



## Exporter Verification Report

### Verification & Case Details

<b>Initiation Date</b>	24/06/2019	<b>ADN:</b>	2019/83
<b>Case:</b>	High Density Polyethylene - Dumping Investigation - Qenos Pty Ltd - Korea, Singapore, Thailand, USA		
<b>Case Number</b>	515		
<b>Exporter</b>	Chevron Phillips Singapore Chemicals (Private) Limited		
<b>Location</b>	Singapore		
<b>Verification from</b>	14/08/2019	<b>to</b>	19/08/2019
<b>Investigation Period</b>	1/04/2018	<b>to</b>	31/03/2019

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

Chevron Phillips Singapore Chemicals (Private) Limited (CPSC) is a manufacturer and seller of high density polyethylene (HDPE).

The company is a joint venture between Chevron Phillips Chemical Company LLC and other non-related entities.

CPSC sells HDPE to both related distributors (within the Chevron Phillips Chemical corporate structure) and unrelated customers. It sources raw materials primarily from unrelated parties.

### 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

The majority of CPSC's Australian sales were to a related distributor, Chevron Phillips Chemicals Australia (CPCAU).

The verification team tested the arms length nature of these transactions, by comparing the selling prices with sales to unrelated customers. Furthermore, CPCAU's sales data was verified through an importer verification to test the profitability of imports of the goods.<sup>1</sup>

Based on these assessments, the verification team is satisfied that related party sales are arms length as set out at Chapter 6 of this report, and therefore suitable for the purposes of ascertaining the export price under section 269TAB(1)(a) of the Act.<sup>2</sup>

CPSC did not have any domestic sales to related customers.

#### 1.2.2 Related Suppliers

CPSC sources raw materials primarily from unrelated parties, including ethylene which is the major cost driver.

Raw material inputs were verified as part of the verification of CPSC's cost to make and sell as set out at Chapter 5 of this report.

Where raw materials were purchased from related parties, the verification team did not find any evidence to suggest that purchases were not arms length, and has therefore included all raw material costs, as reported by CPSC, in its assessment of the variable factors.

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<sup>1</sup> Anti-Dumping Commission, Electronic Public Record (EPR), Investigation (515), High density polyethylene, Chevron Phillips Chemicals Australia, Importer verification report.

<sup>2</sup> References to any section or subsection in this report relate to provisions of the Customs Act 1901 (Cth), unless specifically stated otherwise.

## 2 THE GOODS AND LIKE GOODS

### 2.1 Production Process

Major steps in the production process include:

- Purchased raw materials (eg. feedstocks, catalysts, additives) are fed into the reactors. HDPE powder is made in the reactor.
- HDPE powder is stored inside silos and fed into the extrusion machines.
- The powder is extruded, pelletized and stored inside pellet silos.
- The pellets are then transferred to the packaging machines and warehoused.
- The packaged HDPE bags and bulk sacks are shipped or delivered to customers.

The verification team identified that the major production steps were identical for domestic and export production of the goods. However, transport and packaging varied between sales.

### 2.2 Model Control Codes (MCCs)

CPSC provided sales and cost data in its response to the exporter questionnaire in accordance with the MCC structure detailed in Consideration Report No. 515, and by grade/application:

Grade	MCC
5202	A-B-N
5502	A-B-N
50100	A-B-N
6007	A-B-N
C513UV	A-B-O
TR-144S	A-F-N
TR-571S	A-B-N

### 2.3 The goods exported to Australia

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

### 2.4 Like goods sold on the domestic market

The verification team were satisfied that CPSC 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:

- **physical likeness** – Both the goods sold domestically and exported to Australia have identical mechanical properties, thermal properties and chemical properties. CPSC does not produce the goods specifically for any market and the goods are produced for both domestic and export sale.
- **production likeness** – The goods are produced at the same production facility and CPSC is not aware of whether the goods will be sold domestically or exported when producing the goods.
- **commercial likeness** – the goods sold domestically and those exported to Australia are sold with the same commercial arrangements; and

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- **functional likeness** – the goods sold domestically and those exported to Australia are functionally alike as CPSC produce the same goods for both domestic and export consumption.

