(Business Non-Confidential)

Response to the Statement of Essential Facts

INQUIRY CONCERNING THE CONTINUATION OF ANTI-DUMPING MEASURES APPLYING TO DEEP DRAWN STAINLESS STEEL SINKS EXPORTED TO AUSTRALIA FROM THE PEOPLE'S REPUBLIC OF CHINA

Primy Corporation Ltd (hereinafter "Primy") was in receipt of the SEF in the said inquiry dated 27 November 2019 from the Commission. Interested parties were provided until December 17th 2019 to provide response to the SEF. Primy is submitting this response to the SEF by the deadline set by the Commission. Since the detailed calculation concerning the dumping margin for Primy was contained in its Verification Report and relevant calculation disclosure, and Primy is entitled to comment on issues concerning calculation methodology, the Verification Report and calculation disclosure are also implicated in this response.

Please note that all Tables and Exhibits are Confidential to Primy.

I. General Comment

As a general and initial observation, the Commission calculated a dumping margin for Primy at ***58.9%***, fully based on the sales and costs data of Primy which have been fully verified, except for the steel cost uplifting. Primy was one of the sampled exporters in the original investigation and a ***5%*** antidumping margin was calculated by the Commission also based on the verified data submitted by Primy. As verified by the Commission in this inquiry and in the original investigation, the basic sales and costs structure and channels of Primy has not changed with any significance from the original investigation period and period for this enquiry. It is even against common sense that the actual dumping margin could change so significantly for the same company in different periods, let alone in any real business sense, any company could dump at such a high rate (for the MCC with the largest IP export to Australia by Primy, dumping margin even as high as ***108%*** was calculated).

By carefully examining the SEF, Verification Report and margin calculation disclosure for Primy, it became very clear to Primy that the significant change of dumping margins did not come from any specific change in Primy's business or pricing policies in different markets, but all came from a specific change in the calculation methodology by the Commission in this inquiry in comparison with the that in the original investigation, specifically., inappropriate assignment of Model Control Codes (MCC) to Primy's product codes and all calculation steps based on such MCCs. In fact, the high dumping margin for Primy was artificially "created" by such inappropriate MCCs used in the margin calculation, and it is no longer a proper reflection of whether the product exported by Primy from China to Australia "is less than the ***comparable***

price, ***in the ordinary course of trade***, for ***the like product*** when destined for consumption in the exporting country,"[1] i.e., whether Primy has been engaged in dumping, and if so, what is the margin of dumping.

The general observations of the problems in margin calculation by Primy are:

(1) the Commission has grouped Primy's product codes with significantly different costs and prices into the same MCC, and the MCC is not appropriate to identify most directly comparable products between domestic sales and export models for a proper comparison between export price;

(2) because of the inclusion of product codes with vastly different costs and prices into the same MCC, the ordinary course of trade determination by the Commission by comparing the domestic sales transaction price of various product codes with MCC average unit costs/SGA distorted the identification of the profitable domestic sale transactions;

(3) because of the inclusion of product codes with vastly different accessories costs into the same MCC, the deduction by the Commission of MCC average unit accessories costs from the domestic selling prices for each transaction distorted the normal values;

(4) in the specification adjustment for the use of surrogate MCC in the determination of normal values, the calculation by the Commission for the cost differences between the MCC and surrogate MCC did not reflect the differences in costs for the difference in characteristics between MCC and surrogate MCC;

(5) in the construction of normal value for certain MCC, the Commission has added accessories costs which is based on the purchase price of various categories of accessories the prices of which differed significantly within each categories of accessories;

(6) in the construction of normal value, packing costs are double counted by first being included in the Export CTMS and added again as part of the Export Direct Selling Expenses.

Primy will elaborate on each of these issues below in this response.

