



## 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 Chemical Company LP (CPChem US)		
<b>Related Party</b>	Chevron Phillips Chemicals Asia Pte Ltd (CPCA)		
<b>Location</b>	Singapore and the USA		
<b>Verification from</b>	13/08/2019 25/09/2019	<b>to</b>	19/08/2019 (Singapore) 30/09/2019 (USA)
<b>Investigation Period</b>	1/04/2018	<b>to</b>	31/03/2019

THIS REPORT AND THE VIEWS OR RECOMMENDATIONS CONTAINED HEREIN 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 Chemical Company LP (CPChem US) is an integrated manufacturer of the goods, and a wholly owned indirect subsidiary of Chevron Corporation and Phillips 66.

## **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**

CPChem US's sales of the goods in the investigation period that were exported to Australia were all sold to related trading company Chevron Phillips Chemical Asia Pte. Ltd (CPCA), prior to being sold by CPCA and imported to Australia.

As part of the sales verification, the verification team observed the sales arrangement between CPChem US and CPCA. Furthermore, CPCA provided a response to the exporter questionnaire (REQ), and the completeness, relevance and accuracy of this response was verified onsite in Singapore, as set out at Chapters 5 and 6 of this report.

Furthermore, the sales arrangement between CPChem US and CPCA has informed the preliminary assessment of the export price, as set out at Chapter 8 of this report.

### **1.2.2 Related Suppliers**

CPChem US produces the major raw materials used in the production of the goods and the verification team did not identify any raw material purchases from related parties.

As part of the verification of costs, the verification team tested the allocation of raw material expenses to the goods.

Details of the costs verification are at Chapter 7 of this report.

## 2 THE GOODS AND LIKE GOODS

### 2.1 Production Process

CPChem US is an integrated producer of the goods. Major steps in the production of HDPE include:

- HDPE resins are produced in a loop slurry reactor – raw materials (eg. feedstocks, catalysts) are fed into a closed pipe loop reactor.
- Small solid polyethylene particles are formed and settle out of the slurry in the reactor due to their greater density.
- After hydrocarbons are stripped away, additives may be added to the polyethylene particles.
- The polyethylene-additive mixture is then conveyed through an extruder and converted into polyethylene pellets.
- The HDPE pellets are then transferred by rail-car to packaging facilities or sent directly to customers.

In its REQ, CPChem US stated that the principle scrap/by-products produced were off-spec product.

The production process is identical for domestic and export goods of the same grade, with differences in inputs for different grades to be produced. However, the verification team identified differences in costs for domestic and export packaging and transport.

### 2.2 Model Control Codes (MCC)

CPChem US provided certain sales and cost data in its REQ.

In its submission, CPChem US rejected the MCC structure proposed in Consideration Report No. 515 and the categorisation of its HDPE products as “like goods”.<sup>1</sup>

CPChem US subsequently provided further sales and cost data, including for all grades of the MCC exported to Australia. However, CPChem US argued that goods should be matched on the grade rather than MCC, in determining the variable factors relevant to its exports of the goods.

### 2.3 The goods exported to Australia

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

CPChem US exported the goods to Australia with the following MCC during the period:

Grade	MCC
5502BN	A-B-N
6007	A-B-N

### 2.4 Like goods sold on 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 have:

<sup>1</sup> 515 – HDPE – EPR Item 27 – Exporter – Chevron Phillips Chemical Company LP – Covering Statement to Exporter Questionnaire, uploaded 26/08/2019.

## PUBLIC RECORD

- **physical likeness** – both the goods sold domestically and exported to Australia have identical mechanical properties, thermal properties and chemical properties. CPChem US 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 facilities and CPChem US 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 for similar commercial uses; and
- **functional likeness** – the goods sold domestically and those exported to Australia are functionally alike as CPChem US produce the same goods for both domestic and export consumption.

For the MCC sold to Australia, CPChem US sold like goods on the domestic market with the following grades during the period:

Grade	MCC
4903	A-B-N
6004	A-B-N
6007	A-B-N
50100	A-B-N
50100-01	A-B-N
5202BN	A-B-N
5502-01ST	A-B-N
5502BN	A-B-N
9512H	A-B-N
9514H	A-B-N
TR512	A-B-N

### 2.5 Like goods – assessment

The verification team considers that the goods produced by CPChem US for domestic sale have characteristics closely resembling those of the goods exported to Australia and are therefore ‘like goods’ in accordance with section 269T(1) of the *Customs Act 1901* (the Act).<sup>2</sup>

### 2.6 Model matching

The verification team had regard to information submitted by CPChem US which argued that there were price differences between grades of the same MCC, such that it was unsuitable to use all goods of the same MCC for model matching.

