - China		
Case Number	482		
Exporter	PanAsia Aluminium (China) Co Ltd		
Location	CHINA		
Verification from	12/09/2018	to	17/09/2018
Review Period	1/07/2017	to	30/06/2018

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

PanAsia Aluminium (China) Limited ('PanAsia China') is fully owned by PanAsialum Holdings (PanAsialum Holdings) Company Limited. PanAsia China manufactures aluminium products including aluminium extrusions.

PanAsia China sells aluminium extrusions to the domestic Chinese market, including to two related parties. The two related domestic customers are wholly owned by PanAsialum Holdings.

PanAsia's export sales, including sales of aluminium extrusions to Australia, are conducted through its related intermediary, Opal (Macao Commercial Offshore) Limited (Opal).

PanAsia's sales to Australia are made to a related company- PanAsia Aluminium Pty Ltd (PanAsia Australia).

Opal and PanAsia Australia are both wholly owned by PanAsialum Holdings.

1.2 Related Parties

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

1.2.1 Related Customers

PanAsia China has two domestic customers that are wholly owned by the same holding company, PanAsialum Holdings.

The verification team analysed the cost of the models sold to these related companies and found that the sales data was representative of a competitive market price (i.e. arm's length in nature). The verification team did not remove these sales from PanAsia China's domestic sales listing.

The verification team analysed the basis of PanAsia China's (through Opal) sales to its sole Australian customer, PanAsia Australia and determined that there was not genuine bargaining between the parties. As these sales are not arm's length, the verification team recommends that the export price for aluminium extrusions imported by PanAsia Australia from PanAsia China (through Opal) be established under subsection 269TAB(1)(b) of the *Customs Act 1901* (the Act)¹.

1.2.2 Related Suppliers

The verification team did not identify any information that suggests PanAsia China's suppliers that were related to PanAsia China.

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

2 THE GOODS AND LIKE GOODS

2.1 Production Process

PanAsia China purchases aluminium ingot and billet which is heated, extruded and then cut to length, to produce aluminium extrusions. Aluminium extrusions are mill finished, anodised or powder coated.

PanAsia China does not differentiate between production processes for domestic or exported aluminium extrusions.

PanAsia China also produces and sells non-goods under consideration, including plastic extrusions and coats extrusions 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, PanAsia China was not required to provide sales and cost data in its response to the exporter questionnaire in accordance with a specified MCC structure.

PanAsia provided sales data to the alloy and temper level however, was only able to provide cost data at a 'finish' level (mill finish, powder coated or anodised). As PanAsia China does not record costs for goods at a level lower than finish, it was unable to provide any further breakdown of models to alloy and temper.

2.3 The goods exported to Australia

The verification team were satisfied that PanAsia China produced and exported the goods to Australia (through its related entity, Opal). PanAsia China exported the goods to Australia with the following finishes during the period:

- Mill finished;
- powder coated; and
- anodised.

2.4 Like goods sold on the domestic market

The verification team were satisfied that PanAsia China 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;
- 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.

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

- Mill finished;
- powder coated;
- anodised; and
- anodised and powder coated.

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 Act, should be completed on the basis of finish.

However, should a market situation determination be made (see section **Error! Reference source not found.**), 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 PanAsia China for domestic sale 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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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 verified PanAsia China's accounting records to show the breakdown of revenue for sales for all goods, including domestic, Australian and third country sales of aluminium extrusions (the goods under consideration), and other revenue (not the goods under consideration). These reconciled to the domestic and export sales listing provided in the REQ.

The verification team traced the revenue from all sales through to PanAsia China's audited financial statement for the 2017 calendar year. PanAsia China provided a breakdown of the 2017 calendar year (which matched the audited financial statements) and the accounting data for the second half of the review period (Jan – Jun 2018). From this, the verification team was able to reconcile the revenue from the accounting period to the relevant period.

Please note that the sales listing changed during the visit (both listings contained goods that are not GUC, however this did not affect the upwards verification).

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	The Australian and domestic sales listing contained goods that were not the goods under consideration. This was identified by the verification team prior to the visit as the lines did not specify alloy and temper.	After examining the product codes for these sales, PanAsia China advised that there were no alloy and temper details for these goods as they are plastic and therefore not the goods under consideration. The verification is satisfied that this is the case and removed the sales from the Australian and domestic sales listings.	PanAsia China provided the drawing specifications, contracts and photos of the products that demonstrated they were not the goods under consideration.