II. The Commission has not appropriately assigned MCCs for Primy

Primy will elaborated on the inappropriateness of the MCCs assigned and used for Primy by the Commission below. At the outset, Primy recalls that, in the Initiation Notice of this inquiry, the Commission has stated that "If an MCC structure is developed, interested parties will have an opportunity to discuss the structure and propose modifications. Any changes to the MCC structure will be considered by the Commission and reported in verification reports or in the statement of essential facts (SEF)."[2] Therefore, even though the Commission has not disclosed the MCC structure prior to the verification reports or the SEF, Primy should be provided with this opportunity to discuss and comment on the issue of MCCs.

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[1] WTO Anti-Dumping Agreement, Article 2.1

[2] ADN No. 2019/86

II.1 Policy and practice guidelines on MCCs

The policy and practice in regards to model control code (MCC) structures was announced via ADN No. 2018/128.

It is provided therein that the purpose of the MCC is to "allow(s) for ***a proper comparison*** between the normal value and export price of the goods for the purposes of working out the dumping margin", "to select the domestically sold models that are ***most directly comparable*** to the particular models exported to Australia."[3] Therefore, the MCC POLICY does not require or warrant the establishment of MCC for any comparison between normal value and export price, but it has to be ***"proper comparison"***, which could only be achieved by identifying the domestically sold models that are ***"most directly comparable"*** to the export models. If the MCC structure established in a particular case for a particular respondent failed to make the comparison ***"proper"***, or failed to identify ***"most directly comparable"*** domestic models with export models, such MCC structure is not in line with the MCC POLICY announced.

It is also provided therein the factors to be considered in establishing MCC structure. "In determining the MCC structure, the Commission will have regard to differences in physical characteristics that give rise to ***distinguishable and material differences in price***. ***Unit costs may also be taken into account*** in assessing differences in physical characteristics where the Commission is reasonably satisfied that ***those cost differences affect price comparability***."[4] Therefore, the differences of models that lead to differences "***in price and costs"*** that are "***distinguishable and material"*** are required to be captured in the MCC structures. This is to ensure that models with differences "***in price and costs"*** that are "***distinguishable and material"*** are not categorized or captured in one MCC, which, if occurred due to the inappropriate MCC structure established, would no longer serve to identify the ***"most directly comparable"*** domestic models with export models, and no longer serve for a ***"proper comparison"*** between the normal value and export price for the proper calculation of dumping margin.

It is also noted that ADN No. 2018/128 does not require a mandatory application of MCC structure in all cases, which is for the determination of the Commission on case-specific basis. "There may be specific cases where the Commission considers that a MCC structure is not meaningful or cannot be established for the goods under consideration (for example power transformers where each sale is a unique model which is not comparable to any other sale). The Commission will make this determination on a case by case basis."[5]

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[3] ADN No. 2018/128, POLICY, emphasis added
[4] ADN No. 2018/128, POLICY, emphasis added
[5] ADN No. 2018/128, POLICY

In addition, the Commission could make its MCC decision for specific exporter based on its particular situation. “Modifications to the MCC structure may be considered based on the facts and evidence pertaining to a particular exporter.”[6]

Based on the above provisions in relation to the MCC structure in the ADN No. 2018/128, Primy proceeds to comment on the MCC structure applied by the Commission in relation to the situation of Primy in this case.

II.2 Significant problems of the MCC structure established for Primy which are not in line with the requirements in ADN No. 2018/128

II.2.1 The MCC structure established for Primy grouped models of Primy with “distinguishable and material” differences in “price and costs” into one MCC

The Commission has determined to use the following physical characteristics to classify different models of Primy into MCC groupings: Number of Bowls, Number of Drainer Boards, and Total Sink Capacity. The reason for the Commission to establish the MCC structure based on these physical characteristics, for Primy, is:
“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.”[7]

It is also stated that such a finding in respect of Primy is “(R)elying 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.”[8]

While Primy agrees 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”, it is bewildering how “(R)elying on an analysis of Primy’s sales and production of sinks sold into the domestic market and Australian export market”, the Commission could reach a conclusion that the MCC structure for Primy is appropriate to identify similar or comparable products into the same MCC.

