



Exporter Verification Report

Verification and case details

Initiation Date	24 June 2019	ADN:	2019/83
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Case Number	515		
Exporter	Korea Petrochemical Ind. Co., Ltd.		
Location	Republic of Korea		
Verification from	21 August 2019	to	26 August 2019
Investigation Period	1 April 2018	to	31 March 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

Korea Petrochemical Ind. Co., Ltd. (KPIC) is an integrated manufacturer of high density polyethylene (HDPE).

KPIC is a publicly listed company on the Korean Stock Exchange. KPIC's shareholders include KPIC Corporation (KPICC), which is the trader of the goods exported to Australia.

KPIC sells HDPE to both related and unrelated customers.

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

During the investigation period, KPIC exclusively exported the goods to Australia through KPICC, a related intermediary. KPICC sold the goods to unrelated customers in Australia.

The verification team found that KPICC achieved a margin on *all* exports of the goods to Australia. Based on this, the verification team is satisfied that the sales between KPIC and KPICC are arms length.

The verification team found that KPIC did not sell the goods to any related customers in the domestic market.

1.2.2 Related suppliers

During the investigation period, KPIC purchased electricity, steam and water from a related supplier, Hanju Corporation (Hanju), to manufacture the goods and operate its plants. Hanju is the district utility company in the Ulsan Petrochemical Industrial Complex and is co-owned by most of the companies located in the complex.

Furthermore, KPICC is KPIC's logistics provider for both domestic and export sales.

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

2 THE GOODS AND LIKE GOODS

2.1 Production process

KPIC is an integrated manufacturer of HDPE that produces ethylene (the main raw material used in the production of HDPE) by cracking naphtha at its Onsan production plant located in southeast Korea.

The ethylene produced at Onsan is transferred to KPIC's Ulsan manufacturing plant, also located in southeast Korea.

KPIC uses the Slurry Continuous Stirred Tank Reactor (CSTR) method for the production of HDPE. Ethylene and a small quantity of propylene is used as substrate for HDPE and uses Ziegler-Natt as the catalyst, 1-butene is used as the comonomer and hexane is used as the diluent.

The production process of HDPE at the Ulsan plant consists of the following stages:

Polymerization: ethylene monomers are polymerized in solvent together with the catalyst, hydrogen and comonomer. The polymerization heat is cooled through external circulation heat exchanger. The reacted slurry is transferred to the separation and drying process.

Separation / drying: slurry is transferred to a high speed centrifuge from which it is separated into solvent and wet powders. The separated solvent is supplied to the reactor and some solvents are recycled in the process through refining. Wet powders are transferred to the powder dryer and dried.

Transfer / extrusion: the wet powders are dried in the powder dryer by evaporating the solvent with high-temperature nitrogen and steam. The evaporated solvent is recovered by the scrubber. The dried powders are transferred to the extrusion process where they are melted and pelletised in the extruder. At this stage, the carbon black pellets are added and are melted and then pelletised in the extruder to make the P600 BL grade. The pellets are then transferred to the storage silo.

Storage and packaging: the products are transferred to the pellet silo, are cooled by air and homogenized.

There are no differences in the production process between the goods and like goods sold on the domestic market.

2.2 Model Control Codes (MCCs)

KPIC provided sales and cost data in its response to the exporter questionnaire in accordance with the model control code (MCC) structure detailed in Anti-Dumping Notice (ADN) No. 2019/82 and table 1.

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Item	Category	Sub-category	Identifier	Sales Data	Cost Data	Key Category
1	Specification	Prime	A	Mandatory	Mandatory	Yes
		Non-Prime	B			
2	Application	Pipe	P	Mandatory	Optional	Yes
		Injection	I			
		Blow moulding	B			
		Film	F			
		Tape and monofilament (may also be described as Yarn)	T			
3	Other additives	Colour	C	Mandatory	Mandatory	Yes
		Other	O			
		None	N			

Table 1: MCC structure

Within the domestic sales listing, KPIC categorised some like goods within the following three MCC's, which did not match the Commission's proposed MCCs:

- B-O-N
- A-O-C
- A-O-N

The application for these products listed with these MCC is "other", as these products are used in end-use applications for coatings for sheets, cable wires and steel pipes.

KPIC also provided sales and cost data in its response to the exporter questionnaire by grade. The grades are used by KPIC internally to distinguish and identify the different HDPE products it manufactures and sells. These grades are listed on KPIC's website including its product catalogue, which is also available from its website.