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2	The Australian and domestic sales listing stated the production path each aluminium went through. The verification team identified issues with the listing (mill finished extrusions going through the anodising path when it was clearly a mill finished good).	The Australian and domestic sales listings were amended to reflect the correct path.	Products with the same product number in the sales listings had the correct path.
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3.2 Completeness and Relevance Finding

The verification team are satisfied that the sales data provided in the exporter questionnaire response by PanAsia China, 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.

4.1.1 Exceptions during Verification of Sales Accuracy

No.	Exception	Resolution	Evidence Relied On
1	During downwards verification, it became apparent that sales to two companies were shipped to Vietnam and Malaysia. PanAsia explained that these companies shifted operations from Australia however continued to purchase goods from PanAsia Australia.	As the Australian sales listing listed sales to the related importer, PanAsia Australia, and not the final customer, the verification team was unable to identify the sales to Vietnam and Malaysia. The verification team used ABF data to eliminate sales to Vietnam and Malaysia.	Source documents, ABF data

4.2 Sales Accuracy Finding

The verification team are satisfied that the sales data provided in the exporter questionnaire response by PanAsia China, including any required amendments as outlined as an exception above, is complete and relevant.

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 PanAsia China 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.

Cost Area	Methodology Applied	Evidence Relied On
Raw Materials	<p>PanAsia China's costing system is based on activity based costing so each production line's costs are recorded. The raw material for each production line is recorded in its accounting system.</p> <p>With the exception of paint (which is only used for models sold domestically), the domestic and export cost to make data are the same for raw materials.</p>	The verification team examined PanAsia China's accounting systems and selected transactions for verification down to the source documentation (payment of paint costs and energy costs).
Scrap Allocation	PanAsia China's costing system is based on activity based costing so each production line's costs are recorded. The scrap allocation for each production line is recorded in its accounting system.	The verification team examined PanAsia China's accounting systems to ensure that scrap that was returned to the smelting line was accounted for.
Manufacturing Overheads	PanAsia China's costing system is based on activity based costing so each production line's costs are recorded. The manufacturing overheads for each production line is recorded in its accounting system.	Manufacturing overheads was described as depreciation in PanAsia's accounting system.

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Labour	PanAsia China's costing system is based on activity based costing so each production line's costs are recorded. The labour for each production line is recorded in its accounting system.	The verification team examined PanAsia China's accounting systems and examined the breakdown of labour, including labour allocations for contractors and permanent employees.
Depreciation	PanAsia China's costing system is based on activity based costing so each production line's costs are recorded. The depreciation for each production line is recorded in its accounting system.	The verification team examined PanAsia China's accounting systems and depreciation schedule. PanAsia China was able to show how depreciation was calculated in their system.
Packaging	PanAsia China's costing system is based on activity based costing so each production line's costs are recorded. The packaging for each production line, including the packaging line, is recorded in its accounting system.	PanAsia China demonstrated how their accounting systems captured packaging costs.

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 PanAsia China, 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.

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.

5.5.1 Exceptions during Verification of Accuracy of CTMS data

No.	Exception	Resolution	Evidence Relied On
1	At the verification team's request, PanAsia China modified its CTMS data to fit the	The verification team verified the accuracy of the revised CTMS data.	PanAsia accounts and management reports.

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	requirements specified in the exporter questionnaire.		
2	During its review of the revised CTMS data,	The verification team modified the SG&A to exclude costs that were not warranted.	PanAsia's accounts and management reports.

5.6 Accuracy Finding of CTMS data

The verification team are satisfied that the modified cost to make and sell (CTMS) data provided in the exporter questionnaire response by PanAsia China, including any required amendments as outlined as an exception above, is accurate.

6 EXPORT PRICE

6.1 The importers

In relation to the goods exported by PanAsia Aluminium (China) Co Ltd to Australia (through Opal), 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 PanAsia China to be the exporter of the goods.

6.3 Arms length

Section 269TAA of the Act outlines the circumstances in which the price paid or payable shall not be treated as arm's length. These are where:

- 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.²

In respect of PanAsia China's Australian sales of the goods during the period, based on information obtained during the PanAsia Australia importer visit and the PanAsia China exporter visit, the verification team is aware that negotiations or other kind of bargaining does not take place between PanAsia China, Opal and PanAsia Australia, and that the price for the goods is not set at market price. As such, 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 therefore considers that all export sales to Australia made by PanAsia Aluminium (China) Co Ltd during the period were not arms length transactions.