Data speaks for itself.

There are full set of costs (segregated into cost of stainless steel, other raw materials, direct labor, manufacturing overheads, scrap, and accessories) and price (both

[6] ADN No. 2018/128, POLICY
[7] Exporter Verification Report for Primy, Section 2.3
[8] Exporter Verification Report for Primy, Section 2.3

domestic sales and export to Australia) specific to each individual product codes of Primy on the record with the Commission in this inquiry, and all these data have been verified by the Commission to its satisfaction for both completeness and accuracy.[9] The Commission relied on the price and costs data of Primy for its calculation of dumping margins for Primy. Primy relies on these price and costs data to demonstrate how the MCC structure of the Commission applied to Primy grouped product codes of Primy with "distinguishable and material" differences in "price and costs" into one MCC, and product codes in domestic sales and product codes in export to Australia grouped in one MCC are not ***"directly comparable products"*** and do not allow for ***"proper comparison"*** between normal value and export price for Primy.

Step I: The MCC unit costs for domestic sales products and export to Australia products within the same MCC are significantly different and not comparable

For the ease and clarity of presentation, Primy used the MCC with the largest export quantity to Australia during the IP for presentation, 1BWL0DBB. The export quantity of this MCC to Australia during the IP accounted for around XX% of the total export quantity to Australia by Primy, and therefore is most representative. Primy relied on the dumping margin calculation disclosure released by the Commission to Primy on November 18th, 2019 for its analysis and presentation.

The Commission calculated a dumping margin of around ***108%*** for this MCC for Primy. (note: Primy filtered this MCC in the document release by the Commission titled "517-Primy-Appendix 5-Dumping Margin" to get this margin). Therefore, this MCC, both with super high and unrealistic margin and significant percentage in Primy's IP export to Australia, contributes the most to the overall high margin for Primy.

Primy compiled **Table 1** of the MCC-wise total costs, segregated costs items and sales prices for both domestic sales and export to Australia for MCC 1BWL0DBB for IP and each quarters of IP, both in total values/quantities, and average unit costs and price. This table is based on the data from various tables in the Commission's calculation disclosure released to Primy, and the sources of data are identified in the table.

Several observations can be easily made from Table 1 (again, Primy wishes to emphasize that these data are all verified by the Commission):

(1) There is significant difference in average unit stainless steel costs for the MCC 1BWL0DBB between product codes for domestic sales and product codes for export sales within this MCC. The average unit stainless steel costs for domestic product codes within this MCC is XXXXXXXXXXX and XXX***%*** higher than that of product codes of export to Australia for quarter 1, 2, 3, 4 and IP. This means, for stainless steel alone, on IP average, the Commission has categorized into the same MCC domestic products that consumed XX% more steel per piece than that

[9] Exporter Verification Report for Primy, Section 3.2, 4.2, 5.2 and 6.5

consumed by products exported to Australia. The Commission has stated 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". It is beyond doubt that product codes for domestic sales and export sales within this MCC are so different in steel consumption that they are not identical, or similar or comparable products and should not be grouped into one MCC.

(2) There is also significant difference in average unit accessory costs for the MCC 1BWL0DBB between product codes for domestic sales and product codes for export sales within this MCC. The average unit accessory costs for domestic product codes within this MCC is XXXXXXXXXXXXX and XXXX*%* higher than that of product codes of export to Australia for quarter 1, 2, 3, 4 and IP. Since accessories are priced together with the sinks in a single price, it is an integral part of the overall price. It is beyond doubt that product models for domestic sales and export sales within this MCC are so different in accessory costs that they are not identical, or similar or comparable products and should not be grouped into one MCC.

