



## **Exporter Verification Report**

### **Verification & Case Details**

<b>Initiation Date</b>	03/06/2019	<b>ADN:</b>	2019/086
<b>Case:</b>	Deep drawn stainless steel sinks from China		
<b>Case Number</b>	517		
<b>Exporter</b>	Guangdong Cresheen Smart Home Co Ltd		
<b>Location</b>	China		
<b>Verification from</b>		<b>to</b>	
<b>Inquiry Period</b>	01/07/2018	<b>to</b>	30/06/2019

**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 BACKGROUND

### 1.1 Benchmark Verification

On 23 August 2019, Guangdong Cresheen Smart Home Co Ltd (Cresheen), Komodo Hong Kong Limited (Komodo HK), and Guangzhou Komodo Kitchen Technology Co Ltd (Komodo Guangzhou) (for brevity, Komodo HK and Komodo Guangzhou will be collectively referred to as Komodo) submitted their responses to the exporter questionnaire (REQ) in relation to the continuation inquiry into measures relating to deep drawn stainless steel sinks (the goods) exported to Australia from the People's Republic of China (China) should be continued. The REQ received from Cresheen and Komodo was lodged within the legislated extended timeframe and considered complete and free of material deficiencies.

Although Cresheen and Komodo were not requested to host the Commission for a verification visit, their REQ responses were considered suitable such that it could be verified by having regard to other information available and benchmarking the data in its response to other data sources.

The reliability of data in the provided REQ has been established by ascertaining the variable factors relating to its exports of the goods to Australia and benchmarking these factors, and the relevant data underlying these factors to the following:

- the sales and cost data and the variable factors ascertained for other cooperating exporters that were the subject of a verification visit<sup>1</sup>;
- the sales and cost data and the variable factors ascertained for other cooperating exporters whose data was not the subject of a verification visit;
- relevant information from previous investigations which involved the exporters; and
- the data submitted with the exporter's REQ.

Where the examination of the data in the REQ produced results that were inconsistent with those observed in relation to other exporters' data or other relevant information, the verification team has undertaken further details analysis and where necessary reported the outcome of this analysis accordingly.

Details of the verification assessment is contained in the work program at **Confidential Attachment 1**.

### 1.2 Corporate Structure and Ownership

#### 1.2.1 Komodo

Komodo Hong Kong Limited is a privately owned company based in Hong Kong. Guangzhou Komodo Kitchen Technology Co Ltd (Komodo Guangzhou) is a privately owned company based in China. Both Komodo HK and Komodo Guangzhou are

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<sup>1</sup> Questionnaire responses received from Primy Corporation and Zhuhai Grand were subject to a verification visit in China. Verification reports for both visit are on the case public record.

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involved in the design, development, sourcing, and export of kitchen and bathroom products to various countries.

Neither company is a subsidiary of a group, however both companies are related through common shareholders.

### **1.2.2 Cresheen**

Cresheen is a manufacturer of stainless steel sinks (including deep drawn and fabricated), kitchen wire racks, drainer trays, and other accessories. Cresheen operates only on the domestic market, however it does sell products to other companies which in turn export.

At section A-2.1 of its REQ, Cresheen advised that during the original investigation it was related to Zhongshan Xintian Hardware Co., Ltd. (Xintian) through common shareholders. In 2017 Cresheen acquired the fixed assets of Xintian and commenced production deep drawn stainless steel in addition to fabricated stainless steel sinks which it was already producing.

In the original investigation, Xintian was identified as the manufacturer of the goods exported to Australia by Komodo Guangzhou, however it was not classified as the exporter for the purpose of implementing anti-dumping measures.<sup>2</sup>

Cresheen is not a subsidiary or part of any group.

## **1.3 Related Parties**

The verification team examined the relationship between Komodo and Cresheen and was satisfied, based on an examination of the data submitted in the respective REQ's that there is no relationship between the companies.

### **1.3.1 Related customers**

In its REQ, Komodo stated that it was not related to its Australian customer. Upon examination of the information provided with its REQ, the verification team was satisfied that Komodo was not related to its Australian customer.

In its REQ, Cresheen stated that it did not sell the goods on the domestic market to related customers during the investigation period. Upon examination of the information provided with its REQ, the verification team was satisfied that Cresheen was not related to any of its customers.

### **1.3.2 Related suppliers**

In its REQ, Cresheen stated that it had not sourced any of its raw materials as part of an integrated process or from a subsidiary company. Upon examination of the

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<sup>2</sup> Section 6.3.5 in *Anti-Dumping Commission Report No.238*, p.33 refers.

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information provided in its REQ, the verification team was satisfied that Cresheen was not related to any of its suppliers.

