



Exporter Verification Report

Verification & Case Details

Initiation Date	3 July 2019	ADN:	ADN No. 2019/086
Case:	Continuation - Deep Drawn Stainless Steel Sinks from China		
Case Number	517		
Exporter	Primy Corporation Ltd		
Location	China		
Verification from	04/09/2019	to	09/09/2019
Inquiry Period	1/07/2018	to	30/06/2018

**THIS REPORT AND THE VIEWS OR RECOMMENDATIONS CONTAINED THEREIN
WILL BE REVIEWED BY THE CASE MANAGEMENT TEAM AND MAY NOT REFLECT
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1 COMPANY BACKGROUND

1.1 Corporate Structure and Ownership

The company's legal name is Primy Corporation Ltd (Primy). Primy has no other legal or trading names. The company is a privately held company registered in China.

Relying on its response to A-2.5 in the non-confidential version of its response to exporter questionnaire (REQ) Primy reported it has interests in several other companies through common ownership, family relationships or direct and indirect investment.

1.2 Related Parties

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

The verification team determined there were no related suppliers to Primy and as discussed below sold like goods to three related party customers.

1.2.1 Related customers

At A-2.5 of its REQ Primy reported the following related party customers who are responsible for undertaking distribution functions relating to Primy domestic and export markets;

- Beijing PRIMY Kitchenware Sales Co. Ltd, a distributor of Primy products owned by a family member of Primys' majority shareholder. Primy had made domestic sales to this entity.
- Zhuhai Youshang Kitchen & Bathroom Products Co., Ltd, an entity set up for Primys' online sales. Primy had domestic sales to this entity.
- Primy Trading (HK) Limited, an overseas trading company for exports of all products. This entity was not used for any Australian export sales during the inquiry period however was used for third country export sales.

2 THE GOODS AND LIKE GOODS

2.1 Production Process

The production process for the goods and the like goods was largely similar. Production steps generally followed a process of punching, drawing, detailing, finishing and packaging the sink.

The verification team did note there were some differences in the production process provided by Primy in the REQ to what was witnessed onsite. Primy was asked and subsequently provided a revised production process chart showing information relation to production processes such as folding, corner welding, edge treatment, painting etc.

2.2 Model Control Codes (MCCs)

As detailed in the initiation notice¹, 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 importers, exporters, 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
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

¹ ADN No. 2019/86

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Category	Characteristics of category
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

Primy 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.

2.3 Mapping MCC Structure

Relying on an analysis of Primy's sales and production of sinks sold into the domestic market and Australian 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 like 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, the verification team has developed MCC subcategories to account for types of accessories sold with the sinks exported to Australia.

The resulting MCC structure applied to Primy's 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

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Item	Category	Subcategory	Identifier
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
4	Accessory Pack	Accessory Pack 1 (No Accessories)	1
		Accessory Pack 2	2
		Accessory Pack 3	3
		Accessory Pack 4	4

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. Depending on the type of accessories sold with the sink the relevant accessory sub-category code will be added, e.g. 2BWL-1DB-B-1. As demonstrated at sections 2.5 and 2.6 several MCCs are generated as a result of mapping the product codes in Primy sales and cost listing to the MCC structure. The verification team notes that each resulting MCC represents an aggregation of all of the exporter’s product codes that mapped to each particular MCC.

2.3.1 Assessment of MCC Structure for Primy

Relying on the following, the verification team assessed whether the MCC structure at Table 1 was appropriate for Primy.

- Primy’s sales and cost data;
- Primy’s product brochures and technical drawings; and
- Other cooperating exporter’s sales and cost data;
- Observations made relating to verification of other selected exporters.

The verification team observed in relation to both domestic sales of like goods and the goods exported to Australia that the price and cost differences trended in a similar pattern after applying the MCC structure. On this basis the verification team was satisfied that the MCC structure as applied to Primy’s sinks sales and production appropriately captured the key price and cost determinants.