(3) Besides the difference in unit stainless steel costs and accessories costs, there are also significant difference in the costs for other raw materials, direct labor, manufacturing overheads for the MCC 1BWL0DBB between product codes for domestic sales and product codes for export sales within this MCC. The average unit cost of these cost items for domestic product codes within this MCC is XXXXXXXXXXXXXXXXX and XXXX*%* higher than that of product codes of export to Australia for quarter 1, 2, 3, 4 and IP. The data in Table 1 for average unit cost shows that the sum of these other cost items are very significant part of the overall costs for products. It is beyond doubt that product models for domestic sales and export sales within this MCC are so different in these other costs items that they are not identical, or similar or comparable products and should not be grouped into one MCC.

(4) With the significant differences in unit costs in all the above segregated cost items, there is significant difference in average unit total costs for the MCC 1BWL0DBB between product codes for domestic sales and product codes for export sales within this MCC. The average unit total costs for domestic product codes within this MCC is XXXXXXXXXXXXX and XXXX*%* higher than that of product codes of export to Australia for quarter 1, 2, 3, 4 and IP.

(5) To compare the difference in costs for domestic market and for Australia market for this MCC in absolute figures, for the IP, as shown in Table 1, the unit total cost is different by XXXXXXXXXXXXXXX, which is composed of XXXXXXXXXXXXXX for difference in stainless steel cost, XXXXXXXXXXXXXX for difference in accessories costs, and XXXXXXXXXXXXXX for difference in other cost items.

(6) There is also close correlation in between the costs and selling prices both in domestic market and export to Australia. Column titled "Unit Price/Unit Total costs" in Table 1 demonstrated such close correlation.

Table 1 clearly shows (1) the product codes for domestic sales and product codes for export to Australia grouped together in one MCC by the Commission are significantly

different products both in terms of costs (the overall costs and each cost items) and prices, and (2) the average costs and prices for the IP and each quarters for the product codes for domestic market in this MCC is significantly higher than those for the product codes for export to Australia in this MCC, actually more than doubled. And also there is close correlation between the prices and costs in both domestic and export to Australia. Therefore, the price differences between the domestic sales and export to Australia of this MCC is not due to the discriminatory pricing strategy of Primy in different markets, i.e., dumping practice of Primy, but due to the significant different costs of different product codes within this MCC for domestic and export market. This alone explains why there is over 100% super high dumping margin calculated for this MCC, because the Commission has compared prices of high-cost product codes for domestic sales with low-cost product codes for export to Australia as the same or similar products for calculation of dumping margin. This inevitably would lead to artificially super high dumping margin.

Step II: Product-code-specific cost data within and in-between the same MCC shows significant variance and wide ranges among different product codes

Primy further compiled **Table 2-1 and Table 2-2** the product-code-specific unit costs (both total costs and segregated cost items) under the MCC 1BWL0DBB for all product codes for each quarter for product codes for domestic sales in **Table 2-1** and for product codes for Australia sales in **Table 2-2**. The figures in **Table 2-1** is calculated from document titled "(a) Domestic CTMS" of "517 - Primy - Appendix 2 - CTMS" in the margin calculation disclosure of the Commission and **Table 2-2** is calculated from document titled "(a) Export sales " of "“(b) Australian CTM” of “517 - Primy - Appendix 2 - CTMS”" in the margin calculation disclosure of the Commission.

Easy observations can be made from **Table 2-1 and Table 2-2**:

There is wide range of unit costs for product codes within and in-between domestic market and Australia market, for both overall unit cost and each cost items. In order to present this clearly, Primy has compiled **Table 2-3** summarizing and comparing the ranges for each quarter for different cost items and total costs from **Table 2-1 and Table 2-2**. It is clear from **Table 2-3** that (a) there is significant variance and wide range in costs among product codes for domestic market within this MCC, always doubled from the lowest to the highest in each quarter for all cost items. This situation is the same for product codes for Australia sales. and (b) the range for domestic product codes are always much higher than those for product codes for Australia sales. This clearly demonstrated product models with “distinguishable and material” “difference in costs and prices” are grouped together in one MCC for both product codes for domestic sales and product codes for Australia sales, and such differences also exist in-between domestic and Australia sales product codes in the MCC. Neither the product models within the MCC for each market are comparable products, nor the product models between domestic and Australia markets are comparable products.