## **2 THE GOODS AND LIKE GOODS**

### **2.1 Production Process**

Cresheen described its production process of deep drawn stainless steel sinks in its REQ as follows:

1. Stainless steel coil (304 grade in various thicknesses/gauges) is cut into sizes necessary for the manufacture of sink components (such as bowls and drainer boards).
2. Bowl(s) and drainer board(s) are pressed by a pressing machine, and then the edges are cut.
3. Bowls and drainer board(s) are welded together to form the sink (note: this step will be missed if Cresheen produces a sink comprising of only one bowl and no drainer board).
4. The surface of the sink is then prepared for the desired finish.
5. The sink is cleaned and dried to remove all debris.
6. The sink is then packaged.

### **2.2 Model Control Codes (MCCs)**

As detailed in the initiation notice<sup>3</sup>, the Anti-Dumping Commission (the Commission) did not propose an MCC structure at the outset of this inquiry. Alternatively, information gathered in responses received from importers and exporters, and the Australian industry would be used to assess whether an appropriate MCC structure can be developed.

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

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

<sup>3</sup> ADN No. 2019/86

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Category	Characteristics of category
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 selected for identification**

Cresheen provided the above information categories for its domestic sales listing relevant to its response to part D-2 of its REQ, and Komodo provided the information for its Australian sales listing relevant to its response to part B-2 of its REQ. Both Cresheen and Komodo provided similar information in response to Section C of the REQ regarding product specification.

Exporters were not requested to provide the same level of detail in the cost of production data for the purpose of section G-3 and G-5 of the REQ however sufficient information was requested and provided by Cresheen to allow the cost data reported at the product code to be mapped against the product specification data reported in the sales listing.

### **2.3 Mapping MCC Structure**

Relying on an analysis of Cresheen and Komodo's sales and production of sinks sold into the domestic market and the export market, and feedback received from the verification teams who attended on-site verifications in China, the verification team considers that the consumption of stainless steel required to produce sinks is the main driver of both cost and price in relation to the goods, and can be linked to the following attributes of the sink:

- number of bowls
- drainer boards; and
- the total capacity of the sink.

In addition to the above, the kinds of accessories offered with sinks was also determined to be a price determinant, particularly since the range of accessories sold with sinks on the domestic market in China were considerably larger than the range of accessories sold with sinks exported to Australia. As a result, at Section 9 of this report, the verification team has applied adjustment to the normal value to account for the types of accessories sold with the sinks exported to Australia.



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The resulting MCC structure applied to the exports, domestic sales and costs is outlined below.

Item	Category	Subcategory	Identifier
1	Number of Bowls	1 Bowl	1BWL
		2 Bowls	2BWL
2	Number of Drainer Boards	No drainer board	0DB
		1 drainer board	1DB
		2 drainer boards	2DB
3	Total Sink Capacity (Litres or "L")	Less than or equal to 30L	A
		Greater than 30L but less than or equal to 50L	B
		Greater than 50L but less than or equal to 70L	C

**Table 2 MCC Structure**

When expressed within the MCC structure, a two bowl sink with one drainer board and a total capacity of 35 litres would have an MCC of 2BWL-1DB-B.

### 2.3.1 Assessment of MCC Structure

The verification team's analysis demonstrated that the price and cost differences were influenced by the number of bowls, number of drainer board and total sink capacity. The trend observed in relation to both the domestic sales of like goods and the goods exported to Australia was similar. On this basis the verification team was satisfied that the MCC structure as applied to the sink sales and production appeared to appropriately capture the key price and cost determinants.

Noting that the sink capacity MCC has three sub-categories, the verification team further examined the average capacity of the sinks within each produced that mapped to the MCC structure.

After mapping all of the sales of domestic like goods and exported goods to the relevant MCC the verification team observed that the average sink capacity on the domestic and export side within each MCC was similar. On this basis, the verification team was satisfied that the MCC sub-categories relating to total sink capacity were suitable.

In relation to other sink features, the verification team also had regard to whether the sinks corner radius influenced price. Particularly the concept that sinks with a smaller corner radius attracted higher prices than a sinks with larger radius corners. The analysis of the prices of sinks of differing corner radius within each MCC revealed that there was no correlation between price and size of corner radius, i.e. the price of larger corner radius sinks were sometimes more expensive than those with a smaller corner radius.

## **2.4 Verification of MCCs**

Since exporters were not required to report cost and sales in accordance with an MCC structure, on account that a structure had not been determined at the time of initiating the inquiry, the verification team has relied on the information reported by the exporter in its cost and sales data to map each kind of sink to the MCC structure discussed at Section 2.3.

To ensure that the product characteristics reported in relation to sales and costs were accurate for the purpose of mapping the MCC structure, the verification had regard to the following;

- product code information provided by the exporter with its questionnaire response;
- a sample of sales invoices pertaining to domestic and export sales;
- the exporter's product brochures; and;
- other publicly available information, such as Australian importer's online web based catalogues.

Although the verification of Cresheen and Komodo's REQ was not conducted on-site at its location in China, the above references were sufficient to satisfy the verification team that the product information reported by the exporter in its cost and sales worksheets was accurate. As a result, the verification team is satisfied that the MCC structure has been correctly mapped to the exporter's data.

