



Exporter Verification Report

Verification & Case Details

Initiation Date	27/11/2018	ADN:	2018/180
Case:	Resealable Can End Closures - Review of Measures		
Case Number	496		
Exporter	Genpacco Inc.		
Location	Bo. Pittland, Cabuyao, Laguna, Philippines		
Verification from	6/02/2019	to	11/02/2019
Review Period	1/10/2017	to	30/09/2018

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

Genpacco Inc. (Genpacco) has been engaged in tin can manufacturing for approximately 30 years. It produces three-piece sanitary cans used for powdered milk, processed meat products and crabmeats as part of its product range. It is a family owned and operated business that caters to both the domestic and export market and has no subsidiaries or parent company structures.

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

The verification team did not identify and related customers.

1.2.2 Related Suppliers

The verification team did not identify and related suppliers.

2 THE GOODS AND LIKE GOODS

2.1 Production Process

Genpacco purchase tinplate coil which it cuts into plates. Cut plates will have various dimensions (length, width, depth) depending on use – size of TRF (tagger, ting, foil end) and whether the cut plate is used for the production of “taggers” (lids) or rings.

The plates are lacquered or coated.

The coated tinplate is then punched to create the tagger or ring. Sealing compound is added to the ring and the tagger and ring are assembled with the foil.

2.2 Model Control Codes (MCCs)

Genpacco provided sales and cost data in its response to the exporter questionnaire in accordance with the MCC structure detailed in Consideration Report No. 496.

2.3 The goods exported to Australia

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

73mm, 83mm, 99mm, 127mm, 153mm

2.4 Like goods sold on the domestic market

The verification team were satisfied that Genpacco did not sell like goods in the domestic market.

2.4.1 Same General Category of Goods

The verification team considers that the same general category of goods manufactured for domestic consumption are:

- Can body with 127mm TRF seamed on

The verification selected this domestic model as it incorporates the like goods as a component. The TRF component of this model is identical to, or has characteristics closely resembling, the goods exported to Australia.

2.5 Model matching

As like goods were not sold by Genpacco in the domestic market, the verification team did not perform model matching between sales of domestic models and export models.

2.6 Like goods – assessment

The verification team considers that the goods produced by Genpacco 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).¹

However, the can body with 127mm TRF seamed on is the model considered by the verification team to be the most similar model to the like goods for the purposes of identifying it as the same general category of goods.

¹ 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’s methodology for completing the upwards sales verification included sales revenue reconciliation between:

1. Genpacco’s 2018 revenue listed in its audited financial statement to the revenue listed in the upwards sales reconciliation template;
2. sum of all four quarters of the 2018 financial year in Genpacco’s 2018 statement of income with the 2018 audited financial statement;
3. sum of all four quarters of the review period in Genpacco’s statement of income to the total sales value reported in the upwards reconciliation template;
4. the like goods exported to Australia listed in the upwards sales reconciliation template, with Genpacco’s monthly sales reports and the export sales list provided as part of Genpacco’s REQ; and
5. The same general category of goods listed in the upwards sales reconciliation template, with Genpacco’s monthly sales reports and the export sales list provided as part of Genpacco’s REQ.

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 verification team consider that the can body with 127mm TRF (model 502) are the same general category of goods that are most similar to the like goods. Although not like goods, this product includes like goods as part of the overall good. The verification team consider that these goods should be extracted from the domestic sales listing provided in the REQ, which included all products sold domestically.	The verification team extracted all sales of the relevant model which the team considered to be general category of goods and generated a revised domestic sales listing using these sales only.	Original domestic sales listing filtered for product code.

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2	<p>The verification team noted that the accuracy of the domestic sales listings for one customer was incorrect.</p>	<p>Genpacco advised that during the transfer from the raw data to the ADC template, the invoice values had shifted by one row for one customer, resulting in incorrect invoice values in the sales listing. Genpacco provided a revised listing which fixed this data error. This had no impact on the upwards sales reconciliation.</p>	<p>Revised domestic sales listing and supporting documentation provided in downwards sales reconciliation.</p>
3	<p>Genpacco queried whether or not the export sales listing should include exports that were originally exported during the original investigation period in 2015 but were re-exported to Australia in the Review Period after having been returned to Genpacco as part of a warranty claim.</p> <p>The verification team identified from sampled invoices that there were a quantity of exported TRFs not recorded in the export sales listing.</p>	<p>Genpacco revised the Export sales list to include the re-exported TRFs.</p>	<p>Revised domestic sales listing and supporting invoices Goods Returned Statement from Irwin Bills of Lading demonstrating the importation to the Philippines Genpacco's statement</p>