The verification team conducted a price analysis of CPChem US’s domestic sales for all grades of MCC “A-B-N” and observed material variances in the selling prices between different grades.

For this reason, the verification team did not use the proposed MCC structure 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 structure.

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<sup>2</sup> References to any legislation 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 Anti-Dumping Notice (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 – OFFICIAL USE ONLY – Attachment 1**.

### 3.2 Completeness and Relevance Finding

The verification team is satisfied that the sales data provided in the REQ by CPChem US 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 the 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 – OFFICIAL USE ONLY – Attachment 1**.

**4.1.1 Exceptions during Verification of Sales Accuracy**

No.	Exception	Resolution	Evidence Relied On
1	Accuracy of inland transport costs	Inland transport amounts in both domestic and export sales listings have been amended to reflect the actual amounts paid for each transaction.	The verification team relied on inland transport invoices and records in CPChem US's accounting system.
2	Accuracy of ocean freight costs	Ocean freight amounts in the export sales listing was amended to reflect the actual amount paid for each transaction.	The verification team relied on ocean freight invoices and records in CPChem US's accounting system.
3	Sales transaction with no invoice value	This transaction was removed from the calculation of the normal value.	The verification team reconciled selected sales downwards to source documents and was satisfied with the accuracy of CPChem US's sales listings.

**4.2 Sales Accuracy Finding**

The verification team is satisfied that the sales data provided in the REQ by CPChem US, including any required amendments as outlined as an exception above, is accurate.



**5 CPCA – UPWARDS VERIFICATION OF SALES**

**5.1 Verification of Sales Completeness and Relevance**

The verification team verified the completeness and relevance of the export and domestic sales listings provided in CPCA’s REQ by reconciling these to audited financial statements in accordance with ADN No. 2016/30.

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

No.	Exception	Resolution	Evidence Relied On
1	CPCA’s domestic sales listing included sales to an unaffiliated third party distributor for an Australian importer. These sales are export sales.	CPCA has revised the domestic sales listing to exclude sales to the unaffiliated third party distributor. The verification team considered these sales to be exports to Australia and included them in the export sales listing, notwithstanding CPChem US’s objection.	CPCA’s sales invoices to the unaffiliated third party distributor which contained Australian customer details.

**5.2 Completeness and Relevance Finding**

The verification team is satisfied that the sales data provided in the REQ by CPCA, including any required amendments as outlined as an exception above, is complete and relevant.

## 6 CPCA – DOWNWARDS VERIFICATION OF SALES

### 6.1 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 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 – OFFICIAL USE ONLY – Attachment 1**.

### 6.2 Sales Accuracy Finding

The verification team is satisfied that the sales data provided in the REQ by CPCA is accurate.

**7 COST TO MAKE AND SELL**

**7.1 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 this verification process are contained in the verification work program, and its relevant attachments, at **CONFIDENTIAL – OFFICIAL USE ONLY – Attachment 1**.

**7.1.1 Exceptions during Verification of Completeness and Relevance of CTMS data**

No.	Exception	Resolution	Evidence Relied On
1	Completeness of raw material costs	The verification team calculated the variance between actual costs incurred and standard costs allocated across the polyethylene division (PE) and applied this variance as an uplift to the costs allocated to the goods.	Audited Financial Statement; relevant income statements (including the income statement for the polyethylene division); trial balance; cost allocation methodology; bill of materials.
2	Completeness of selling, general and administration (SG&A) costs	The verification team included research and development expenses incurred by the PE division in its calculation of indirect expenses applicable to the goods.	Audited Financial Statement; relevant income statements (including the income statement for the PE division); trial balance.

**7.2 Completeness and Relevance Finding of CTMS data**

The verification team is satisfied that the CTMS data provided in the REQ by CPChem US, including any required amendments as outlined as an exception above, is complete and relevant.

### 7.3 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	Costs were allocated to each grade based on the volume (of each grade), raw material costs and standard usage rates of raw materials for each grade.	Bill of materials; commercial invoices; internal costing documents; relevant raw material benchmarks from independent third parties.
Scrap Allocation	Scrap sales relate to “off-spec” products generated during production, of various specifications similar to the goods. An adjustment was not allocated for scrap.	Verification of costs allocated to the goods.
Manufacturing Overheads (including depreciation) and Direct Labour	Total manufacturing overheads and direct labour were allocated equally across all polyethylene products, with costs allocated based on the cost per unit during the investigation period.	Verification of direct labour and manufacturing overhead costs to CPChem US’s cost accounting system; verification of production and sales records.
Packaging	Unit third party packaging costs were reported in the sales listing where applicable.	Relevant source documents, including a sample of invoices for packaging costs for relevant sales.