CPSC sold like goods on the domestic market with the following grades during the period:

### 2.5 Model matching

The verification team conducted a price analysis and had regard to minimum price schedules for goods sold within the same MCC. The verification team observed material variances in the selling prices between different grades of the same MCC category.

For this reason, the verification team did not use the proposed MCCs for the purposes of model matching, but instead matched domestic and export selling prices based on grades, which were a subset of the proposed MCC categories.

Where there were no domestic sales or a low volume of domestic sales of a certain grade, the verification team considered that sufficient information was available for the purposes of matching export sales of these grades with domestic sales of like goods in accordance with TAC(1).

The methodology used to match exports of these grades to domestic selling prices is set out at chapter 7.3 of this report.

### 2.6 Like goods – assessment

The verification team considers that the goods produced by CPSC 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 *Customs Act 1901* (the Act).<sup>3</sup>

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<sup>3</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 identified the issue 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	CPSC's domestic sales listing included sales to Asia Peak Pte Ltd which is a trading company for an Australian importer. These sales are export sales.	CPSC has revised the domestic sales listing to exclude sales to Asia Peak Pte Ltd and included these in the export sales listing.	CPSC's sales invoices to Asia Peak Pte Ltd which contained Australian customer details.

#### 3.2 Completeness and Relevance Finding

The verification team are satisfied that the sales data provided in the exporter questionnaire response by CPSC, 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	Inland transport and storage costs were not an accurate reflection of the actual cost of inland transportation.	CPSC provided a revised Australian sales listing to include actual inland transport and storage costs.	Inland transport invoices.
2	Handling fee (seal fee) included in ocean freight. This fee is separate from ocean freight and is the fee associated with placing the container on the vessel.	The verification team has removed the cost of the seal fee from the ocean freight expense and included it as a separate expense under "handling and other" in the export sales listing.	Overseas freight invoices.
3	Commissions have been allocated on a per metric tonne basis although the contract for Commissions is for payment on the net back invoice value (FOB price less inland transport) with an annual cap.	Commissions were found to have reached the annual cap for both domestic and export sales. The verification team reallocated commissions by converting the annual cap in \$USD to \$SGD and dividing this by the total export/domestic net back invoice sales amount to determine the percentage of Commissions payable. This percentage was then applied to the netback invoice price to determine a transaction by transaction commission amount and the export and domestic sales listings were revised.	CPSC Sales Agency Agreements

### **4.2 Sales Accuracy Finding**

The verification team are satisfied that the sales data provided in the exporter questionnaire response by CPSC, 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 CPSC 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 this 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
1	During the onsite verification, CPSC provided a revision to the total costs allocated to its CTM based on a minor revision in changes to the WIP.	The verification team reconciled costs reported in the CTMS upwards to CPSC's audited financial statement and is satisfied that costs reported are complete and relevant.

### **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 CPSC, including any required amendments as outlined as an exception above, 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	Actual costs incurred were allocated to each grade based on the production volumes (of each grade), total raw material costs incurred, and standard usage rates of raw materials for each grade.	Bill of materials; verification of raw material costs to CPSC's cost accounting system and financial statement; verification of raw material purchases (commercial invoices and proof of payment); verification of production records.
Scrap Allocation	Scrap sales relate to "waste" generated during production, of various specifications similar to the goods. An adjustment had not been allocated for scrap.	Verification of production records; verification of the completeness of sales data.



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Manufacturing Overheads (including depreciation)	Total manufacturing overheads were allocated across HDPE products, with costs allocated based on the cost per unit of production for each quarter.	Verification of manufacturing overhead costs to CPSC's cost accounting system; verification of production records; verification downwards to source documents for selected items.
Labour	Total labour costs were allocated across HDPE products, with costs allocated based on the cost per unit of production for each quarter.	Verification of labour costs to CPSC's cost accounting system; verification of production records.
Packaging	Weighted average packaging costs were reported in the cost to make for each quarter. Furthermore, packaging expenses were allocated in the sales listing based on the packaging for each sale.	Weighted average packaging expenses were reconciled upwards to the total costs for packaging in CPSC's cost accounting system. Furthermore, the allocation of packaging expenses in the sales listing was verified to source documents as part of the verification of sales expenses.

