



Exporter Verification Report

Verification & Case Details

Initiation Date	03/06/2019	ADN:	2019/86
Case:	Deep drawn stainless steel sinks from China		
Case Number	517		
Exporter	Zhongshan Jiabaolu Kitchen and Bathroom Products Co Ltd		
Location	China		
Verification from		to	
Inquiry Period	01/07/2018	to	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, Zhongshan Jiabaolu Kitchen and Bathroom Products Co Ltd (Jiabaolu) and Flowtech Co., Ltd (Flowtech) jointly with its Chinese based trading company Zhongshan Flowtech Co., Ltd (Flowtech Zhongshan) 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 Jiabaolu and Flowtech was lodged within the legislated extended timeframe and considered complete and free of material deficiencies.

Although Jiabaolu 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 visit¹;
- 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 exporter; 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

At section A-2.7 in the public record version of its REQ, Flowtech states it is a trading company registered in the British Virgin Islands (BVI) that sources a range of items from Chinese manufacturers and on sell these products to Australian and third country customers. Flowtech describes itself as being a trading agency between Jiabaolu and its Australian customers. Flowtech also indicated that Jiabaolu entered

¹ Questionnaire responses received from Primy and Zhuhai Grand were subject to a verification visit in China. Verification reports for both visit are on the case public record at items xxx and xxx.

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into an exclusive supply agreement with its Australian customer in 2007. Jiabaolu is identified as the manufacturer of the goods exported to Australia.

Flowtech also stated at section B-1.1 that Flowtech Zhongshan is a registered company in China however the verification team established that this entity is rarely involved in the sales of the goods exported to Australia.

1.3 Related Parties

The verification team examined the relationships between related parties involved in the manufacture and sale of the goods. Relying on responses in Jiabaolu's and Flowtech's REQ, the verification team established that Flowtech Zhongshan has a percentage shareholding in Jiabaolu.

Outside of the relationship between Jiabaolu and Flowtech Zhongshan the verification team was satisfied, based on an examination of the data submitted in relation to Jiabaolu's and Flowtech's REQ's that Jiabaolu does not have any related party customers or suppliers of the goods during the inquiry period.

1.3.1 Related suppliers

Having regarding the information provided by the exporter in its REQ, in particular, its purchases of stainless steel cold rolled coil, the verification team is satisfied that the exporter has not purchased its raw materials from related party suppliers.

1.3.2 Related customers

Based on an examination of the data reported by the exporter in its REQ and having regard to importer verification relating to its exports of the goods to Australian, the verification team is satisfied that the exporter has not sold goods or like goods to related party customers. However, as noted above, Flowtech Zhongshan holds a percentage ownership share in Jiabaolu.

2 THE GOODS AND LIKE GOODS

2.1 Production Process

Jiabaolu described its production process of deep drawn stainless steel sinks in G-1.1 of 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 washed and polished.
3. Bowls and drainer board(s) are welded together to form the sink (note: this step will be missed if Jiabaolu produces a sink comprising of only one bowl and no drainer board).
4. The sink is grinded to ensure an even surface, and polished to achieve the desired finish.
5. The sink is cleaned to remove all debris.
6. A sound-minimising foam pad or spray is applied to the sink, if required.
7. The sink is then packaged.

2.2 Model Control Codes (MCCs)

As detailed in the initiation notice², 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.

Category	Characteristics of category
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

² ADN No. 2019/86

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Category	Characteristics of category
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 selected for identification

Jiabaolu provided the above information categories for both its Australian sales listing and domestic sales listing relevant to its responses to part B-2 and D-2 of its REQ. It also 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 the exporter to allow the cost data reported at the product code to be mapped against the product specification data reported in the sales listing.

2.2.1 Submissions on MCC

In regards to the MCC, Jiabaolu claimed in its REQ at Section C-2.2 that *"it is not possible to find the comparable models sold in domestic market for the models sold in Australian market, and this conclusion has been agreed by the Commission in the original investigation."* The verification team notes Jiabaolu's reference to the original investigation.

2.3 Mapping MCC Structure

Relying on an analysis of Jiabaolu'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

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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.

The verification team also considered it necessary to have regard to the shape of the bowl in the case Jiabaolu's sink sales. Jiabaolu's sinks were found to have bowls which were either circular or rectangular. Circular shapes bowls were identified by the sink radius data reported by the exporters and comparing the relevant sales to the product information provided by the exporter. To map sinks with circular bowls the verification team added the "R" suffix to MCC Category 1 sub-categories.