## **2.5 The goods exported to Australia**

The verification team were satisfied that Cresheen produced the goods exported to Australia. The goods exported to Australia during the inquiry period were categorised in the following MCCs (excluding accessories):

<b>Australian Exports MCC</b>
1BWL-0DB-A
1BWL-0DB-B
1BWL-1DB-A
1BWL-1DB-B
2BWL-0DB-B
2BWL-0DB-C
2BWL-1DB-A
2BWL-1DB-B

**Table 3 Australian Export Models**

## **2.6 Like goods sold on the domestic market**

The verification team were satisfied that Cresheen sold like goods in the domestic market.

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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:

- subject to individual customer specifications, the exported goods and like goods sold on the domestic market are produced in the same way, are in similar configurations in terms of bowls, capacity and drainer board, and the costs of production for models sold domestically and for export are comparable;
- the goods and the like goods are produced at the same facilities, using the same raw material inputs and manufacturing processes; and,
- can be considered functionally alike, as they have similar end uses.

Cresheen sold like goods on the domestic market with the following MCCs (excluding accessories) during the inquiry period:

Domestic Like Goods MCC
1BWL-0DB-A
1BWL-0DB-B
1BWL-0DB-C
2BWL-0DB-B
2BWL-0DB-C

**Table 4 Domestic Like Goods Models**

### **2.7 Like goods – assessment**

The verification team considers that the goods produced by Cresheen 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>4</sup>

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<sup>4</sup> References to any section or section in this report relate to provisions of the Act, unless specifically stated otherwise.

### 3 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 total sales value and quantity is reconciled to management reports with particular attention given to ensuring that all relevant transactions are included and irrelevant transactions are excluded. The total value from the management reports is then reconciled to the total revenue figure reported in the audited income statement.

The verification team verified the completeness and relevance of the export and domestic sales listings provided in the Response to the Exporter Questionnaire (REQ) by reconciling these to audited financial statements in accordance with ADN. No 2016/30.

Due to the trading relationship between Cresheen and Komodo, sales of goods exported to Australia that were manufactured by Cresheen and on-sold to Australia through Komodo were classified as domestic sales by Cresheen. Accordingly, these sales were reported at D-2 of its REQ. Cresheen did not provide responses to B-2 or F-2 of its REQ.

Notwithstanding the way in which Cresheen reported its sales of the goods that were exported to Australia, sufficient data was available for the verification team to establish the identity of the goods exported to Australia by Komodo which were manufactured by Cresheen.

The verification team verified the relevance and completeness of Cresheen's and Komodo's sales data as follows:

- Analysing the variance between the volume of goods subject to measures exported to Australia, as reported by Cresheen in its REQ and the volume of goods subject to measures in the Australian Border Force (ABF) database as declared by the exporter's Australian customers.
- Comparing the figures reported in the attachments relevant to each company's response to B-2 and D-2 of its REQ to the upwards sales reconciliation worksheet at B-4 of the REQ;
- Verifying the total sales revenue of all goods, like goods and none-subject goods to the figures reported in the trial balance data and the 2018 financial year audited financial statement reported at A-4 of each company's REQ;
- Reviewing the product specification data reported by each company in its domestic and export sales listings at B-2 and D-2 of its REQ to ensure goods and like goods included in each listing were within the scope of the description of the goods subject to measures.

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

### **3.1 Exceptions during verification of sales completeness and relevance**

<b>No.</b>	<b>Exception</b>	<b>Resolution</b>
<b>1</b>	At D-2 Cresheen reported sales of goods sold to Komodo that were not exported to Australia by Komodo.	The relevant transactions were removed from the sales listing.
<b>2</b>	Direct selling expenses were incorrectly allocated on the basis of total invoice value of the goods instead of export sales quantity of the goods.	The verification team amended the formula for the direct selling expenses to calculated a per unit rate.

**Table 5 Exceptions during verification of completeness and relevance of sales data**

### **3.2 Sales completeness and relevance finding**

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

## 4 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.

The verification team verified accuracy of the export and domestic sales listings submitted in Cresheen and Komodo's 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 Attachment 1**.

### 4.1 Sales accuracy finding

The verification team is satisfied that the sales data provided by Cresheen and Komodo 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 CTMS 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 total cost to make data is reconciled to the cost of production in the management reports with particular attention given to ensuring that all relevant costs are included and irrelevant costs have been excluded. The cost of production data is then reconciled, through relevant account ledgers, to the cost of goods sold figure reported in the audited income statement. Additionally, selling, general and administration (SG&A) expenses are reconciled to income statements, with particular attention given to specific expenses that have been excluded or should be excluded.