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 – OFFICIAL USE ONLY – Attachment 1**.

#### 7.3.1 Verification of CTMS Allocation Methodology Exceptions

No.	Exception	Resolution	Evidence Relied On
1	CTM – Allocation of manufacturing costs to the goods (refer to section 7.1.1, ‘Exception 1’)	The verification team calculated the variance between actual costs incurred and standard costs allocated across the polyethylene division (PE) and applied this variance as an uplift to the costs allocated to the goods.	Audited Financial Statement; relevant income statements (including the income statement for the polyethylene division); trial balance; cost allocation methodology; bill of materials.

**PUBLIC RECORD**

<b>2</b>	CTM – Allocations for direct labour and manufacturing overheads	As part of the upwards costs verification, the verification team reconciled the total costs applicable to the PE division and was satisfied that once adjustments had been made for other exceptions identified, that relevant costs were allocated to the goods, including for direct labour and manufacturing overheads.	Upwards cost verification; verification of production and sales volumes from CPChem US's cost accounting system.
<b>3</b>	CTM – Allocation of maintenance expenses	The verification team had regard to the planned maintenance costs relevant to HDPE facilities in the most recent financial year and the 5 years prior (due to planned maintenance being scheduled over a 3-5 year period). The verification team reallocated planned maintenance expenses allocated to the goods based on the weighted average planned maintenance expenses relevant to HDPE products incurred during this period.	Verification of maintenance expenses to CPChem US's cost accounting system and production volumes for the relevant period.
<b>4</b>	SG&A – Allocation of SG&A expenses	The verification team revised the allocation methodology for SG&A expenses. SG&A was reallocated based on the SG&A costs incurred by the PE division as a percentage of the PE division revenue, to calculate the SG&A applicable to PE products, including the goods.	Audited Financial Statement; relevant income statements (including the income statement for the polyethylene division); trial balance.

#### **7.4 Verification of CTMS Methodology Finding**

The verification team is satisfied that the allocation methodology for the CTMS data provided in the REQ by CPChem US, including any required amendments as outlined as an exception above, is reasonable.

## 7.5 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 – OFFICIAL USE ONLY – Attachment 1**.

### 7.5.1 Exceptions during Verification of Accuracy of CTMS data

No.	Exception	Resolution	Evidence Relied On
1	CTM – Accuracy of costs allocated to model 5502ST-01	CPChem US reallocated the raw material costs for this quarter and the verification team reconciled the revised costs to the costs applicable to the goods.	Verification of standard usage rates (bill of materials); downwards verification of costs.
2	SG&A – Accuracy of costs listed as direct selling expenses	The verification team reclassified costs as direct selling expenses, where appropriate, so they were not double counted as indirect SG&A expenses.	Trial balance; commercial invoices.

## 7.6 Accuracy Finding of CTMS data

The verification team is satisfied that the CTMS data provided in the REQ by CPChem US, including any required amendments as outlined as an exception above, is accurate.

## 8 EXPORT PRICE

### 8.1 The importers

The importer is the beneficial owner of the goods at the time of their arrival within the limits of the port or airport in Australia at which they have landed.

In relation to the sales to Australia, the verification team considers Chevron Phillips Chemical Australia Pty Ltd (CPCAU) and VIP Plastic Packaging Pty Ltd to be importers of the goods manufactured by CPChem US. These entities are named as the purchaser on relevant commercial invoices and as the consignee on the relevant bills of lading for shipments of the goods to Australia.

These entities purchase the goods on cost and freight (CFR) terms and are responsible for relevant importation expenses.

### 8.2 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 has taken account of the particular confidential circumstances of CPChem US's sales process for export sales. These circumstances are set out in **CONFIDENTIAL – OFFICIAL USE ONLY – Attachment 2**.

Based on these circumstances, the verification team considers CPChem US to be the exporter of the goods via sales by CPCA which were directly exported from the US to Australia and indirectly exported via Malaysia to Australia. As such, the verification team has included all Australian exports manufactured by CPChem US in its assessment of the variable factors relevant to CPChem US.