The verification team further found that within each MCC, in most cases the average capacity of the sinks exported to Australia in a particular MCC were comparable to the corresponding MCC for like goods. One MCC exhibited material differences where the average capacity of sinks on the domestic market were smaller than the sinks in the equivalent exporter MCC when compared to the average capacity of sinks exported to Australia. The verification team notes that prices were found to increase as bowl volume increased.

In terms of material thickness (gauge) and surface finish, the verification found that these characteristics within the MCC for exported goods were identical for a large proportion of sales within the corresponding MCC for like goods. The price of the most relevant steel coil gauges were also found to be comparable.

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In relation to other sink features, the verification team had regard to whether the sink bowl corner radius influenced price. Particularly the concept that sinks with a smaller bowl corner radius attracted higher prices than a sinks with larger radius corners. The verification team's analysis did not result in finding that it was necessary to have regard to bowl corner radius.

Lastly, using product catalogues and technical drawings, the verification team an analysis of the sinks within each MCC by comparing the design of sinks exported to Australia and those in the corresponding like goods MCC. Whilst the designs of the sinks were not found to be identical in all respect, they were found to be highly comparable, particularly the sinks where the normal values have been established under section TAC(1) of the *Customs Act 1901* (the Act).²

2.3.2 Amendments to MCCs

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 technical drawings; and;
- other publicly available information, such as Australian importer's online web based catalogues.

The above information was 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 was satisfied that Primy produced and exported the goods to Australia. Primy exported the goods to Australia with the following MCCs during the period:

Australian Exports MCC
1BWL0DBA
1BWL0DBB
1BWL0DBC

² References to any section or section in this report relate to provisions of the Act, unless specifically stated otherwise.

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Australian Exports MCC
1BWL1DBA
2BWL0DBB
2BWL0DBC
2BWL1DBA
2BWL1DBB
2BWL2DBB

Table 3: Australian Export Models

2.6 Like goods sold on the domestic market

The verification team was satisfied that Primy 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.

Primy sold like goods on the domestic market with the following MCCs during the period:

Domestic Like Goods MCC
1BWL0DBA
1BWL0DBB
1BWL1DBA
2BWL0DBA
2BWL0DBB
2BWL1DBA
2BWL1DBB
3BWL0DBA
3BWL0DBB

Table 4: Domestic Like Goods Models

2.7 Like goods – assessment

The verification team considers that the goods produced by Primy 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 Act.

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

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

- Examining Primy's 2018 financial year audited financial statements;
- In its account balance sheet, "other business revenue" were contained in "main business revenue", profit & loss statement (2018)
- trial balance records relevant to the inquiry period;
- reviewing domestic and foreign sales accounting entries manually compiled and summarized, with product category

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	The quantity of exports subject to measures was overstated.	The verification team established that sinks exported to Australia as part of a laundry unit assemblies had been incorrectly reported at Section B-2 of Primy's REQ. Sinks exported together with laundry cabinets, that comprise a completed laundry unit, either assembled or unassembled are not subject goods. The relevant sales were identified using product code information and excluded from the sales listing.
2	When reconciling its Export sales revenue, sub-ledger to the management account, the verification team noted a minor variance.	Primy explained that this difference was due to the difference between accounting recording and invoice value, as well as some accounting adjustment and corrections by auditors. Details of the variance together with were provided to the verification team. The verification team accepted Primy's explanation.
3	A non-material quantity of domestic sales reported zero quantity sales values	The verification team removed these transactions from the sales listing.