The verification team verified the completeness and relevance 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 visit team verified the relevance and completeness of the cost data as follows:

- Compared the Cost of Goods Sold (COGS) reported in the audited financial statement to the provided trial balances;
- Examined the COGS timing difference between the accounting period and inquiry period;
- Analysed the variance between the COGS and the production cost; and
- Reviewed the product specification data reported by the exporter at section C of its REQ to ensure goods and like goods included in the CTMS listings at G-3 and G-5 of its REQ were within the scope of the description of the goods subject to measures and representative of the goods and like goods sold during the inquiry period.

The visit team verified the relevance and completeness of the SG&A data as follows:

- Comparing the SG&A expenses reported at G-4 of the REQ to relevant accounts in the audited financial statement and trial balance data provided at A-4 of the REQ;
- Confirmed direct expenses were excluded from the in-direct SG&A expenses relevant to the sale of like goods;
- Reconciled the value of direct selling expenses to respective sales listings;
- Confirmed that the calculation of the indirect SG&A expenses in relation to domestic sales of like goods at G-4.2 of the REQ was correct and in accordance with the Commission's allocation methodology.

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 Exceptions during verification of completeness and relevance of CTMS data**

<b>No.</b>	<b>Exception</b>	<b>Resolution</b>
1	The verification team identified that the SG&A calculation for domestic sales of like goods used an incorrect revenue.	The verification team performed the SG&A calculation using the correct revenue.

**Table 6 Exceptions during verification of completeness and relevance of CTMS data**

**5.2 Completeness and relevance finding of CTMS data**

The verification team is satisfied that the CTMS data provided in the exporter questionnaire response by Cresheen, including any required amendments as outlined as an exception above, is complete and relevant.



## **6 VERIFICATION OF CTMS ACCURACY**

### **6.1 Cost allocation method**

The verification team verified the reasonableness of the method used to allocate the cost information provided in the REQ to the relevant MCCs, 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**.

Table 7 below outlines the allocation method applied to each cost item.

<b>Cost item</b>	<b>Method applied</b>	<b>Evidence relied upon</b>
Raw Materials	Actual cost, allocated by standard cost proportion of raw materials.	Source documentation and allocation spreadsheet
Scrap Allocation	Proportion of revenue generated from scrap as a percentage of raw material cost.	Source documentation and allocation spreadsheet
Manufacturing Overheads	Actual cost, allocated by standard cost proportion of raw materials.	Source documentation and allocation spreadsheet
Labour	Actual cost, allocated by standard cost proportion of labour.	Source documentation and allocation spreadsheet

**Table 7 Cost allocation method**

### **6.2 Verification of Accuracy of CTMS data**

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 cost data down to source documents. This verifies the accuracy of the 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 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**.

#### **6.2.1 Comparison to selected exporters**

Being satisfied with the preparation of the CTM data reported by Cresheen, the verification team compared the quarterly and inquiry period weighted average unit cost to make (CTM) figures reported by Cresheen at G-3 and G-5 of its REQ against the figures reported by the other selected exporters.

The verification team observed some variances between the figures reported by Cresheen and those reported by the selected exporters, however they were not considered to be indicative of an underlying error in Cresheen's costs.

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Analysis of Cresheen's CTM data established that raw materials in the form of stainless steel represented a significant proportion of the total cost of production. Having regard to this key production cost driver, the verification team compared the stainless steel costs reported by Cresheen against the figures reported by the selected exporters. Again, some variances were observed within the reported figures, however the figures reported by Cresheen were broadly consistent with those reported by the other selected exporters.

In relation to the comparison of the unit raw material cost of production, the verification team further examined the price paid by Cresheen for its purchases of stainless steel cold rolled coil and compared its data to the prices paid by the other selected exporters. The verification team observed that the price of stainless steel paid by Cresheen was comparable to all other selected exporters.

### **6.3 Accuracy finding**

Based on the above analysis and comparisons, the verification team is satisfied that the CTMS data provided in the exporter questionnaire response by Cresheen, is accurate.

## 7 EXPORT PRICE

### 7.1 The importer

The verification team considers Komodo's Australian customer to be the beneficial owner of the goods at the time of importation and therefore the importer as the customer is:

- It is named as the purchaser on the commercial invoice;
- It is named as the consignee on the bill of lading;
- It is named as the payer on the bank statements; and
- It is named as the importer on the certificate of origin.

In relation to the goods exported by Komodo 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.

### 7.2 The exporter

For the purpose of the original investigation in *Report No.238* (REP 238), the verification team notes that Guangzhou Komodo Kitchen Technology Co Ltd was identified as the exporter of the goods. At the time, Cresheen was not supplying the goods to Komodo in relation to Komodo's exports of the goods to Australia. Komodo's supplier at the time, Zhongshan Xintian Hardware Co., Ltd (Xintian), was not considered to be the exporter REP 238. One of the reasons given by Komodo was that Xintian was not aware of the final destination of the goods at the time they were sold to Komodo. The Commission at the time accepted that Xintian should not be classified as the exporter.<sup>5</sup>

As a result of cooperating with this inquiry, the information provided by Cresheen and Komodo was sufficient for the verification team to conclude that Cresheen should be considered to be the exporter of the goods and the circumstances that existed in the original investigation are not found to apply.