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, the verification team has applied adjustments to normal value to account for differences in accessories.

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

Item	Category	Subcategory	Identifier
1	Number of Bowls	1 Bowl	1BWL
		1 Bowl (Round)	1BWLR
		2 Bowls	2BWL
		2 Bowls (Round)	2BWLR
2	Number of Drainer Boards	No drainer board	0DB
		1 drainer board	1DB
		2 drainer boards	2DB
3	Total Sink Capacity (Litres or "L")	Greater than or equal to 7L but 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 for Jiabaolu

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 Jiabaolu's sinks 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 exporter's 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.

2.3.2 Amendments to MCCs

With the exception of the recognition of sinks bowls that were circular in shape the verification team did not find it necessary to depart from the proposed MCC structure on account of variations in price.

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 2.2.

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;

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- other publicly available information, such as Australian importer’s online web based catalogues.

Although the verification of Jiabaolu’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 Jiabaolu produced and exported the goods to Australia. Jiabaolu exported the goods to Australia with the following MCCs (excluding accessories) during the inquiry period:

Australian Exports MCC
1BWL-0DB-A
1BWLR-0DB-A
1BWL-0DB-B
1BWL-1DB-A
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 Jiabaolu sold like goods in the domestic market.

The verification team considers that the goods manufactured for domestic consumption are identical to, or have characteristics closely resembling, the goods exported to Australia, as they:

- 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.

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

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

Table 4: Domestic Like Goods Models

2.7 Like goods – assessment

The verification team considers that the goods produced by Jiabaolu 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).³

³ 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.

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

- Analysing the variance between the volume of goods subject to measures exported to Australia, as reported by the exporter at B-2 of 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 exporter'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 the REQ;
- Reviewing the product specification data reported by the exporter 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

No.	Exception	Resolution
1	Zero quantity sales were identified in the domestic sales data provided in response to D-2 of the REQ.	Transactions with zero quantity sales were removed from the sales listing.

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 Jiabaolu, 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 the REQ by reconciling these to audited financial statements in accordance with ADN. No 2016/30.

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

4.1 Exceptions during verification of sales accuracy

No.	Exception	Resolution
1	Export inland transport costs reported in relation to Australian sales in response to B-2 of the REQ appear to be have been understated.	The inland transport cost has been recalculated based on the actual costs reported for the sample of shipments relevant to the exporter's response to B-3 of the REQ.
2	The verification team observed that in the exporter domestic sales at D-2 to its REQ that the credit expenses were not calculated by apportioning the payment term period by the number of days in one calendar year.	Credit expense have been recalculated in line with the following formula; Credit cost = Net invoice value x [interest rate x (credit period / 365)]

Table 6 Exceptions during verification of accuracy of sales data

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

Item	Method applied
Invoice value	Based on invoice
Quantity	Based on invoice and packing list
Date of sale	From invoice (invoice date is the date of sale)
Port handling charges	Based on actual costs, calculated from total port handling expenses incurred for each container load divided by the export sales volume
Export Inland transport	Based on actual costs, calculated from total inland transport expenses incurred for each container load divided by the export sales volume
Domestic Inland Transport	Cost of inland transport per unit of revenue.
Non-refundable VAT on exports	The effective rate of VAT is the difference between the VAT rate relevant to a given month, and the VAT rebate relevant to that month

Table 7 Sales verification summary

4.2 Sales accuracy finding

The verification team is satisfied that the sales data provided by Jiabaolu, including any required amendments as outlined in the exception tables above, 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 verification 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 verification 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 did not identify any issues during this process. Details of this verification process are contained in the verification work program and its relevant attachments, at **Confidential Attachment 1**.

5.1 Exceptions during verification of completeness and relevance of CTMS data

No exceptions were identified.

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 exporter, 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 8 below outlines the allocation method applied to each cost item.

Cost item	Method applied	Evidence relied upon
Raw Materials	Actual cost, allocated by standard cost proportion of raw materials.	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 8 Cost allocation method

6.2 Exceptions during verification of CTMS allocation method

No.	Exception	Resolution
1	Domestic inland transport costs per unit of sales revenue reported in D-2 of the REQ appear to be have been understated.	The inland transport cost has been recalculated based on the actual costs reported at Annex E-3.1 of the REQ and the correct domestic sales revenue reported at Annex B-4.4.1.

6.3 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 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**.