3.2 Completeness and Relevance Finding

The verification team are satisfied that the sales data provided in the exporter questionnaire response by Genpacco, 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, including any required amendments as outlined as an exception above at section 3.1, 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	The verification team manually adjusted transactions as the revised domestic sales list had data entry errors that were not rectified.	The verification team had the invoices for transactions and so manually updated the affected lines.	Revised domestic sales listing and supporting invoices

4.2 Sales Accuracy Finding

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

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

5 COST TO MAKE AND SELL

5.1 Verification of completeness and relevance of CTMS data

The verification team verified the completeness and relevance of 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.

The verification team identified the issues outlined below during this process. Details of the verification process are contained in the verification work program, and its relevant attachments, at Confidential Attachment 1.

5.1.1 Exceptions during Verification of Completeness and Relevance of CTMS data

No.	Exception	Resolution	Evidence Relied On
1	<p>Interest income and expenses were excluded from Genpacco's SG&A allocation. The expenses were identified as they were listed in Genpacco's Income Statements and its 2018 Financial Statement.</p> <p>The effect of excluding these expenses was to understate total SG&A. However, Genpacco included distribution expenses in its SG&A calculations and as the normal value is to be calculated at Ex-Works (EXW), these expenses were removed from the SG&A calculation.</p> <p>The effect was to cause a net decrease in percentage SG&A as reported in Genpacco's REQ.</p>	<p>The verification team included the interest income/expense and excluded the distribution expenses.</p>	<p>Financial statement Income statements Trial balance General Ledger Original SG&A list provided with REQ</p>

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 Genpacco, including any required amendments as outlined as an exception above, is complete and relevant.

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

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 Scrap Allocation	Fully absorbed actual cost of tinplate recorded for each product and component sold domestically and for export	Raw material ledgers Production ledgers Inventory ledgers
Manufacturing Overheads	Actual costs identified for each customer and allocated according to specific models manufactured for each customer Actual costs to be allocated across all customers	Production ledgers
Labour	Actual costs identified for each customer and allocated according to specific models manufactured for each customer Actual costs to be allocated across all customers	Payroll data
Depreciation	Actual costs identified for each customer Actual costs to be allocated across all customers	Monthly depreciation schedule
Packaging	Actual costs for each product and component sold domestically and for export	Production ledgers

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	The verification team identified that Genpacco had allocated overheads according to the production quantity of finished goods. This resulted in the same unit overhead allocation – even where there were more production intensive products that would require a proportionally higher overhead allocation. Accordingly, the Australian CTM data was understated.	Genpacco revised its overhead allocations with reference to the total raw material costs for each of its finished goods made. The verification team accepted this allocation as reasonable as the raw material costs inherently capture higher costs and production intensity. The verification team reviewed Genpacco's revised Australian CTM data and confirmed that the direct labour allocations were applied as agreed.	Original Australian CTM data Revised Australian CTM data Production ledgers

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2	<p>The verification team identified that Genpacco had allocated overheads according to the production quantity of finished goods. This resulted in the same unit overhead allocation – even where there were more production intensive products that would require a proportionally higher overhead allocation. Accordingly, the Domestic CTM data for the same general category of goods was understated.</p>	<p>Genpacco revised its overhead allocations with reference to the total raw material costs for each of its finished goods made. The verification team accepted this allocation as reasonable as the raw material costs inherently capture higher costs and production intensity.</p> <p>The verification team reviewed Genpacco's revised Domestic CTM data and confirmed that the overhead allocations were applied as agreed.</p>	<p>Original Domestic CTM data Revised Domestic CTM data Production ledgers</p>
3	<p>The verification team identified that Genpacco had allocated direct labour according to the production quantity of finished goods. This resulted in the same unit labour allocation for the month – even where there were more production intensive products that would require a proportionally higher direct labour allocation. Accordingly, the direct labour in the Australian CTM data was understated.</p>	<p>Genpacco revised its direct labour allocations with reference to the anticipated revenue achieved for each of its finished goods made. The verification team accepted this allocation as reasonable as the prices inherently capture higher costs and production intensity.</p> <p>The verification team reviewed Genpacco's revised Australian CTM data and confirmed that the direct labour allocations were applied as agreed.</p>	<p>Original Australian CTM data Revised Australian CTM data Production ledgers Payroll data</p>
4	<p>The verification team identified that Genpacco had allocated direct labour according to the production quantity of finished goods. This resulted in the same unit labour allocation – even where there were more production intensive products that would require a proportionally higher direct labour allocation. Accordingly, the direct labour in the Domestic CTM data for the same general category of goods was understated.</p>	<p>Genpacco revised its direct labour allocations with reference to the anticipated revenue achieved for each of its finished goods made. The verification team accepted this allocation as reasonable as the prices inherently capture higher costs and production intensity.</p> <p>The verification team reviewed Genpacco's revised Domestic CTM data and confirmed that the direct labour allocations were applied as agreed.</p>	<p>Original Domestic CTM data Revised Domestic CTM data Production ledgers Payroll data</p>