Subject to further inquiries, the verification team considers Cresheen to be the exporter of the goods<sup>6</sup>, as Cresheen is:

- the manufacturer of the goods;
- is aware that the goods will be exported;
- the goods manufactured by Cresheen are specific OEM models for the Australian customer; and

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<sup>5</sup> REP 238, section 6.3.5, p.34.

<sup>6</sup> 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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- the goods are transported to the port of export directly from Cresheen.

Subject to further inquiries, the verification team considers Komodo to be an intermediary to the export of the goods<sup>7</sup>, as Komodo:

- arranges and pays for the inland transport, handling, and customs fees;
- purchased the goods from Cresheen;
- negotiates with the Australian customer;
- named on the commercial invoice to the Australian customer; and
- receives payment from the Australian customer.

### 7.3 Arms length

In respect of Cresheen's sales of the goods to Komodo 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>8</sup>

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

### 7.4 Export Price – assessment

In respect of Australian sales of the goods by exporter, the verification team found that the importer has not purchased the goods from the exporter, therefore, export prices cannot be determined under sections 269TAB(1)(a) or 269TAB(1)(b).

The verification team recommends that the export price be calculated under section 269TAB(1)(c) having regard to all the circumstances of the exportation. Specifically, the verification team recommends that the appropriate method of calculating the FOB export price as the price paid by Komodo to Cresheen, with the addition of relevant FOB costs incurred by Cresheen.<sup>9</sup>

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<sup>7</sup> The Commission considers that only in rare circumstances would an intermediary be found to be the exporter. Typically this would only occur where the intermediary purchased the goods from the manufacturer; the manufacturer has no knowledge at all that the goods are destined for export to any country; and the essential role of the intermediary is that of a distributor rather than a trader and because it is acting more like a distributor the intermediary would usually have its own inventory for all export sales.

<sup>8</sup> Section 269TAA of the Act refers.

<sup>9</sup> Anti-Dumping Commission – Dumping and Subsidy Manual (November, 2018), p. 30, "Where an intermediary is involved the export price, for the purposes of calculating a dumping or subsidy margin,

## **PUBLIC RECORD**

The verification team's preliminary export price calculations are at **Confidential Appendix 1**.

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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)".

## **8 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).

### **8.1 Arms length**

In respect of Cresheen’s domestic sales of like goods to its customers 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 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 Cresheen to its domestic customers during the period were arm’s length transactions.

### **8.2 Ordinary course of trade**

Section 269TAAD states that domestic transactions are not in the ordinary course of trade (OCOT) if arms length transactions are:

- unprofitable in substantial quantities over the investigation period; and
- unlikely to be recoverable within the period.

The verification team tested profitability by comparing the price at ex-works against the relevant cost for each domestic sales transaction.

The team then tested whether the unprofitable sales were in substantial quantities (not less than 20%) by comparing the volume of unprofitable sales to the total sales volume, for each MCC over the period.

The team tested recoverability by comparing the price at ex-works against the relevant weighted average cost over the period for each domestic sales transaction.

The following table sets out further detail:

<b>OCOT particulars</b>	<b>Details</b>
Price	Net invoice price, excluding direct selling expenses
Cost	Quarterly cost to make and sell, excluding direct selling expenses
Weighted average cost	Weighted average cost to make and sell, excluding direct selling expenses, over the period.

**Table 8 OCOT details**

### 8.3 Suitability of domestic sales

Subparagraph 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. Domestic sales of like goods are taken to be in a low volume pursuant to section 269TAC(14) where the total volume of like goods is less than five percent of the total volume of the goods under consideration that are exported to Australia (unless the Minister is satisfied that the volume is still large enough to permit a proper comparison).

The verification team assessed the total volume of like goods as a percentage of the goods exported to Australia for the whole period and found that the domestic sales were sufficient. As a result, the normal value can be ascertained under section 269TAC(1).

As per the *Dumping and Subsidy Manual* (the Manual)<sup>10</sup>, where the total volume of like goods is greater than five percent of the total volume of the goods under consideration, and where comparable models exist, the Commission also tests the suitability of domestic sales of like goods individually for each model type.

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

Export MCCs	Sufficient domestic sales of identical MCC	Treatment of normal value where there were insufficient domestic sales of identical MCC
1BWL-0DB-A	Yes	Sufficient sales volumes available for TAC(1).
1BWL-0DB-B	Yes	Sufficient sales volumes available for TAC(1).
1BWL-1DB-A	No	Normal values determined under TAC(1) based on TAC(1) normal values for 1BWL-0DB-A and adjusted for differences in number of drainer boards.
1BWL-1DB-B	No	Normal values determined under TAC(1) based on TAC(1) normal values for 1BWL-0DB-B and adjusted for differences in number of drainer boards.
2BWL-0DB-B	Yes	Sufficient sales volumes available for TAC(1).
2BWL-0DB-C	Yes	Sufficient sales volumes available for TAC(1).
2BWL-1DB-A	No	No sufficient sales or relevant cost information to apply a reasonable surrogate model therefore ascertained normal value under TAC(2)(c).
2BWL-1DB-B	No	Normal values determined under TAC(1) based on TAC(1) normal values for 2BWL-0DB-B and adjusted for differences in number of drainer boards.