### 8.3 Export Price – assessment

In respect of the Australian sales of the goods, the verification team does not consider that sales are between the exporter and the importer and therefore considers that the export price cannot be determined under sections 269TAB(1)(a) or (b).

The verification team therefore recommends that the export price be calculated under section 269TAB(1)(c), having regard to all the circumstances of the exportation.

The Commission's Dumping and Subsidy Manual provides that the export price is generally assessed on Free On Board (FOB) terms, and for the export price to be calculated as the price received by the exporter, where an intermediary is involved:

*"...the export price, for the purposes of calculating a dumping or subsidy margin, will be the price received by that exporter when selling to the intermediary (even if the intermediary is in the same country as the exporter)."*<sup>3</sup>

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<sup>3</sup> Anti-Dumping Commission, Dumping and Subsidy Manual (November, 2018), p. 30.

## **PUBLIC RECORD**

The verification team ascertained the export price on FOB terms, having regard to the net amounts received by CPChem US for its sales of the goods to CPCA. The assessment of the export price is set out at **CONFIDENTIAL – OFFICIAL USE ONLY – Attachment 2**.

The verification team's preliminary export price calculations are at **CONFIDENTIAL – OFFICIAL USE ONLY – Appendix 1**.



## 9 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 section 269TAC(1).

### 9.1 Arms length

In respect of domestic sales of the goods made by CPChem US 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 CPChem US to domestic customers during the period were arms length transactions.

### 9.2 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 OCOT are as follows.

Number of export grades	Number of export grades with domestic sales in OCOT
2	2

### 9.3 Suitability of domestic sales

Section 269TAC(2)(a)(i) provides that the normal value of goods exported to Australia cannot be ascertained under section 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 section 269TAC(14) as less than 5 per cent 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:

## PUBLIC RECORD

Export Grade	Sufficient sales of identical model sold on the domestic market
5502BN	Yes
6007	Yes

As outlined above, the verification team found that there were sufficient domestic sales volumes of identical grades in the OCOT for all sales exported to Australia.

**PUBLIC RECORD**

**10 ADJUSTMENTS**

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

**10.1 Rationale and Methodology**

Adjustment Type	Rationale for Adjustment	Calculation Methodology	Evidence	Claimed in REQ?
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
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
Inland Transport	To account for the difference in inland transport costs for domestic and export sales.	Weighted average inland transport per tonne	Inland transport invoices	Y

**10.2 Adjustments**

Adjustment Type	Deduction/addition
Credit cost (domestic)	Deduction for domestic credit costs
Packing (domestic)	Deduction for domestic packaging costs
Inland Transport (domestic)	Deduction for domestic inland transport costs
Packing (export)	Addition for export packaging costs
Inland Transport (export)	Addition for export inland transport costs
Credit cost (export)	Addition for export credit costs

The verification team's preliminary adjustment calculations are included in normal value calculations at **CONFIDENTIAL – OFFICIAL USE ONLY - Appendix 4**.

## **11 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 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 section 269TAC(1).

In using domestic sales as a basis for normal value, the verification team considers that certain adjustments, in accordance with section 269TAC(8), are necessary to ensure fair comparison of normal values with export prices, as outlined in Chapter 10.

The verification team's preliminary normal value calculations are at **CONFIDENTIAL – OFFICIAL USE ONLY – Appendix 4**.

## **12 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 section 269TACB(2)(a).

The dumping margin in respect of the goods exported to Australia by CPChem US for the period is **9.3 per cent**.

Details of the preliminary dumping margin calculation are at **CONFIDENTIAL – OFFICIAL USE ONLY – Appendix 5**.

**13 APPENDICES AND ATTACHMENTS**

<b>CONFIDENTIAL – OFFICIAL USE ONLY – Appendix 1</b>	Export price
<b>CONFIDENTIAL – OFFICIAL USE ONLY – Appendix 2</b>	Cost to make and sell
<b>CONFIDENTIAL – OFFICIAL USE ONLY – Appendix 3</b>	Domestic sales, OCOT and profitability
<b>CONFIDENTIAL – OFFICIAL USE ONLY – Appendix 4</b>	Normal Value
<b>CONFIDENTIAL – OFFICIAL USE ONLY – Appendix 5</b>	Dumping Margin
<b>CONFIDENTIAL – OFFICIAL USE ONLY – Attachment 1</b>	Verification work program
<b>CONFIDENTIAL – OFFICIAL USE ONLY – Attachment 2</b>	Export price assessment