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 Genpacco, 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	Electricity cost for 73mm TRF manufactured in Oct-Dec 2017 quarter understated in (revised) Australian CTM by approximately 9%. Identified by reconciling Genpacco's underlying cost data with revised Australian CTM	The verification team considered this to be a transcription error rather than a calculation or allocation error in Genpacco's underlying cost sheets. The correct amount calculated in Genpacco's underlying cost and allocation sheets was transcribed by the verification team to the revised Australian CTM data.	Production cost worksheets Australian CTM (revised) Summary calculation (preparatory document between production cost sheets and revised CTM data)

5.6 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 Genpacco, 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 Genpacco 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 Genpacco to be the exporter of the goods.

6.3 Arms length

In respect of Genpacco'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.²

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

6.4 Export Price – assessment

In respect of Australian sales of the goods by Genpacco, 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**.

² Section 269TAA of the Act refers.

7 DOMESTIC SALES SUITABILITY

The verification team is satisfied that as there are no domestic sales of the goods in the Philippines, and has assessed the domestic sales of the same general category of goods to be suitable for assessing normal value under subsection 269TAC(2)(a).

7.1 Arms length

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

7.2 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.

Subsection 269TAC(5A) and 269TAC(5B) of the Act requires that where a normal value is calculated as a result of:

- the conditions identified under subsection 269TAC(2)(a), such that
- the construction of the normal value is undertaken according to the methodology described under subsection 269TAC(2)(c) that;

Regulation 45 of the *Customs (International Obligations) Regulation 2015* (the Regulations) be used to determine an amount of profit.

As there were no sales of like goods on the domestic market, in the Review Period, the verification team identified the same general category of goods according to Regulation 45(3)(a) of the Regulations, which was used for the purposes of calculating a profit.

8 ADJUSTMENTS

To ensure the normal value is comparable to the export price of goods exported to Australia at EXW 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?
Export credit terms	For fair comparison between the normal value and export price	Payment terms = Average days in export accounts receivables ledger Interest rate = Actual interest paid by Genpacco on its short-term loans	Accounts receivables ledger Payment details for exports Interest payments and details of Genpacco's loans	N

8.2 Adjustments

Adjustment Type	Deduction/addition
Export credit terms	Addition

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

9 NORMAL VALUE

The verification team is satisfied that because of the absence, or low volume, of sales of like goods in the market of the country of export that would be relevant for the purpose of determining a normal value, the normal value of goods exported to Australia cannot be ascertained under subsection 269TAC(1).

The verification team has therefore calculated a preliminary normal value under subsection 269TAC(2)(c) being;

- the CTM of the TRFs exported to Australia in the Review Period, in accordance with subsection 269TAC(2)(c)(i) of the Act;
- an amount of domestic SG&A, being a percentage of Genpacco's total SG&A (as it was not possible for the verification team to identify domestic or export-specific expenses from Genpacco's records) calculated in accordance with subsection 269TAC(2)(c)(ii) of the Act and Regulation 44(3)(c) of the Regulations; and
- an amount of profit from the same general category of goods, using Genpacco's verified data for a can body plus 127mm TRF seamed on, in accordance with subsection 269TAC(2)(c)(ii) of the Act and Regulation 45(3)(a) of the Regulations.

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

10 DUMPING MARGIN

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

The dumping margin in respect of the goods exported to Australia by Genpacco for the period is **26.2 per cent**.

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

11 APPENDICES AND ATTACHMENTS

Confidential Appendix 1	Export price
Confidential Appendix 2	Cost to make and sell
Confidential Appendix 3	Domestic sales, OCOT and profitability – Same General Category or Goods
Confidential Appendix 4	Normal Value
Confidential Appendix 5	Dumping Margin
Confidential Attachment 1	Verification work program