Step III: Demonstration of the cost differences with sample products within the same MCC

In order to demonstrate how the MCC structure developed by the Commission for Primy resulted in such a distorted result of grouping of significantly different products into one MCC, Primy selected some sample product codes within the same MCCs for the demonstration.

1. MCC 1BWL0DBB

This is the MCC with the largest IP export to Australia by Primy. Primy has demonstrated the product codes with vast different costs included in this MCC and the domestic product codes costs are much higher than that of the export product codes. Primy selected three product codes with the largest IP domestic sales (XXXXXXXXXXXXXXXXXXXXXXXXXXXXX) and three product codes with the largest IP export to Australia (XXXXXXXXXXXXXXXXXXXXXXX).

(1) steel

The stainless cost for the three domestic products range from XXXXX to XXXXX; and the stainless steel cost for the three export products range from XXXXXX to XXXXX, i.e., significantly lower than the domestic products, i.e., the domestic product codes consumed much more steel than the export product codes. This can be seen by filtering these product codes in **Table 2-1 and Table 2-2.** Primy submits **Exhibit 1** which include the product pictures comparison of these six product codes (XXXXXXXXXXXXXXXXXXX are the same sink with different accessories).

It can be seen from the picture that domestic products are larger than the export products in the full size of the sink, with broader rim and with some irregular shape and all these factors leading to more steel consumption than the export products in the same MCC. The domestic products are with overflow holes, so with the same or similar capacity as export products (which in general does not have overflow holes), the overall size of the sink would be much larger and therefore consuming much more steel. (note: the impact of the overflow holes in the calculation of capacity has been verified by the Commission, see for example Verification Exhibit concerning Domestic Sales Traces on the product diagram with formula for capacity calculation for products with overflow).

(2) other costs:

The costs other than stainless steel and accessories for the three domestic products range from XXXXX to XXXXXX; and the costs other than stainless steel and accessories costs for the export products range from XXXXX to XXXXX, i.e., the domestic product

consumed much more other cost items than the export product codes. This can be seen by filtering these product codes in **Table 2-1 and Table 2-2.** Primy submits **Exhibit 2** the production process chart (the chart for selected products has been verified by the Commission during the verification, see Verification Exhibit GP-14) with product standard labor cost used by Primy in its normal business for one of the domestic product code and one of the export product code. The other cost items are mostly calculated based on the product-code-specific standard labor cost. It can be seen the total unit labor costs for the domestic product code is much higher than that of the export product code. This is because, which can also be seem from the standard labor costs sheets, there are more processing steps for domestic product code than for the export product code, and processing requirement difference also lead to difference of time required for different processing stages.

(3) accessories:

Primy also provides in Exhibit 3 the pictures of accessories for an export product code XXXXXXXXXXXX which is very limited and simple, and for a domestic product code XXXXXXXXXXXXX which are more extensive and complicated.

The same types of differences in other cost items and accessories also exist in relation to the various product codes grouped together in other MCCs. Since the above MCC is with the largest IP exports to Australia, Primy uses this MCC as sample for most cost items. Pirmy did not take the tremendous efforts to do the same demonstration for each other MCCs. For the selected MCCs below, Primy only demonstrate the steel consumption differences among different product codes within one MCC.

Primy has provided in **Exhibit 1 the** product pictures comparison of the comparison of different product codes within each MCC. Primy also compiled **Exhibit 4**of product drawings of sample product codes in each of the selected MCC.