**Table 9 Sufficiency test**

As outlined in Table 9 above, the verification team found that there were sufficient domestic sales volumes of identical MCCs made in OCOT for four MCCs exported to Australia.

<sup>10</sup> Available at [www.industry.gov.au](http://www.industry.gov.au).

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For the following MCCs exported to Australia there were not sufficient domestic sales of the identical MCCs in OCOT or no sales at all. Where sales in OCOT for the relevant MCCs had occurred, the sales volumes of these sinks were extremely low when expressed as a proportion of the volume of exported sinks in the same MCC.

- 1BWL-1DB-A
- 1BWL-1DB-B
- 2BWL-1DB-B

The verification team considers that the circumstances relevant to the MCCs listed above render the sales of these MCCs in OCOT unsuitable for the purpose of a normal value under TAC(1). This approach is consistent with the Commission's stated practice in the Manual<sup>11</sup> where sales of individual models that are below five percent of the equivalent export model may not be sufficient.

In the alternative, the verification team found sufficient domestic sales volumes of surrogate models based on the MCCs with the closest physical characteristics in the MCC structure hierarchy. In relying on surrogate models, the verification team considered specification adjustments under TAC(8) are warranted to ensure fair comparison between the export model and surrogate domestic model.

In determining whether such an approach was reasonable, the verification team compared and contrasted the differences between the surrogate and the target MCC by having regard to the available technical and product catalogue information supplied by the exporter. Taking this information into account the verification team was satisfied that the surrogate models selected were acceptable. Adjustments based on differences in product specification were limited to instances where the difference related to adjacent MCC sub-categories, e.g. difference between MCC subcategory A and B, within the same MCC category. In the case of the above the differences related to the addition of drainer boards. Further discussion on the approach to specification adjustments is provided at section 9.2.

For the remaining MCC, 2BWL-1DB-A, there were no domestic sales of like goods in OCOT for this MCC. Further, a surrogate model with sufficient sales in OCOT that was established under TAC(1), and within one MCC sub-category in the same MCC category was unavailable. As a result and pursuant to section 269TAC(2)(a)(i), the verification team considers there is an absence of sales of like goods in the market of the country of export that would be relevant for the purposes of determining a price under section 269TAC(1) and has constructed the normal value for this MCC under section 269TAC(2)(c).

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<sup>11</sup> Suitability of Sales, Section 7.3, p.34 (November 2018).



## **8.4 Profit**

Where the Commission is required to calculate a normal value under section 269TAC(2)(c), an amount of profit must be worked out under Regulation 45 of the *Customs (International Obligations) Regulation 2015* (the Regulation).

The verification team has calculated an amount of profit based on the profit achieved on domestic sales of like goods in the OCOT in accordance with section 45(2) of the Regulation.

The verification team's preliminary calculation of domestic profit is at **Confidential Appendix 3**.

## 9 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) and 269TAC(9), where appropriate.

### 9.1 Rationale and Method

Adjustment Type	Rationale for Adjustment	Calculation Method and evidence	Claimed in REQ?	Adjustment Required?
Domestic inland freight	As some sales involve delivery on the domestic market, it is necessary to deduct the inland freight costs.	Average inland freight rate multiplied by invoice value. Source documents and domestic sales listing.	Yes	Yes
Domestic credit terms	Cresheen provides credit to its domestic customers.	Invoice value, multiplied by interest rate, multiplied by inventory turnover divided by 360. Source documents and domestic sales listing.	Yes	Yes
Export inland freight	Komodo Guangzhou pays for the inland delivery to the port.	Unit rate calculated as the total inland freight cost related to export sales divided by total export quantity of stainless steel sinks . Source documents and export sales listing.	Yes	Yes
Export handling fees	Komodo Guangzhou pays the port handling fees.	Unit rate calculated as the total inland freight cost related to export sales divided by total export quantity of stainless steel sinks. Source documents and export sales listing.	Yes	Yes
Export customs fees	Komodo Guangzhou pays for the customs fees.	Unit rate calculated as the total inland freight cost related to export sales divided by total export quantity of stainless steel sinks. Source documents and export sales listing.	Yes	Yes
Export credit terms	Komodo provides credit to its Australian customer.	Invoice value, multiplied by interest rate, multiplied by inventory turnover divided by 360. Source documents and export sales listing.	Yes	Yes

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Export non-refundable VAT	Komodo pays non-refundable VAT on its sales to Australia.	Non-refundable VAT rate multiplied by net invoice value. Source documents and export sales listing.	Yes	Yes
Export bank charges	Komodo pays bank charges relating to its sales to Australia.	Percentage of total bank charges which relates to sales of the goods. Source documents and export sales listing.	Yes	Yes
Difference in domestic and export accessories	There is a difference between the accessories included in domestic sales and export sales.	Accessories cost was deducted from domestic sales, and the export accessories cost was added to the normal value. Source documents.	No	Yes
Specifications	Refer to 9.2 below.		N	Y

**Table 10 Assessment of adjustments**

### 9.2 Specification Adjustments

As discussed in section 8.3, the verification team considered that the domestic OCOT sales of like goods for a number of MCCs were not a suitable basis for a normal value for these models under section 269TAC(1).