6.4 Accuracy finding

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

7 EXPORT PRICE

7.1 The importers

In relation to the goods exported to Australia by Jiabaolu through its intermediary trader, Flowtech, the verification team considers Flowtech's Australian customer to be the beneficial owner of the goods at the time of importation as the customer is:

- named on the commercial invoice as the customer;
- 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.

7.2 The exporter

Subject to further inquiries, the verification team considers Flowtech to be an intermediary to the export of the goods, as Flowtech:

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

Subject to further inquiries, the verification team considers Jiabaolu to be the exporter of the goods⁴, as the Jiabaolu:

- is the manufacturer of the goods;
- is aware that the goods will be exported;
- manufactured the goods specific to the Australian customers requirements; and
- knowingly placed the goods in the hands of a carrier, for delivery to Australia.

The verification team were satisfied that for all Australian export sales during the period the verification team considers Jiabaolu to be the exporter of the goods.

7.3 Arms length

In respect of Jiabaolu's Australian sales of the goods during the investigation period, the verification team found no evidence that:

- there was any consideration payable for, or in respect of, the goods other than its price; or

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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- 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.⁵

The verification team therefore considers that all export sales to Australia made by Jiabaolu via Flowtech 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 Flowtech to Jiabaolu, with the addition of relevant FOB costs incurred by Flowtech.⁶

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

⁵ Section 269TAA of the Act refers.

⁶ *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, 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 exporter’s domestic sales of like goods to its unrelated 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 exporter to its unrelated 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:

OCOT particulars	Details
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 inquiry period 1 July 2018 to 30 June 2019.

Table 9 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 volumes when expressed as a proportion of the total volume of the goods exported. As a result, the normal value can be ascertained under section 269TAC(1).

As per the *Dumping and Subsidy Manual* (the Manual)⁷, 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.
1BWLR-0DB-A	Yes	Sufficient sales volumes available for TAC(1).
2BWL-0DB-B	Yes	Sufficient sales volumes available for TAC(1).
2BWL-0DB-C	No	Normal values determined under TAC(1) based on TAC(1) normal values for 2BWL-0DB-B and adjusted for differences in bowl capacity.
2BWL-1DB-A	No	Normal values determined under TAC(1) based on TAC(1) normal values for 2BWL-1DB-B and adjusted for differences in bowl capacity.
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.

⁷ Available at www.industry.gov.au.

Table 10 Sufficiency test

As outlined in Table 10 above, the verification team found that there were sufficient domestic sales volumes of identical MCCs sold in OCOT for four MCCs exported to Australia.

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
- 2BWL-0DB-C
- 2BWL-1DB-A
- 2BWL-1DB-B

The verification team considers that the circumstances outlined above for the listed MCCs render the sales of these models 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 Manual⁸ 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 under the MCC hierarchy structure. In relying on surrogate models, the verification team considered specification adjustments under TAC(8) is 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 target MCC by having regard to the available technical and product catalogue information supplied by the exporter. Taking this 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 difference related to the addition of drainer boards or the capacity of the sinks bowls. Further discussion on the approach to specification adjustments is provided at section 9.2.

⁸ Suitability of Sales, Section 7.3, p.34 (November 2018).

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).

9.1 Rationale and Method

Adjustment type	Assessment for adjustment	Calculation method and evidence	Claimed in REQ?	Adjustment required?
Domestic Credit terms	Credit terms on domestic sales of like goods sold in OCOT were on a weighted average basis materially different to credit terms offered on export sales.	For normal values established under TAC(1) the cost of credit is based on the credit term period reported for each invoice, an appropriate interest rate and the net invoice value.	Y	Y
Domestic inland transport	Inland transport costs were incurred in relation to certain domestic sales	Inland freight was calculated based on total inland freight allocated by sales revenue. The adjustment is based on the unit inland freight allocate by sales quantity in pieces.	Y	Y
Export inland transport	Inland transport costs were incurred in relation to export sales at levels which were materially different to the cost of domestic inland transport.	Jiabaolu worked out the inland transport costs per container and allocated the cost to each transaction by sales value. The adjustment is applied by using the total verified inland transport cost incurred on Australian export and divided by the total sales quantity in pieces.	Y	Y
Export port handling charges	Port handling charges were incurred in relation to Jiabaolu exports of the goods to Australia.	Jiabaolu worked out the port handling costs per container and allocated to each transaction by sales value. The adjustment is applied by using the total verified inland transport cost incurred on Australian export and divided by the total sales quantity in pieces.	N	Y
Non-refundable VAT	Exporter incurred expenses in relation to a non-refundable amount of VAT on export sales	Applying the relevant rates relating to the non-refundable amount of VAT to the normal value at FOB terms. NB: The non-refundable rate up to March 30 2019 was 7%. Thereafter	N	Y