2. MCC 1BWL0DBA

XXXXXXXXXXX and XXXXXXXXXXX are circular bowls, and in between them, XXXXXXXXXXX is with wider rims and consumed more steel. XXXXXXXXXXX and XXXXXXXXXXX are rectangular bowls, among which XXXXXXXXXXX is a normal drawn bowl, and XXXXXXXXXXX is with extra-long flank and irregular bowl shape and would consume more steel. For the same capacity, the rectangular bowl could consume more steel than circular bowl, and sink with wider rims would also consume more steel, and sink with additional flank would also consume more steel. For all these product codes, even if the capacity is the same or similar and all with no draining board, the steel consumption would vary significantly. For the big difference in steel costs for each of these product codes, please refer to Table 2-1 or Table 2-2.

3. MCC 1BWL1DBA

XXXXXXXXXXX is circular bowl with circular draining board, welded sink; XXXXXXXXXXX is with smaller bowl but larger draining board, welded sink; 1059S0838001 is with larger bowl but smaller draining board, welded sink; XXXXXXXXXXX is with stainless steel and glass draining board. For sinks of the same or similar capacity, the welded sink would require much more steel, and product with bigger board would also consume much more steel. For all these product codes, even if the capacity is the same or similar and all with one draining board, the steel consumption would vary significantly. For steel costs for each of these product codes, please refer to Table 2-1 or Table 2-2. For the big difference in steel costs for each of these product codes, please refer to Table 2-1 or Table 2-2.

4. MCC 2BWL1DBA

XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX are welded sinks, consuming much more steel than non-welded sinks, and the draining boards are of different sizes; XXXXXXXXXXX is non-welded drawn sink so consumes much less steel than welded sink. For all these product codes, even if the capacity is the same or similar and all with one draining board, the steel consumption would vary significantly due to the difference in size of draining boards and/or production techniques. For the big difference in steel costs for each of these product codes, please refer to Table 2-1 or Table 2-2.

5. MCC 2BWL0DBA

XXXXXXXXXXX is circular bowl with additional rims, welded; XXXXXXXXXXX is just normal non-welded bowl; XXXXXXXXXXX is normal welded bowl and also with thick gauges (XXX vs. XXXX for other products here) (please refer to Exhibit 4-1 photos showing the measuring of the thickness of steel for these two product codes), XXXXXXXXXXX is of irregular shape. For sinks with the same or similar capacity, the sink with thicker gauges will consume much more steel. For the big difference in steel costs for each of these product codes, please refer to Table 2-1 or Table 2-2.

It can be seen from these samples from these MCCs that there are many factors, many more than these identified by the Commission that cause costs differences among products, including the difference in cost in stainless steel and other cost items which are equally important. Primy noticed that the Commission intended to justify its MCC structure for Primy in Section 2.3.1 of Primy's Verification Report by comparing trends of domestic and export products in the same MCC etc. However, a simple look at the verified costs of these product codes within the same MCC and the average and range of domestic products vs. export products in the MCC would leave no uncertainty that the domestic products and export products in one MCC are not comparable.

Such defects in the MCC would lead to further distortion in the subsequent steps of

margin calculation.

III. Problem in the determination for ordinary course of trade

For the determination for whether the individual domestic sales transactions are in the ordinary course of trade, the Commission calculated a quarterly weighted-average MCC-specific unit cost in "Sum of WA Unit CTMS", i.e., weighted-average MCC-specific unit cost of the production plus SGA. (see "(b) Summary DOM CTMS" in "517 - Primy - Appendix 3 - Domestic Sales").

Because the serious problem existed for the MCC structure established by the Commission for Primy, product models with significant differences in costs and prices are grouped into one MCC. The weighted-average MCC-specific unit cost is the average of various product codes with vast different and wide range of product-specific costs. In **Table 2-3**, also using the MCC with the largest IP exports to Australia, 1BWL0DBB, Primy added a column titled "Total cost to make plus Unit SGA(RMB)" which shows the range of cost plus SGA for product codes included in this MCC, and another column titled "Total cost to make plus Unit SGA for ordinary course of trade test by the Commission(RMB)", which are the "Sum of WA Unit CTMS" calculated by the Commission for the use of profitability test for this MCC. It is evident by comparing figures in these two columns that there are product codes with actual costs plus SGA well above or well below the average MCC-specific Unit CTMS used by the Commission.