In the alternative the verification team considers that suitable surrogates were available in sufficient OCOT sales volumes that, when adjusted for specification differences, permitted the normal value to be determined under section 269TAC(1). Adjustments to account for specification differences between the relevant MCC and its surrogate MCC are based on the differences in the cost of production reported in relation to those MCCs exported to Australia, plus the profit margin earned on domestic like goods sold in OCOT. Differences in cost of production related to either the addition of a drainer board.

The verification team considers that the adjustments to account for differences in specifications between the relevant MCC and its surrogate MCC reflect the practice outlined in the Manual.<sup>12</sup>

The verification team considered an adjustment relying on domestic cost of production differences for the above MCCs however considered this was not preferable on the basis of very small domestic production volumes reported for the relevant MCCs.

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<sup>12</sup> Chapter 15.3, Physical Characteristics and Quality, p.67 (November 2018).

### 9.3 Adjustments

The verification team considers the following adjustments under section 269TAC(8) and 269TAC(9) for MCCs constructed under section 269TAC(2)(c)) are necessary to ensure that the normal value so ascertained is properly compared with the export price of those goods.

<b>Adjustment Type</b>	<b>Deduction/addition</b>
Domestic inland freight	<b>Deduct</b> an amount for domestic inland freight for normal values determined under section 269TAC(1).
Domestic credit terms	<b>Deduct</b> an amount for domestic credit terms for normal values determined under section 269TAC(1) and section TAC(2)(c).
Domestic accessories	<b>Deduct</b> an amount for domestic accessories for normal values determined under section 269TAC(1).
Export inland freight	<b>Add</b> an amount for export inland freight for normal values determined under section 269TAC(1) and section TAC(2)(c).
Export handling fees	<b>Add</b> an amount for export handling fees for normal values determined under section 269TAC(1) and section TAC(2)(c).
Export customs fees	<b>Add</b> an amount for export customs fees for normal values determined under section 269TAC(1) and section TAC(2)(c).
Export credit terms	<b>Add</b> an amount for export credit terms for normal values determined under section 269TAC(1) and section TAC(2)(c).
Export non-refundable VAT	<b>Add</b> an amount for non-refundable VAT for normal values determined under section 269TAC(1) and section TAC(2)(c).
Export bank charges	<b>Add</b> an amount for export bank charges for normal values determined under section 269TAC(1) and section TAC(2)(c).
Export accessories	<b>Add</b> an amount for export accessories for normal values determined under section 269TAC(1).
Specification adjustments	<b>Add</b> an amount for differences in product specifications for normal values determined under section 269TAC(1).

**Table 11 Summary of adjustments**

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

## **10 NORMAL VALUE**

### **10.1 Normal values ascertained under section 269TAC(1)**

The verification team 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).

Export MCCs	Sufficient domestic sales of identical MCC	Surrogate Model
1BWL-0DB-A	Yes	Sufficient sales volumes available for TAC(1).
1BWL-0DB-B	Yes	Sufficient sales volumes available for TAC(1).
2BWL-0DB-B	Yes	Sufficient sales volumes available for TAC(1).
2BWL-0DB-C	Yes	Sufficient sales volumes available for TAC(1).

**Table 12 Normal values under TAC(1) based on sales in OCOT**

The verification team also found that for the following models which did not have sufficient sales in OCOT, suitable surrogate models were identified for which adjustments could be made under section 269TAC(8).

Export MCCs	Sufficient domestic sales of identical MCC	Surrogate Model
1BWL-1DB-A	No	1BWL-0DB-A adjusted for differences in number of drainer boards.
1BWL-1DB-B	No	1BWL-0DB-B adjusted for differences in number of drainer boards.
2BWL-1DB-B	No	2BWL-0DB-B adjusted for differences in number of drainer boards.

**Table 13 Normal values under TAC(1) based on other TAC(1) surrogate models**

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 9 above.

### **10.2 Normal values ascertained under section 269TAC(2)(c)**

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

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The verification team has therefore calculated a preliminary normal value for the model identified in chapter 8.3 under section 269TAC(2)(c) using the sum of:

- the cost to make the exported model based on the company's records in accordance with section 43(2) of the *Customs (International Obligations) Regulation 2015* (the Regulation);
- SG&A on the assumption that the goods, instead of being exported, were sold domestically based on the company's records in accordance with section 44(2) of the Regulation; and
- an amount for profit based on data relating to the production and sale of like goods on the domestic market in the OCOT in accordance with section 45(2) of the Regulation.