2.3 The goods exported to Australia

The verification team is satisfied that KPIC produced and exported the goods to Australia during the investigation period.

The verification team found that KPIC exported only one grade ('P600 BL') of the goods to Australia in the investigation period. This grade is included in MCC 'A-P-C' (a coloured grade used in pipe applications), which also encompasses four other grades.

2.4 Like goods sold on the domestic market

The verification team is satisfied that KPIC sold like goods in the domestic market during the investigation period. The like goods sold on the domestic market were classified within the following MCCs:

- A-B-N
- A-F-N

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- A-I-N
- A-O-C
- A-O-N
- A-P-C
- A-P-N
- A-T-N
- B-B-N
- B-F-N
- B-I-N
- B-O-N
- B-P-N
- B-T-N

As noted in section 2.3 of this report, the verification team found that KPIC exported only one grade of the goods to Australia. This grade is included in MCC 'A-P-C', which also includes four other grades.

KPIC stated that the grades within MCC A-P-C are not interchangeable because they have different physical and chemical properties and have different end-uses in terms of different pipe applications. The verification team considers that these other grades have different physical and chemical properties to the exported grade, and are used for different purposes within pipe applications.

KPIC indicated that if the Commission were to undertake model matching based on the proposed MCCs, then specification adjustments would need to be made to adjust for the price differences between the exported grade and the other four grades sold in the domestic market.

The verification team found that certain grades within MCC A-P-C have significantly different prices to the grade exported to Australia.

The verification team further found that KPIC sold an **identical** grade in the domestic market to the grade exported to Australia. The verification team found that this grade sold on the domestic market for domestic consumption is identical to the exported grade based on the following assessment:

- physical likeness – the grade sold in the domestic market is not distinguished from the exported grade during production, and the costs of production are the same. Further, the grades have the same physical and chemical properties;
- production likeness – the grades are produced at the same production facility (at Ulsan) using the same raw material inputs (ethylene and the colour additive 'carbon black') and manufacturing process;
- commercial likeness – the goods are interchangeable and compete in the same market sector; and
- functional likeness – the grades are used to manufacture gas and water pipes and have similar end-uses.

2.5 Model matching

Given that KPIC exported only one grade of HDPE to Australia in the investigation period, and given that there are various other grades included in MCC A-P-C that differ in terms of physical and chemical properties, prices and end-uses, the verification team considers that, for model

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matching purposes, the grade of the goods exported to Australia should be matched to the identical grade sold on the domestic market.

The verification team considered the following categories when comparing sales of domestic models and export models.

Category	Characteristics of category & rationale for model matching	Used in Model Matching
HDPE Grade	Each grade has unique physical and chemical properties and end-use applications relative to the other grades, is costed separately and is priced differently.	Y

2.6 Like goods – assessment

The verification team considers that the goods produced by KPIC for domestic sale are identical in all respects to the goods exported to Australia and are therefore 'like goods' in accordance with subsection 269T(1) of the Act.

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 by KPIC in its response to the exporter questionnaire by reconciling these to audited financial statements in accordance with ADN No. 2016/30.

The verification methodology adopted by the verification team is summarised below.

1. The verification team reconciled the total sales revenue as per KPIC's audited income statement for 2018, including the trial balances for the March 2018 and March 2019 quarters,¹ to the total sales revenue for the investigating period as reported in its management reports which were extracted directly from its accounting system.
2. KPIC provided a breakdown of the total sales revenue for the investigation period by product group or category (i.e. polyethylene, polypropylene, benzene, toluene etc.), as extracted from its accounting system, which reconciled to the total sales revenue for the investigation period as verified in the previous step.
3. KPIC provided a monthly breakdown of sales by month for HDPE (including domestic and export sales). The total HDPE sales revenue in the investigating period reconciled to the total for polyethylene as noted in step 2.
4. KPIC disaggregated the sales revenue and sales volume for HDPE into export and domestic sales, which were reconciled to the detailed sales listings / journals for all domestic and export sales as extracted from KPIC's accounting system. KPIC demonstrated that for its export sales, it is able to filter for the sales to Australia.

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.

3.2 Completeness and relevance finding

The verification team is satisfied that the Australian and domestic sales data provided by KPIC in its response to the exporter questionnaire is complete and relevant.

¹ To derive the total sales revenue for KPIC for the investigation period, the verification team deducted the sales revenue in the March 2018 quarter from the total sales revenue in 2018, and then added the sales revenue in the March 2019 quarter to derive the total for the investigation period.