Primy further prepared a **Table 3**, showing the production quantities within narrower ranges of unit cost and SGA for MCC 1BWL0DBB. It can be seen that more than XXX% of the production quantity of various product codes of Primy are with unit cost and SGA at least XXX% away from the MCC average developed by the Commission, either lower than the MCC average or higher.

The resulting effect is simply and clear, i.e., the distortion of ordinary course of trade determination. In the normal business of Primy, there is no concept of MCC-specific CTMS. Every product code is sold and priced based on its specific actual cost and SGA. For the product codes with actual cost and SGA at the lower end of the range in **Table 2-3 and Table 3**, even Primy actually sold them with profit in the normal business, they would be found by the Commission at loss because the Commission is comparing their prices with the artificial MCC average CTMS developed by the Commission higher than their actual cost/SGA, and thus disregarded as not in the ordinary course of trade. On the other hand, for those product codes with actual cost plus SGA at the higher end of the range in **Table 2-3 and Table 3**, even Primy actually sold them at loss in the normal business, they would be found by the Commission with profit because the Commission is comparing their price with the artificial MCC average CTMS developed by the Commission lower than their actual cost/SGA, and thus kept in the normal value calculation as in the ordinary course of trade.

In order to present this clearly, Primy made its own profitability test calculation for this MCC by substituting the quarterly MCC CTMC used by the Commission with the product-code-specific CTMC for the product codes within this MCC. There are significant difference in the result of such calculation from that of the Commission. **Table 4** shows there are many domestic sales transactions calculated as sold at loss by the Commission when MCC unit cost is used, but would be calculated as profitable if its own actual product-code-specific costs are used. The quantity of such transactions account for XXX% of total IP domestic sales of this MCC, therefore, very significant. A closer look at the unit cost of such sales shows that all of them are with unit cost below the MCC average cost. This correlates to and supports Primy's argument above that the MCC grouping of the Commission would lead to distortive OCOT test result.

In addition, the Commission used quarterly average faucet costs to add to sink price for OCOT test. Primy submits that there are cost for each specific faucet on the record, and there is significant difference between different types of faucet. In such situation, using average faucet costs instead of product-code-specific faucet. would distort the profitability test.

IV. Normal Value Calculation

The next step of margin calculation by the Commission is the calculation of normal value, as reflected in the document titled "517 - Primy - Appendix 4 - Normal Value" disclosed by the Commission to Primy.

IV.1 Deduction of MCC average accessories costs from domestic prices

In sheet titled "(a) OCOT Sales" in this document, in column titled "Deduct Dom Accessories Price(RMB/Unit)", the Commission deducted the quarterly average of unit accessories costs for each MCC from the selling prices of all product codes within this MCC. In the Verification Report Section 9 Adjustment, the Commission stated, for "Accessories (Domestic)", it is "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."
There are serious problems with the way the Commission adjusted the accessories costs for domestic sales.

1. The Commission deducted MCC average unit accessory cost from each sales transaction for various product codes within each MCC. Because the unit accessories costs for each product code within one MCC are vastly different, such deduction of MCC average unit accessories costs would distort the resulting calculated sinks price without accessories. Primy, again for the MCC with the largest IP sales to Australia, 1BWL0DBB, prepared **Table 5** showing the production quantities within narrower ranges of accessories costsfor product codes within MCC 1BWL0DBB. It can be seen that more than XXX% of the production quantity of various product codes of Primy are with unit accessories costs at least XXX%

away from the MCC average developed by the Commission, either lower than the MCC average or higher.