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

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3.2 Sales completeness and relevance finding

The verification team is satisfied that the sales data provided by Primy, 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	Packing costs was omitted from export and domestic sales	Primy provided revised updated Australian and domestic sales listing with correct packaging costs. The method of calculating packaging costs calculation was tested by the verification team using selected samples.
2	VAT was included in the Inland freight costs for both export and domestic sales.	Primy provided revised updated Australian and domestic sales listing excluding VAT from inland freight costs. The method of calculating packaging costs was verified against the source documents.
3	Calculation of commissions, handling fees had calculation errors in the Australian sales listing.	Primy provided revised Australian sales with updated formulas. The verification checked the calculation using sample transactions and to the source documents.
4	VAT was included in the Declaration fee from export sales listing.	Primy provided revised Australian sales excluding VAT was provided. The verification checked the calculation using sample documents.
5	Exchange rate were not recorded for some transactions in the export sales listing.	Primy provided revised Australian sales including exchange rates for all transaction. The verification verified that correct rates were included using sample documents.
6	Some non-goods were included in Australian Sales listing.	Primy identified all non-goods in Australian sales. The verification team excluded all non-goods from the Australian sales listing. The verification team verified selected transactions to the source documents (list of all invoices to ensure all non-goods were excluded).
7	There were formula errors in discount calculations.	Primy provided revised Australian sales with updated formulas was provided. The verification checked the calculation using sample documents

Table 6 Exceptions during verification of accuracy of sales data

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

Item	Method applied
Invoice value	Based on invoice value reported for domestic and export sales.
Quantity	Based on invoice and packing list
Rebates and discounts	Based on quality, value and discount policy
Date of sale	Taken as invoice date, as appears on invoice
Delivery	Weighted average rate based on total expenses incurred divided by delivered sales volume
Packaging	Weighted average rate based on total expenses incurred divided by delivered sales volume
Credit	Average payment days, credit rate.
Non-Refundable VAT	Based on the VAT rate and rebate rate for the respective months during the inquiry period

Table 7 Sales verification summary

4.2 Sales accuracy finding

The verification team is satisfied that the sales data provided by Primy, 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
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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:

- The visit team successfully reconciled upwards from the reported CTMS.
- The CTM reported on the REQ was reconciled with the monthly production cost sheets.
- The cost sheets reconciled to the finished goods sub ledger.
- The finished goods sub ledger reconciled to the cost of goods sold (COGS) ledger.
- The COGS ledger reconciled to the exporter's Profit and Loss (P&L) statement.
- The P&L statement reconciled to the last audited financial statement .
- Variances were explained, evidence provided and the team undertook close examination of relevant subleaders.

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

- The visit team successfully reconciled the reported SG&A upwards to the sales, administrative and financial expenses on the Profit and Loss statement.
- The verification team ensured export expenses were removed.
- The verification team selected six included sub ledgers for detailed verification to confirm that only relevant expenses were included in the SG&A listing .
- The verification team selected five excluded ledgers to further confirm that only complete relevant expenses were included in the SG&A listing.

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

No.	Exception	Resolution
1	At G-2.1 of its REQ Primy reported that its cost accounting system is not based on standard cost.	The verification team verified Primy's costs having regard to cost of production variances between standard and actual cost.
2	During examination of the included SG&A consulting fee sub ledger the	Primy provided the ledger showing the total amount of the commission. The verification

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No.	Exception	Resolution
	verification team noted that a commission included as a direct selling expense on the sales listing was also included in the SG&A	team has adjusted the SG&A to exclude this commission.
3	The verification team observed that in the REQ more models were sold than produced in certain quarters.	Costs were carried forward from the quarter in which the most recent production run had occurred. In a number of instances this included costs that occurred prior the inquiry period.

Table 8 Exceptions during verification of completeness and relevance of CTMS data

5.2 Completeness and relevance finding of CTMS data

The verification team are satisfied that the cost to make and sell (CTMS) data provided in the exporter questionnaire response by Primy once adjusting for the above change to the SG&A is complete and relevant.

6	VERIFICATION OF CTMS ACCURACY
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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.