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	During the verification of costs, it was identified that there was significant variance in the allocation of direct labour and manufacturing overheads on a quarterly basis, due to a scheduled plant shutdown affecting production during one quarter in the investigation period.	Costs for direct labour and manufacturing overheads were reallocated to the goods based on the cost per unit of production during the investigation period.	Verification of costs for direct labour and manufacturing overheads to CPSC's cost accounting system; verification of production records.

### 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 CPSC, 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 CPSC is accurate.

## 6 EXPORT PRICE

### 6.1 The importers

In relation to the goods exported by CPSC 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 CPSC to be the exporter of the goods.

### 6.3 Arms length

In respect of CPSC'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>4</sup>

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

### 6.4 Export Price – assessment

In respect of Australian sales of the goods by CPSC, 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>4</sup> Section 269TAA of the Act refers.

## 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 CPSC 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 Chevron Phillips Singapore Chemicals (Private) Limited 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
7	6

### 7.3 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 percent of the total volume of the goods under consideration that are exported to Australia.

The verification team's assessment of the suitability of domestic models to the models exported to Australia is detailed below:

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Export Grade	Sufficient sales of identical model sold on the domestic market	Surrogate model identified	Model matching methodology
5202	Yes	N/A	For grades where a surrogate model was required, the verification team had regard to CPSC's sales data and minimum pricing schedules for the purpose of identifying grades with comparable selling prices. Furthermore, the verification team applied a specification adjustment where necessary, to uplift the quarterly selling prices, based on price differences observed from minimum pricing schedules.
5502	Yes	N/A	
50100	Yes	N/A	
TR-144S	Yes	N/A	
TR-571S	Yes	N/A	
6007	No	Yes	
C513UV	No	Yes	

### 7.4 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 verification team calculated an amount of profit, based on the production and sales of like goods by CPSC in the OCOT in accordance with Regulation 45(2) of the *Customs (International Obligations) Regulation 2015*.

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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 section 269TAC(8).

**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>
Inland Transport	To account for the difference in inland transport costs for domestic sales which are delivered to customers and export sales which are delivered to the port for export.	Weighted average inland transport per tonne	Inland transport invoices	Y
Packing	To account for the differences in packaging costs for domestic and export sales.	Weighted average packing per tonne	Cost for each packing type	Y
Commissions	To account for the differences in Commissions paid to sales agents for domestic and export sales.	Weighted average commission as a percentage of netback sales invoice	CPSC sales agency agreements	Y
Credit cost	To account for the differences in credit terms for domestic and export sales.	Weighted average of credit costs as a percentage of net invoice value	Term deposits and bank statements for payment days	N
Handling & Other	To account for an export handling fee.	Set handling & other fee per container converted to a per tonne value	Overseas freight documents	N

## 8.2 Adjustments

<b>Adjustment Type</b>	<b>Deduction/addition</b>
Inland Transport	Deduction for domestic inland transport and addition for export inland transport
Packing	Deduction for domestic packaging and addition for export packaging
Commissions	Deduction for domestic commissions and addition for export commissions
Credit cost	Deduction for domestic credit costs and addition for export credit costs
Handling & Other	Addition for export handling & other costs

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

## 9 NORMAL VALUE

The verification found that there were models with sufficient volumes of domestic sales of the goods, exported to Australia, that were arms length transactions and at prices that were in the OCOT. The verification team is therefore satisfied that the prices paid in respect of domestic sales of these models of the goods are suitable for assessing normal value under subsection 269TAC(1).

In using domestic sales as a basis for normal value, the verification team considers that certain adjustments, in accordance with subsection 269TAC(8), are necessary to ensure fair comparison of normal values with export prices, as outlined in chapter 8.

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 CPSC for the period is **negative 0.9 per cent**.

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

**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 Appendix 4</b>	Normal Value
<b>Confidential Appendix 5</b>	Dumping Margin
<b>Confidential Attachment 1</b>	Verification work program