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

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 the verification involves the process of agreeing the volume, value and other key information within the sales data down to source documents. This verifies the accuracy of the data (e.g. for sales data, that 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 exporter questionnaire by reconciling these to source documents provided by KPIC and KPICC, 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**.

4.1.1 Exceptions during Verification of Sales Accuracy

No.	Exception	Resolution	Evidence Relied On
1	The verification team identified that KPIC had incorrectly treated certain direct material packaging costs as indirect costs and had allocated these costs to all packaging types, including packaging for the domestic and export market. The verification team considers that these direct costs should be allocated to the relevant packaging type, including the relevant market (i.e. domestic or export) the packaging relates to.	KPIC provided a revised packing cost allocation worksheet, which separately identified these direct material packaging costs and allocated these costs to the different packaging types depending on whether the materials were directly consumed. KPIC also identified whether these costs related to packaging for the export or domestic market.	Source document including packing material invoices and the general ledger for packing materials and labour expenses. Revised packing cost allocation worksheet.

4.2 Sales accuracy finding

The verification team is satisfied that the Australian and domestic sales data provided by KPIC in its response to the exporter questionnaire including any required amendments as outlined above as an exception, 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 of the cost to make and sell (CTMS) information provided by KPIC in its response to the exporter questionnaire by reconciling it to audited financial statements in accordance with ADN No. 2016/30.

The verification team did not identify any issues during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at Confidential Attachment 1.

5.2 Completeness and relevance finding of CTMS data

The verification team is satisfied that the CTMS data provided by KPIC in its response to the exporter questionnaire 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 response to the exporter questionnaire to the relevant models, in accordance with ADN No. 2016/30.

Cost area	Methodology applied	Evidence relied on
Raw Materials	Actual material costs captured by each production line. Cost allocation to grades is made with reference to the Bill of Materials and production quantity.	Raw material invoices Bill of Materials General and sub-ledgers
Scrap Allocation	Net sales revenue allocated based on quantity	General and sub-ledgers
Manufacturing Overheads	Actual costs allocated based on production quantity	General and sub-ledgers
Labour	Actual costs incurred by production line and allocated based on production quantity	General and sub-ledgers
Depreciation	Actual cost. Straight line method based on asset type, original value, useful life and depreciation rate. Allocation included in manufacturing overheads	General and sub-ledgers Fixed asset register
Packaging	Actual costs by packing type allocated based on production quantity	Commercial invoices General and sub-ledgers

5.4 Verification of CTMS allocation methodology finding

The verification team is satisfied that the allocation methodology for the cost to make and sell data provided in the exporter questionnaire response by KPIC is reasonable.

5.5 Verification of accuracy of CTMS data

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

5.6 Accuracy finding of CTMS data

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

6 EXPORT PRICE

6.1 The importers

In relation to the goods exported by KPIC to Australia via KPICC, the verification team considers that the Australian customers listed for each shipment were the beneficial owners of the goods at the time of importation into Australia, and therefore were the importers of the goods, except for one particular shipment that was sold to a Korean trader. The verification team found that this trader purchased the goods from KPICC and sold these goods to an Australian entity, which was the beneficial owner of the goods at the time of importation into Australia.

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 found that during the investigation period, KPIC exclusively exported the goods to Australia via a related intermediary, KPICC.

The verification team found that KPIC manufactured the goods to Australian standards and is listed as the producer of these goods on the sales contract (such as the pro-forma invoice) between KPIC and the Australian importer, and is also listed as the producer on the export declaration.

The verification team further found that KPIC knowingly placed the goods in the hands of KPICC, as its freight forwarder, for export to Australia. While KPICC is the contracted freight forwarder and therefore arranges the inland transport to the port of loading and arranges ocean freight, KPIC is the entity that ultimately incurs and pays for these costs in relation to the goods exported to Australia, and was closely involved in the decisions that led to the export of the goods from Korea to Australia.

Therefore, having regard to all the circumstances of the exportation of the goods to Australia, the verification team considers KPIC to be the exporter of the goods to Australia during the investigation period.

6.3 Arms length

In respect of KPIC's sales of the goods to KPICC during the investigation period, and in respect of KPICC's sales of the goods to the Australian importers, 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

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- 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 KPIC's exports of the goods, via KPICC, to Australia during the investigation period were arms length transactions.

