



Importer Verification Report

Verification & Case Details

Initiation Date	03/07/2019	ADN:	2019/86
Case	Deep drawn stainless steel sinks – Continuation Inquiry – Oliveri Solutions Pty Ltd – The People’s Republic of China		
Case Number	517		
Company	Reece Australia Pty Ltd		
Location	Burwood, Melbourne		
Verification date	21 August 2019 and 24 September 2019		
Inquiry Period	1 July 2018 to 30 June 2019		
Injury Period	From 1 July 2015		

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

Reece Australia Pty Ltd (Reece) is part of the consolidated entity consisting of Reece Limited and the entities it controls. Collectively, Reece and the 25 other entities under the control of Reece Limited are referred to the Reece Group.¹ The group is publicly listed company on the Australian Stock Exchange as Reece Ltd (ASX:REH). The Reece Group of companies are headed by Chief Executive Officer (CEO) Mr Peter Wilson. The Wilson family are majority shareholders of the Reece Group.

The Reece Group of companies is a supplier of plumbing, bathroom, heating, ventilation, waterworks, air conditioning and refrigeration products with operations in Australia, New Zealand and the US. Its activities include importing, wholesaling, distribution, marketing and retailing. Reece supplies customers in the trade, retail, professional and commercial markets.²

Reece's imports of deep drawn stainless steel sinks (the goods) from the People's Republic of China (China) are on sold to Australian customers through its various sales channels. Reece does not incorporate its imports of the goods into other products. With the exception of unpacking, imports of the goods by Reece are sold in the condition in which they are imported.

1.2 Related parties

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

The verification team found that importer does not have any related party customers or suppliers of the goods during the inquiry period. The verification team found that Reece does not have any related party customers or suppliers of the goods during the inquiry period.

¹ Note 27 to the Reece Group Annual Report 2019, p.85.

² Director Report, Reece Group Annual Report 2019, p.36.

2 THE GOODS

2.1 The goods

Reece confirmed that it imported deep drawn stainless steel sinks from China during the investigation period matching the description of the goods that are the subject of this continuation.

Reece imported sinks of various steel grades, material gauge thicknesses, numbers of bowls and numbers of drainer bowls.

The goods subject to this inquiry are defined in Anti-Dumping Notice 2019/86 as follows:

Deep drawn stainless steel sinks with a single deep drawn bowl having a volume of between 7 and 70 litres (inclusive), or multiple drawn bowls having a combined volume of between 12 and 70 litres (inclusive), with or without integrated drain boards, whether finished or unfinished, regardless of type of finish, gauge, or grade of stainless steel and whether or not including accessories;

stainless steel sinks with multiple deep drawn bowls that are joined through a welding operation to form one unit; and

deep drawn stainless steel sinks whether or not that are sold in conjunction with accessories such as mounting clips, fasteners, seals, sound-deadening pads, faucets (whether attached or unattached), strainers, strainer sets, rinsing baskets, bottom grids, or other accessories.

Stainless steel sinks with fabricated bowls are excluded from the goods covered.

An examination of the records pertaining to Reece's imports confirmed that it imported goods from China during the inquiry period that matched the description of the goods above that are the subject of this inquiry.

2.2 Model control codes (MCCs)

As detailed in the initiation notice,³ the Anti-Dumping Commission (the Commission) has elected not to propose an MCC structure at the outset of this inquiry.

Information gathered in responses received from importers and exporters, and the Australian industry will be used to assess whether an appropriate MCC structure can be developed.

To aid in assessing the suitability of an MCC structure, the Commission has requested the following information be provided for all product models that the importer, exporter, and Australian industry sell.

Category	Characteristics of category
Product Identifier	Company's product ID or product code which will link to the sales listing

³ ADN No. 2019/86

Category	Characteristics of category
Stainless Steel Grade	Grade of stainless steel used to manufacture sink, e.g. 304
Material Gauge (Thickness "mm")	Thickness of steel sheet used to manufacture sink
Finish	Final finish of sink, e.g. polished/brushed/etc.
Total Capacity All Bowls ("Litres" or "L")	Combined capacity of all bowls
Total Number of Bowls	As named
Capacity of Largest Bowl ("Litre" or "L")	As named
Capacity of Additional Bowl 2 ("Litre" or "L")	As named
Capacity of Additional Bowl 3 ("Litre" or "L")	As named
Capacity of Additional Bowl 4 ("Litre" or "L")	As named
Number of Drainer Boards	As named
Bowl Corner Radius ("millimetres" or "mm")	Radius of inside corners of bowls
Included Accessories (Yes/No?)	As named
Accessory 1	As named
Accessory 2	As named
Accessory 3	As named
Accessory 4	As named
Accessory 5	As named
Packaging type	As named

Table 1: Categories requested for all goods imported and sold

Reece provided the above information for all of its products which met the goods description as part of its Response to Importer Questionnaire (RIQ).