² Section 269TAA of the Act refers.

6.4 Export Price – assessment

In respect of Australian sales of the goods by PanAsia China, the verification team recommends that the export price 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 1**.

7 DOMESTIC SALES SUITABILITY

The verification team has assessed the domestic sales to determine if the prices paid in respect of domestic sales of like goods are suitable for assessing normal value under subsection 269TAC(1).

7.1 Arms length

In respect of domestic sales of the goods made by PanAsia China 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 PanAsia China to domestic customers during the period were arm's length transactions.

7.2 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 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
3	3

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.

The verification team's preliminary OCOT and profit calculations are at **Confidential Appendix 2**.

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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

Adjustment Type	Rationale for Adjustment	Calculation Methodology	Evidence	Claimed in REQ?
Credit (domestic and export)	To ensure a fair comparison between domestic and export prices	Credit was calculated based on the payment terms listed in the domestic and export sales listing.	Source documents including proof of payment.	N
Non-refundable VAT	PanAsia incurs a non-refundable VAT expense on export sales to Australia of 4 per cent, being the difference between the VAT rate of 17 per cent less 13 per cent VAT refunded on export sales of aluminium extrusions.	The verification team applied an upward adjustment of 4 per cent to the normal value.	PanAsia provided evidence of the Government of China's VAT guidelines.	N
Inland transport	The verification team considers an adjustment for export inland transport is required to ensure fair comparison to the export price. As the verification team ensured that PanAsia's SG&A excluded delivery expenses, no downward adjustment is required.	The verification team applied a weighted average adjustment over the review period based on inland transport in the export and domestic sales listing.	Source documents including invoices and proof of payment.	Y
Packaging (domestic and export)	The verification team considers adjustments for export and domestic packaging cost is required to ensure fair comparison to the export price.	The verification team applied a weighted average adjustment over the review period based on the packaging expenses in PanAsia China's accounts.	Source documents including invoices and proof of payment.	N
Opal's SG&A	As explained above, aluminium extrusions exported to Australia are sold through Opal. As Opal's expenses are not accounted for anywhere, the verification team considers an upward adjustment for Opal's SG&A is required to ensure fair comparison to export price.	The verification team calculated SG&A expenses based on OPAL's income statements and applied an upward adjustment to the normal value.	The verification team examined Opal's accounts through to audited financial statements.	N

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8.2 Adjustments

Adjustment Type	Deduction/addition
Domestic Credit	Deduction
Export Credit	Addition
Non Refundable VAT	Addition
Export inland transport	Addition
Domestic packaging	Deduction
Export packaging	Addition
Opal's SG&A	Addition

9 NORMAL VALUE

In the most recent review of measures applying to PanAsia China, 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 PanAsia China for the review period.

Dumping margins will be determined and detailed in the SEF.

11 SUBSIDIES

11.1 Verification of Completeness and Relevance of Subsidies Data

The verification team verified the completeness and relevance of the data relating to subsidy programs provided in the REQ by reconciling these to 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.

11.2 Completeness and Relevance Finding

The verification team is satisfied that the subsidies data provided in the exporter questionnaire response by PanAsia China is complete and relevant.

11.3 Verification of Subsidies Accuracy

The accuracy of Subsidies data is verified by reconciling selected data submitted "downwards" to source documents. This part of verification involves the process of agreeing the value and nature of subsidies within the submitted subsidies down to source documents. This verifies the accuracy of the data. The verification team verified accuracy of the subsidies received details submitted in the REQ by reconciling these to source documents in accordance with ADN. No 2016/30.

11.4 Subsidies Accuracy Finding

The verification team are satisfied that the subsidies information provided in the exporter questionnaire response by PanAsia China is accurate.

11.5 Subsidies Preliminary Findings

The verification team's calculation of a subsidy margin are found in **Confidential Appendix 3**. The verification team has calculated a Subsidy margin for the review period of **3.2 per cent**.

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12 APPENDICES AND ATTACHMENTS

Confidential Appendix 1	Export price
Confidential Appendix 2	Domestic sales, OCOT and profitability
Confidential Appendix 3	Subsidies calculation
Confidential Attachment 1	Verification work program, with attachments