6.4 Export price – assessment

In respect of the exports of the goods by KPIC (via KPICC) to Australia, the verification team considers that there are reasonable grounds to conclude that the goods were exported to Australia other than by the importer; however, the goods were not purchased by the importer from the exporter. Therefore, the verification team considers that the export price cannot be determined under subsection 269TAB(1)(a) or 269TAB(1)(b).

Having regard to all the circumstances of the exportation of the goods to Australia, the verification team considers that the export price should be determined using the price between KPIC and KPICC, the intermediary in the exportation of the goods to Australia, less ocean freight costs to derive an export price at Free on Board delivery terms. The date of sale is the date of the invoice between KPIC and KPICC, noting that this date also matches the date of the invoice between KPICC and the Australian importer. Therefore, the export price should be determined under subsection 269TAB(1)(c).

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 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 KPIC to its customers in the investigation 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 KPIC to domestic customers during the investigation period were arms 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 OCOT.

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

Number of models	Models in OCOT
36	35

7.3 Suitability of domestic sales

Subsection 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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Exported grade	Sufficient sales of identical model sold on the domestic market	Surrogate model identified
P600 BL	Yes	Surrogate model not required

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8 ADJUSTMENTS

To ensure the normal value is comparable to the export price of the goods exported to Australia at free-on-board (FOB) terms, the verification team has considered the following adjustments in accordance with subsection 269TAC(8).

8.1 Rationale and methodology

Adjustment type	Rationale for adjustment	Calculation methodology	Evidence	Claimed in REQ?
Credit terms (domestic and export)	Domestic and export payment terms differ. In the domestic market, KPIC offer open accounts with rolling credit for most customers. For Australian sales, payment is to be received within 5 or 7 days from the shipment date, depending on the shipment.	Weighted average interest rate based on the short term borrowings applied to the payment days for domestic and export sales.	KPIC's list of short-term borrowings and general ledger.	Yes
Packaging (domestic and export)	KPIC incur packaging costs for both domestic and export sales with the packing types and costs varying for each market (i.e. domestic or export) and HDPE grade.	Actual packing expenses (by packaging type) used to calculate a single unit weighted average cost for the investigation period.	Packing material invoices. General ledger for packing materials and labour. Revised packing cost allocation worksheet	Yes
Inland transport (domestic and export)	KPIC incurred transport expenses for the majority of its domestic sales and all export sales to Australia.	Actual inland freight expenses used to calculate a single unit weighted average cost for the investigation period.	Freight invoices, freight contracts for export and domestic inland freight, and KPIC's general ledger relevant to freight expenses.	Yes
Export port handling charges	KPIC incurred port handling charges for all export sales to Australia, which includes wharfage, port handling and customs broker fees.	Actual port handling expenses used to calculate a single unit weighted average cost for the investigation period.	Fee schedule and sub-ledgers from the accounting system.	Yes
Duty drawback	For its exports of the goods to Australia, KPIC received duty drawback refunds in relation to import duties paid on certain raw materials used to produce the goods.	At the verification visit, KPIC explained that it was too onerous to provide the information in relation to its duty drawback adjustment claim and therefore it did not quantify the adjustment. Given this, the verification team did not make a	No information provided by KPIC.	Yes

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		downwards adjustment to the normal value.		
Value Added Tax (VAT)	VAT is applied on domestic sales of like goods. The goods exported to Australia do not attract any VAT.	KPIC collects VAT paid on domestic sales. KPIC also receives a VAT refund in relation to purchases of inputs into production. The VAT collected is recorded separately. An adjustment for VAT was not made.	No information provided by KPIC.	Yes

8.2 Adjustments

Adjustment type	Deduction/addition
Domestic credit	Deduct the cost of domestic credit
Domestic packaging	Deduct the cost of domestic packaging
Domestic inland freight	Deduct the cost of domestic inland freight
Export packaging	Add the cost of export packaging
Export inland freight	Add the cost of export inland freight
Export handling	Add the cost of export handling
Export credit	Add the cost of export credit

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

9 NORMAL VALUE

The verification found that there were models with sufficient volumes of like goods sold in the domestic market that were arms length transactions and at prices that were within 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 section 8 of this report.

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 export prices to the corresponding quarterly weighted average normal value for the investigation period, in accordance with subsection 269TACB(2)(a) of the Act.

The dumping margin in respect of the goods exported to Australia by KPIC for the investigation period is **negative 5.1 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
Confidential Appendix 4	Normal Value
Confidential Appendix 5	Dumping Margin
Confidential Attachment 1	Verification work program