2.3 Like goods

The verification team examined the goods imported by Reece and observed that they were similar in terms of stainless steel grade, material gauge, capacity, number of bowls, number of drainer boards, and accessories to those produced by the Australian industry.

The verification team also observed that Reece sold the goods to a number of the same kind of customer segment that the Australian industry also sells.

The importer agreed that the Australian Industry produced like goods to the goods that it imported during the inquiry period. The importer agreed that the Australian Industry produced like goods to the goods that it imported during the inquiry period.

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 and up to financial accounts. The verification team verified the completeness and relevance of the sales listing provided in Part C of the questionnaire response by reconciling this to financial statements in accordance with ADN. No 2016/30.

Reece advised that its financial accounts were externally audited as part of the Reece Group consolidated accounts. During the verification visit Reece made available the Reece Australia Pty Ltd management accounts for in the form of general ledgers and the 30 June 2019 financial year profit and loss statement. Reece also undertook a demonstration for the verification team to show it prepared the sales data provided in its questionnaire.

The verification team's analysis of Reece's sales data identified in a quantity of negative sales revenue transactions and sales of goods with zero sales value. Negative sales revenue transactions were found to be related to returns of goods whilst sales of goods with zero sales value were found to relate to pre-paid goods. The verification team considered Reece's explanation regarding these types of transactions acceptable however for the purpose of analysing prices and volume the verification team has not had regard to these particular transactions.

The verification team did not identify any other 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 Sales completeness and relevance finding

The verification team is satisfied that the sales data provided by Reece 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 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 sales listing submitted in Part C of the questionnaire response 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 Attachment 1**.

The verification team established the following information as outlined in the table below:

Item	Methodology Applied
Invoice Number	Based on invoice and financial system data
Date of sale	Based on invoice and financial system data
Customer	Based on invoice and financial system data
Product Details	Based on invoice and comparison to Reece product catalogue
Sales Quantity	Based on invoice and financial system data
Net invoice	Based on invoice and financial system data
Proof of payment	Based on invoice data, remittance advice slips, debtor transaction enquiry and examination of relevant bank statements.

Table 2 Sales calculation method

4.2 Sales accuracy finding

The verification team is satisfied that the sales data provided by Reece is accurate. Details of this verification process are contained in the verification work program and its relevant attachments, at Confidential Attachment 1.

5 VERIFICATION OF IMPORTS

5.1 Import listing

Reece confirmed that the import listing extracted from the ABF import database is a complete list of imports of the goods over the investigation period.

The verification team calculated the weighted average FOB export price by supplier at **Confidential Appendix 1**.

Reece provided a package of source documentation relating to a sample of shipments selected from the ABF import database.

5.2 Verification of cost to import and sell

The verification team verified the accuracy of the cost to import and sell (CTIS) listed for selected shipments in Part B of the questionnaire response by reconciling to source documents in accordance with ADN No. 2016/30.

Reece advised that all of its importations are made on a Free On Board (FOB) basis, and it organises for the transport documentation, freight, insurance, and import customs.

5.3 Verification of CTIS allocation

The verification team verified the reasonableness of the method used to allocate the CTIS provided in the questionnaire response, in accordance with ADN No. 2016/30.

On the basis that Reece's imports related to a combination of goods subject to measures and not subject to measures, in the relevant circumstance importation expenses were allocated to the goods based on FOB value.

Expense Item	Method Applied
Ocean freight	The actual cost was determined having regard to invoice value and allocated to goods based on FOB value.
Duties (Dumping, Countervailing and General)	The actual duty paid was allocated to the goods subject to measures based import declarations.
Customs fees	The actual customs fees was determined having regard to invoice value and allocated to goods based on FOB value.
Quarantine charges	The actual quarantine charges were determined having regard to invoice value and allocated to goods based on FOB value.

PUBLIC RECORD

Expense Item	Method Applied
Port service charges	The actual port service charges were determined having regard to invoice value and allocated to goods based on FOB value.
Handling charges	The actual handling charges were determined having regard to invoice value and allocated to goods based on FOB value.
Shipping documentation charges	The actual shipping documentation charges were determined having regard to invoice value and allocated to goods based on FOB value.
Delivery	The actual delivery charges were determined having regard to invoice value and allocated to goods based on FOB value.
Selling General and Administrative (SG&A)	Calculated using the selling, general, and administrative costs and the net sales revenue for Reece.