Cost Area	Method applied
Raw Materials	<p>Primy calculated the actual raw material cost incurred allocated by product code.</p> <p>The visit team verified the actual raw material costs with the raw material purchase ledger as well as sampling purchase transactions to the source documents.</p> <p>The visit team verified the actual cost had been applied to the standard costs using the correct formula.</p>
Auxiliary and Other Materials	<p>Primy calculated the auxiliary and other materials cost incurred allocated by product code.</p> <p>The standard costs for each product were established and consistent for each product code based on the amount and type of auxiliary material used.</p> <p>The actual costs were not tracked to the factory level however the visit team verified that the base standard costs for material type were consistent across product codes and between deep drawn sinks and other type of sinks produced by Primy, meaning the total actual cost was fairly allocated based on relative production quantities.</p> <p>Primy provided supporting evidence showing the standard cost matched the purchase cost for a number of auxiliary materials such as deafening pads and paint within in the inquiry period.</p> <p>The visit team verified the actual cost had been applied to the standard costs using the correct formula.</p>
Accessories	<p>Primy applied the monthly actual cost of accessories to each product code using the ratio difference between the total standard and actual cost.</p> <p>For purchased accessories the visit team verified the actual accessories purchases cost.</p> <p>For partially produced accessories the visit team verified the accessories cost sheets.</p> <p>In both instances the team verified the accessories cost had been applied correctly too the standard costs using the correct formula.</p>
Scrap Allocation	<p>Primy added a cost offset for the sale of scrap metal.</p> <p>Primy allocated the total value of scrap sold over the IP by the total steel consumption to calculate a recovery ratio. The recovery ratio was applied to the actual steel cost for drawn sinks.</p> <p>The visit team verified the total scrap sales amount and selected individual sales for proof of pricing and payment.</p>

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Cost Area	Method applied
	The verification team also ensured the allocation had been applied correctly.
Manufacturing Overheads	<p>Primy applied the monthly actual overheads cost for the drawn sink factory to each product codes cost using the ratio difference between the total standard cost and total actual cost.</p> <p>The standard cost was set for each product code was the same as the labour standard cost. The methodology being based on an addition of all the average timings of each production stage applicable to that product.</p> <p>The visit team verified the actual overheads cost for a selected month and examined the overhead inclusions. The visit team again verified the allocation was applied correctly.</p>
Labour	<p>Primy applied the monthly actual labour costs for the drawn sinks factory to each product codes cost using the ratio difference between the total standard and total actual cost.</p> <p>The standard cost was set based on an addition of all the average timings of each production stage applicable to that product.</p> <p>The visit team verified the actual monthly labour cost for one month using the payroll and verified it had been correctly applied to the standard costs.</p>
Depreciation	<p>As part of the overhead examination the visit team verified a depreciation asset from both the drawn sink and fabricated sink factory.</p> <p>The team verified a selection of asset purchases using their invoices and then verified the depreciation schedule had been calculated and applied correctly to the overhead cost.</p>

Table 9 Cost allocation method

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

6.2 Exceptions during verification of CTMS allocation method

No.	Exception	Resolution
1	The verification team noticed that Primy had discussed its use of scrap in partially produced accessories. However this was not reflected in the scrap cost offset. The verification team noted this could result in a slight over allocation of raw material in the CTM.	Primy explained that it was not possible to distinguish this scrap and was not considered worthwhile production management to track for such small quantities of scrap. The team sought explanation of the partial accessories production and agreed it would not be possible to make an adjustment and even if possible would be an negligible offset.

Table 10 Exceptions during verification of CTMS allocation method

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 Exceptions during verification of accuracy of CTMS data

No.	Exception	Resolution
1	The verification team noted that Primy purchases raw material in stainless steel sheet and coil, however in the raw material purchases listing and source documents provided it was not possible to distinguish coil purchases from sheet purchases.	Primy was offered a chance to revise the raw material purchases ledger to distinguish the two types of purchases. Primy stated it would not be possible to revise the raw material purchase listing. The visit team informed Primy that in the event of a cost replacement benchmark the purchases may be treated unfavourably.
2	Primy's raw material purchase listing included an outsourced processing fee for converting stainless steel coil into stainless steel plate for production. During downwards verification the visit team noticed two instances where Primy was charged a partial processing fee where processing had started but ceased due to defects with the coil.	Primy explained that these were reported as raw material costs incurred. The verification team agreed, but informed Primy that in the event of a cost replacement benchmark, if a coil to plate conversion fee was needed based on Primy's data these two partial fees would be excluded from the calculation.