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Adjustment type	Assessment for adjustment	Calculation method and evidence	Claimed in REQ?	Adjustment required?
		a full refund was granted so no expense was realised.		
Specifications	Refer to 9.2 below.		N	Y
Accessories (Domestic)	The range of accessories was of a different variety and cost compared to those sold with sinks exported to Australia.	Working out the unit accessory costs per MCC by relying on the cost of production data reported by the exporter at G-3.1 to its REQ.	N	Y
Accessories (Export)	The range of accessories was of a different variety and cost compared to those sold with domestic sinks.	Added the weighted average unit cost of accessories by export MCC to the corresponding domestic MCC.	N	Y
Level of Trade	Domestic sinks were sold to customers at different levels of trade which had distinct price points and profit margins. Exported goods were sold to only one level of trade.	Goods exported to Australia and sold domestically were sold to the same level of trade. For other domestic sales which were not sold at an equivalent level of trade the verification team considers an adjustment to account for price differences due to level of trade is warranted. The verification team analysed the price and profit margin at the different domestic levels of trade and compared these to the level of trade that was comparable to the exported goods. The weighted average price variance was applied to domestic sales in OCOT which were not sold not at level of trade comparable to the level at which the goods were exported.	Y	Y

Table 11 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

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its surrogate MCC are based on the differences in the cost of production reported in relation to those MCCs exported to Australia, plus an appropriate amount for profit. Differences in cost of production related to either the addition of a drainer board or differences in the capacity of the sink bowls.

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 *Anti-Dumping Commission Dumping and Subsidy Manual*.⁹

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.

9.3 Adjustments

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

Adjustment Type	Deduction/addition
Domestic credit term expenses	Deduct an amount for domestic credit expense for normal values determined under section 269TAC(1).
Domestic inland transport expenses	Deduct an amount for domestic inland transport expense for normal values determined under section 269TAC(1).
Export inland transport expenses	Add an amount for export inland transport expense for normal values determined under section 269TAC(1).
Export port charges	Add an amount for port charges for normal values determined under section 269TAC(1).
Non-refundable VAT expenses	Add an amount for non-refundable VAT expense for normal values determined under section 269TAC(1).
Domestic Accessories	Deduct an amount for accessories offered with domestic sink sales for normal values determined under section 269TAC(1).
Export Accessories	Add an amount for accessories offered with exported sink sales for normal values determined under section 269TAC(1).
Specification differences	Add or deduct an amount for specification difference for normal values determined under section 269TAC(1).
Level of trade	Add or deduct amounts for sales that were not of a level of trade that is comparable to the level of trade for export customers for normal values determined under section 269TAC(1).

Table 12 Summary of adjustments

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

⁹ Chapter 15.3, Physical Characteristics and Quality, p.67 (November 2018).

10 NORMAL VALUE

The verification team found that the following models had sufficient volumes of domestic sales of the goods, exported to Australia, that were arms length transactions and at prices that were within the OCOT, that permitted the normal value to be determined under section 269TAC(1).

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

Table 13 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, when compared to the volume of the equivalent export MCC, subject to adjustments under section 269TAC(8) to account for specification differences, suitable surrogate MCCs were available to determine the normal value for those models under section TAC(1).

Export MCCs	Sufficient domestic sales of identical MCC	Surrogate Model
1BWL-1DB-A	N	1BWL-0DB-A adjusted for differences in number of drainer boards.
2BWL-0DB-C	N	2BWL-0DB-B adjusted for differences in bowl capacity.
2BWL-1DB-A	N	2BWL-1DB-B and adjusted for differences in bowl capacity.
2BWL-1DB-B	N	2BWL-0DB-B and adjusted for differences in number of drainer boards.

Table 14 TAC(1) normal values 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.

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 APPENDICES AND ATTACHMENTS

Confidential Appendix 1	Export price
Confidential Appendix 2	Cost to make and sell
Confidential Appendix 3	Domestic sales, OCOT and profitability
Confidential Appendix 4	Normal Value
Confidential Appendix 5	NOT PUBLISHED
Confidential Attachment 1	Verification work program