Table 3 Cost calculation method

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 Exceptions during verification of CTIS allocation

No.	Exception	Resolution
1	In the initial version of Reece's RIQ it has calculated SG&A costs based on the Reece Group FY19 financial statements and allocated based on cost of goods sold (COGS).	Since the Reece Group 2019 financial report contains entities that are located in the USA and New Zealand, the verification team did not consider that reliance on the costs at the Reece Group level would be relevant to the preparation of the Reece Australia Pty Ltd SG&A costs. Reece presented the Reece Australia Pty Ltd profit and loss statement for examination so the verification team could re-calculate the SG&A cost. The SG&A costs was also updated to reflect the ratio of sales revenue rather than COGS.

Table 4 CTIS Allocation Exceptions

5.4 Verification of CTIS accuracy

The verification team verified the accuracy of the CTIS provided in the questionnaire response 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**.

5.4.1 Exceptions during verification of CTIS accuracy

No.	Exception	Resolution
1	In the initial version of Reece’s RIQ it has calculated SG&A costs based on the Reece Group FY19 financial statements.	Since the Reece Group 2019 financial report contains entities that are located in the USA and New Zealand, the verification team did not consider that reliance on the costs at the Reece Group level would be relevant to the preparation of the Reece Australia Pty Ltd SG&A costs. Reece presented the Reece Australia Pty Ltd profit and loss statement for examination so the verification team could re-calculate the SG&A cost. During this process, Reece advised that additional amounts to capture expenses for warehousing should be included. The verification team included these particular costs accordingly.

Table 5 CTIS Accuracy Exceptions

5.5 Forward orders

Reece did not submit a listing of its forward orders. On the basis that this verification relates to a continuation inquiry the verification team did not request Reece to prepare a listing of forward orders.

5.6 CTIS verification finding

The verification team is satisfied that the CTIS provided by Reece, including any required amendments as outlined in the exception tables above, is accurate.

A table detailing the weighted average unit CTIS is at **Confidential Appendix 3**.

6 EXPORT PRICE

6.1 The importer

The verification team considers Reece to be the beneficial owner of the goods at the time of importation and therefore the importer of the goods, as Reece:

- is named on the commercial invoice from its supplier;
- is named as the consignee on the bill of lading;
- declared as the importer on the importation declaration to ABF;
- pays for all the importation charges; and
- arranges delivery from the port.

6.2 The exporter

The goods were imported to Australia by Reece. Subject to further inquiries, the verification team considers the manufacturers of the goods to be the exporter of the goods⁴, as the manufacturers are:

- named on the commercial invoice and packing lists;
- named as the exporter and producer on the certificates of origin; and
- named as the shipper/exporter on the bill of lading.

6.3 Profitability of imports

The verification team assessed the profitability for the following selected shipments by comparing the revenue to the CTIS for each shipment. As each selected shipment cannot be traced to actual sales transactions, the verification team used the weighted average sales revenue for each product code across the inquiry period to assess its profitability.

The outcome of this assessment is in Table 6 below. The Commission notes that all sales selected were profitable.

Shipment	Profitable (Y/N?)
1	Y
2	Y
3	Y
4	Y
5	Y
6	Y
7	Y
8	Y

⁴ 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.

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Shipment	Profitable (Y/N?)
9	Y
10	Y
11	Y
12	Y
Weighted average all shipments	Y

Table 6 Profitability of selected imports

The profitability assessment is at **Confidential Appendix 2**.

6.4 Related party suppliers

The verification team did not find any evidence that Reece is related to its supplier of deep drawn stainless steel sinks exported from China during the inquiry period.

6.5 Arms length

In respect of imports of the goods to Australia by Reece during the inquiry 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 received a benefit for, or in respect of, whole or any part of the price.

Therefore, subject to further inquiries, the verification team is satisfied that the imports between Reece and its suppliers are arms length transactions.

6.6 Export price assessment

The verification team is of the opinion that for the goods imported by Reece:

- the goods have been exported to Australia otherwise than by the importer;
- the goods have been purchased by the importer from the exporter(s); and
- the purchases of the goods by the importer were arms length transactions.

Subject to further inquiries exporters of the goods from China, the verification team recommends that the export price for deep drawn stainless steel sinks imported by Reece can be established under s.269TAB(1)(a) of the *Customs Act 1901*, using the invoiced price, less transport and other costs arising after exportation.

7 ATTACHMENTS

Confidential Appendix 1	Export price
Confidential Appendix 2	Profitability of imports
Confidential Attachment 1	Verification Work Program