Table 11 Exceptions during verification of accuracy of CTMS data

6.5 Accuracy finding

The verification team are satisfied that the cost to make and sell (CTMS) data provided in the exporter questionnaire response by Primy once including the above identified adjustments to the raw material purchases listing is accurate.

7 EXPORT PRICE

7.1 The importers

The verification team considers exporter's Australian customers to be the beneficial owner of the goods at the time of importation and therefore the importers as customers are:

- 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 Primy to be the exporter of the goods³, as Primy is:

- the manufacture of the goods;
- named on the commercial invoice as the supplier;
- named as consignor on the bill of lading;
- arranges and pays for the inland transport to the port of export; and
- arranges and pays for the port handling charges at the port of export.

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

7.3 Arms length

7.3.1 Related party customers

In respect of Primy's export sales of the goods to its related customer in Australia during the period, the verification team found no evidence that:

- there was any consideration payable for, or in respect of, the goods other than their price; 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.⁴

The verification team therefore considers that export sales to Australia made by Primy to its related customer during the period were arms length transactions.

³ 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.

⁴ See section 269TAA(1)(c).

7.4 Export Price – assessment

In respect of Australian sales of the goods by Primy, the verification team recommends that the export price be determined under paragraph 269TAB(1)(a), as the price paid by the importer to the exporter less transport and other costs arising after exportation.

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

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

8.1.1 Related party customers

In respect of Primys domestic sales of like goods to its related 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 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 domestic sales made by Primy to its related customers during the period were arms length transactions.

The verification compared the domestic quarterly weight average unit selling prices for all product codes during the inquiry period of Primy's related customers is by reference the price to the unrelated customers. The verification team noted only a minor variances in some quarters the prices between the related and unrelated customers.

8.1.2 Unrelated customers

In respect of Primy'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 domestic sales made by Primy to its unrelated domestic customers during the inquiry period were arm's length transactions.

8.2 Ordinary course of trade

Section 269TAA 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

⁵ Section 269TAA of the Act refers.

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- 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.

Table 12 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)⁶, 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:

⁶ Available at www.industry.gov.au.

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Export MCCs	Sufficient domestic sales of identical MCC	Treatment of normal value where there were insufficient domestic sales of identical MCC
1BWL0DBA	Y	Sufficient sales volumes available for TAC(1).
1BWL0DBB	Y	Sufficient sales volumes available for TAC(1).
1BWL0DBC	N	No sufficient sales or available cost information to apply a reasonable surrogate model therefore ascertained normal value under TAC(2)(c).
1BWL1DBA	N	Normal values determined under TAC(1) based on TAC(1) normal values for 1BWL0DBA and adjusted for differences in number of drainer boards.
2BWL0DBB	Y	Sufficient sales volumes available for TAC(1).
2BWL0DBC	N	No sufficient sales or available cost information to apply a reasonable surrogate model therefore ascertained normal value under TAC(2)(c).
2BWL1DBA	N	No sufficient sales or available cost information to apply a reasonable surrogate model therefore ascertained normal value under TAC(2)(c).
2BWL1DBB	N	Normal values determined under TAC(1) based on TAC(1) normal values for 2BWL0DBB and adjusted for differences in number of drainer boards.
2BWL2DBB	N	No sufficient sales or available cost information to apply a reasonable surrogate model therefore ascertained normal value under TAC(2)(c).

Table 13 Sufficiency test

As outlined in Table 13 above, the verification team found that there were sufficient domestic sales volumes of identical MCCs sold in OCOT for three MCCs exported to Australia.

For MCC 1BWL1DBA and 2BWL1DBB exported to Australia there were not sufficient sales of the identical MCCs in OCOT, however this is not to say that none occurred at all. Whilst sales in OCOT for these 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.

The verification team considers that the circumstances outlined above for MCC 1BWL1DBA and 2BWL1DBB 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 Manual⁷ 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.