In constructing normal values under 269TAC(2)(c), the verification team considers that certain adjustments in accordance with section 269TAC(9), are necessary to ensure fair comparison of normal values with export prices as outlined in chapter 9 above.

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

## 11 DUMPING MARGIN

In the original investigation at section 6.8 of *Anti-Dumping Commission Report No.238*, the Commission did not consider that the cost of grade 304 stainless steel cold rolled coil reflected competitive market costs under Regulation 180(2) of the *Customs Regulations 1926*. As a result, the Commission replaced the cost reported by each exporter was replaced with a competitive market substitute.

As it is the Commission's intention in this inquiry to also further consider whether the cost of stainless steel cold rolled coil incurred by the selected exporters during the inquiry period satisfy section 43(2) of the *Customs (International Obligations) Regulations 2015*, the preliminary dumping margin determined as a result of the verification process will not be published. The Commission's proposal regarding the treatment of stainless steel costs, and the resulting impact on each exporter's dumping margin, will be outlined in the Statement of Essential Facts.

## 12 SUBSIDIES

For the operation of the current anti-dumping and countervailing duty measures, exports of the goods by Cresheen are subject to the rates applicable to the all other exporters category. As a result, it is necessary to examine the level of subsidisation that is applicable to Cresheen's exports of the goods during the inquiry period.

### 12.1 Program 1 - Raw Materials Provided by the Government at Less than Fair Market Value

In the original investigation, the Commission found that exporters received a financial contribution that conferred a benefit through the provision of 304 grade stainless steel (SS) cold rolled coil (CRC) at less than adequate remuneration (LTAR) by SOE and SIE manufacturers. For the purpose of this verification, the circumstances relevant to the original investigation are considered to apply.

To establish whether the cooperating exporters in this inquiry received a benefit under program one, the verification team collected information on whether the raw material was supplied by and/or manufactured by a State Invested Enterprise (SOE) or State Invested Enterprise (SIE). In the data relating to its purchases of stainless steel cold rolled coil provided at G-7.4 of its REQ, Cresheen reported it did not source stainless steel from entities that were public bodies.

The verification team examined the company profile of Cresheen's stainless steel supplier and the profiles of the two organisations that formed the joint venture (JV) which controlled the company. One party in the JV was not Chinese however the second party was. The company profile of the Chinese partner in the JV indicated it was a privately owned organisation. Cresheen's listing of its SS CRC purchases was also compared to those reported by the other selected exporters cooperating with the inquiry. The manufacturer of the stainless steel sourced by Cresheen was found to be the same as that reported by the two exporters who were subject to on-site verification visits.

Having regard to the available information, the verification team is satisfied that Cresheen had not purchased its SS CRC from a public body and the circumstances applicable under program one are not considered to apply to Cresheen.

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

### 12.2 Tax benefits

In the original investigation, the Commission found that exporters received a benefit through preferential tax policies. For the purpose of this verification, the circumstances relevant to the original investigation are considered to apply.

The verification team examined the information provided by Cresheen to determine if it received a benefit under any of these programs.



The verification team examined the income tax information provided in the REQ including tax returns and proof of payment documents, and found that Cresheen did not receive a benefit under any identified or previously non-identified preferential tax subsidy programs.

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

### **12.3 Financial Grants**

In the original investigation, the Commission found that exporters received a benefit through the provision of grants. For the purpose of this verification, the circumstances relevant to the original investigation are considered to apply.

The verification team examined the information provided by Cresheen in its REQ, and the provided non-operating income ledger identified that it had received a benefit in relation to the following programs;

- Program 3 – Grants for Export Activities (Foreign Trade Development Special Fund; and
- High Growth Enterprise Award.

The High Growth Enterprise Award was not countervailed in the original investigation or been identified as a subsidy program in relation to other cases conducted by the Commission.<sup>13</sup> Subject to further examination, for the purpose of verification, this program has been determined to be a countervailable subsidy.

### **12.4 Subsidy margin**

The verification team found that Cresheen received a benefit in relation to the following programs:

- Program 3 – Grants for Export Activities (Foreign Trade Development Special Fund; and
- High Growth Enterprise Award.

On the basis that the case management team finds these programs to be countervailable subsidies, the verification team has calculated a preliminary subsidy margin for Cresheen during the investigation period to be **0.02 per cent**.

Details of the preliminary subsidy margin calculation are at **Confidential Appendix 6**.

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<sup>13</sup> The Anti-Dumping Commission Subsidy Register refers <https://www.industry.gov.au/data-and-publications/anti-dumping-commission-subsidies-register>

**13 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>	NOT PUBLISHED
<b>Confidential Appendix 6</b>	Subsidy Margin
<b>Confidential Attachment 1</b>	Verification work program