⁷ Suitability of Sales, Section 7.3, p.34 (November 2018).

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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 one drainer board. Further discussion on the approach to specification adjustments is provided at section 9.2.

For the remaining four MCCs exported to Australia, the verification team found there were no sales of goods in the identical MCC or were there suitable surrogate MCC's available. As a result, it was not possible to estimate the comparability between exported and domestic like goods for the purpose of relying on a surrogate model. For these export MCCs, 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 these MCCs under section 269TAC(2)(c).

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
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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 where applicable section 269TAC(9).

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. The cost of credit for normal value established under TAC(2) was identical to the method for TAC(1) normal values with the exception that the payment term was calculated using the weighted average terms identified in the sales of like goods in OCOT.	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 (pieces).	Y	Y
Packaging	Domestic like goods had different packaging compared to exported goods	Relying on the costs from the relevant accounts in the financial records to work out the weighted average unit cost of packing.	N	
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.	Primy 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 Primy exports of the goods to Australia.	Primy 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	N	Y

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Adjustment type	Assessment for adjustment	Calculation method and evidence	Claimed in REQ?	Adjustment required?
		transport cost incurred on Australian export and divided by the total sales quantity in pieces.		
Export credit terms	Credit terms on export of the goods were on a weighted average basis materially different to credit terms offered on domestic sales.	The cost of credit is based on the weighted average of the payment terms reported for each invoice, an appropriate interest rate and the net invoice value.	N	Y
Export Declaration Fee	Export declaration fees are payable on exports of the goods to Australia. Similar expenses do not occur in relation to domestic sales of like goods	Verified declaration fee costs incurred for each container and allocated based on sales revenue. The adjustment is calculate based on the weighted average declaration fee per unit sold.	N	Y
Export Commission expense	No commission expense is incurred by the exporter for its like goods sales however it does pay commissions on its exports to Australia.	Commission is based on the verified percentage of export price and applied to the normal value at the FOB level.	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 31 October 2018 was 7%, up to 31 March 30 2019 was 3%. Thereafter a full refund was granted so no expense was realised.	N	Y
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 the 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 unit cost of accessories to the unit cost of sinks by mapping the relevant accessory pack to the relevant sink MCC.	N	Y
Level of Trade	Domestic sinks were sold to customers at different levels of trade which had distinct price points and profit	Goods exported to Australia and sold domestically were sold to the same level of trade. For other domestic sales which were not sold at	Y	Y

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Adjustment type	Assessment for adjustment	Calculation method and evidence	Claimed in REQ?	Adjustment required?
	margins. Exported goods were sold to only one level of trade.	<p>an equivalent level of trade the verification team considers an adjustment to account for price or cost differences due to level of trade is warranted.</p> <p>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 which were not sold not at level of trade comparable to the level at which the goods were exported.</p> <p>The verification team also analysed differences in CTMS for domestic sales sold in OCOT at each level of trade. The CTMS for sales to the level of trade which were comparable to the level of trade of the exporter's Australian customers differed to the weighted average CTMS for all levels of trade. The weighted average difference between the CTMS of the relevant level of trade and the weighted average level of trade, as a percentage of the weighted average level of trade, has been applied to EXW price of export MCC's</p>		

Table 14 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 in MCC 1BWL1DBA and 2BWL1DBB 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).

The verification team notes the following regarding the approach to the calculation of specification adjustments;

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- 1BWL1DBA - The difference in the Australian cost of production for a drainer board between 1BWL0DBA and 1BWL1DBA plus the addition of the profit margin earned on goods sold in OCOT to customers in a level of trade comparable to export customers;
- 2BWL1DBB - The difference in the Australian cost of production for a drainer board between 2BWL0DBB and 2BWL1DBB plus the addition of the profit margin earned on goods sold in OCOT to customers in a level of trade comparable to export customers.

The verification team considers that the above adjustments reflect the practice outlined in the *Anti-Dumping Commission Dumping and Subsidy Manual*.⁸

The verification team considered an adjustment relying on domestic cost of production differences for the above MCCs however considered this was not the preferable on the basis of very small domestic production volumes reported for these MCCs. The domestic production volume was equivalent to between 0.06 and 0.10 per cent of the equivalent production volume of the same MCC exported to Australia. Application of the cost data in this manner was considered arbitrary.

9.3 Level of trade differences

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 or cost differences due to level of trade is warranted.

To account for differences in prices at each level of trade, the verification team analysed the price and profit margin at each level 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 which were not sold not at level of trade comparable to the level at which the goods were exported.

To account for differences in CTMS at each level of trade, the verification team analysed the CTMS at each level of trade and compared these to the level of trade that was comparable to the exported goods. The difference between the weighted average CTMS of the relevant level of trade and the weighted average level of trade of all sales in OCOT, as a percentage of the weighted average level of trade of all OCOT sales.

9.4 Adjustments

The verification team considers the following adjustments under section 269TAC(8) and 269TAC(9), where relevant, 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) and TAC(2)(c).

⁸ Chapter 15.3, Physical Characteristics and Quality, p.67 (November 2018).

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Adjustment Type	Deduction/addition
Domestic inland transport expenses	Deduct an amount for domestic inland transport expense for normal values determined under section 269TAC(1).
Domestic packaging expenses	Deduct an amount for domestic packaging expense for normal values determined under section 269TAC(1).
Export packaging expenses	Add an amount for export packaging expense for normal values determined under section 269TAC(1) and TAC(2)(c).
Export inland transport expenses	Add an amount for export inland transport expense for normal values determined under section 269TAC(1) and TAC(2)(c).
Export port charges	Add an amount for port charges for normal values determined under section 269TAC(1) and TAC(2)(c).
Export credit term expenses	Add an amount for export credit expense for normal values determined under section 269TAC(1) and TAC(2)(c).
Non-refundable VAT expenses	Add an amount for non-refundable VAT expense for normal values determined under section 269TAC(1) and TAC(2)(c).
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) and TAC(2)(c)
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 based on the differences in weighted average prices at EXW terms for sales in OCOT that were not of a level of trade comparable to the level of trade of export customers for normal values determined under section 269TAC(1). Add or deduct amounts based on the differences in weighted average CTMS for sales in OCOT that were not of a level of trade comparable to the level of trade of export customers for normal values determined under section 269TAC(2)(c).

Table 15 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 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
1BWL0DBA	Y	Sufficient sales volumes available for TAC(1).
1BWL0DBB	Y	Sufficient sales volumes available for TAC(1).
2BWL0DBB	Y	Sufficient sales volumes available for TAC(1).

Table 16 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 in the form of number of drainer boards, suitable surrogate models were available to determine the normal value for those models under section TAC(1).

Export MCCs	Sufficient domestic sales of identical MCC	Surrogate Model
1BWL1DBA	N	1BWL0DBA adjusted for differences in number of drainer boards.
2BWL1DBB	N	2BWL0DBB adjusted for differences in number of drainer boards.

Table 17 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**.

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 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 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 following models under section 269TAC(2)(c)

Export MCCs	Sufficient domestic sales of identical MCC	Surrogate Model
1BWL0DBC	N	No sufficient sales or available cost information to apply a reasonable surrogate model therefore ascertained normal value under TAC(2)(c).
2BWL0DBC	N	No sufficient sales or available cost information to apply a reasonable surrogate model therefore ascertained normal value under TAC(2)(c).
2BWL1DBA	N	No sufficient sales or available cost information to apply a reasonable surrogate model therefore ascertained normal value under TAC(2)(c).
2BWL2DBB	N	No sufficient sales or available cost information to apply a reasonable surrogate model therefore ascertained normal value under TAC(2)(c).

Table 18 Normal Values under section 269TAC(2)(c)

The preliminary normal values for the models in the table above have been constructed under section 269TAC(2)(c) by have regard to the following;

- 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 pursuant to both section 269TAC(1) and section 269TAC(2)(c) 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