For The resulting effect is simply and clear. For the product codes with actual accessories costs at the lower end of the range in **Table 5**, the Commission has significantly over-deducted accessories costs from the selling prices, and on the other hand, for those product codes with actual accessories costs at the higher end of the range in **Table 5**, the Commission has significantly under-deducted accessories costs from the selling prices. As result, for any given sales transactions for any product code, the selling prices after the deduction would be a significantly distortive one, almost without exception. Since after the ordinary course of trade test (which is itself distortive as explained above) will only leave part of the domestic sales transactions within this MCC in the calculation of normal value, the normal value would be based on a bunch of domestic sales prices distorted after this deduction.

2. The deduction is based on a ***presumption*** that Primy is selling all the accessories at its costs without any markups, therefore, the accessories **costs** can be directly deducted from the total sales **price** of a product code which is for both and not distinguishable in-between the sinks and accessories because they are sold and priced together, to reach a selling price only for sinks. There is nothing on the record supporting this presumption that only sinks are sold with markup, not accessories. The sinks and accessories are sold together and priced together by Primy as one single product code and any markups would apply to both sink and accessories together.

   The resulting effect of such a deduction by the Commission is that all the markups for both sinks and accessories in the combined domestic selling price would be left in the domestic selling price for sinks so calculated, which overstated and distorted the sinks selling price.

   The Commission acknowledged that the domestic sales has accessories "considerably larger than" the export to Australia.[10] This is also clearly shown in Table 2-3 where the accessories costs in domestic sales are much higher than that in Australian sales. Therefore, in the Commission's calculation, the markup of significant accessories in the domestic sales would be left in the final domestic prices as part of the normal value to be compared with the export price which has very little accessories. This would inevitably distort and increase the dumping margin so calculated.

IV.2 Specification Adjustment

As stated in the Primy Verification report and reflected in the sheet titled "Spec Adj", the Commission relied on the difference of Australian sale MCC CTMS to determine the difference in costs in the number of draining board in-between the MCCs for product with draining board and without the draining board.

[10] Primy Verification Report, Section 2.3

Primy could notice from the Commission's calculation of the specification adjustment that the Commission has been trying to develop the most appropriate methodology to identify the cost difference as the result of the difference in the number of drainer board between the MCC and surrogate MCC. However, because product codes with very different costs have been included in the same MCC by the Commission both in the MCC and surrogate MCC, the difference in the IP average unit cost between the MCC and surrogate MCC mostly likely reflected the difference in costs caused by different product mix of the MCC and surrogate MCC, instead of the difference in costs caused by the difference in the number of draining board.

V. Adjustment

V.1 Double counting of packing costs in constructed normal value should be removed

For those MCCs that construction normal value is used to determine normal value, packing costs have been counted twice. In "517 - Primy - Appendix 4 - Normal Value" sheet titled "(c) TAC(2)(c)", packing costs are already included, as part of the costs, in "Export CTMS (RMB/pce) ". However, in "Add Export Direct Selling Expenses (RMB/pce)", packing costs were added again into the constructed normal value. Such double counting should be removed from the constructed normal values.

V.2 The Commission should use actual accessories costs in relation to types of accessories actually used in specific MCC to adjust the normal value

In "517 - Primy - Appendix 4 - Normal Value" sheets titled "(b) TAC(1) NV" and "(c) TAC(2)(c)", the Commission simply summed up the a simple estimated unit cost of each category of accessories to obtain the unit cost for each combination of Accessory Pack, regardless the cost of different types of accessories within the same category could be very different and the quantity of same category of accessories used on the sinks could be different.

Primy has made it very clear when presenting the purchase of accessories after verification at the request of the Commission that "the unit price for different types of accessories within the same category could be very different." This is reflected in the purchase table submitted to the Commission. For example, there are different types of clips with very different cost. Primy also provides pictures of two common types of waste basket (each line is a combination of parts in the waste basket) attached hereto as Exhibit 5 to support that even though they are both categorized as waste basket, the one on the bottom is bigger, with more parts and much more expensive than the one on the top.

The quantity of accessories classified in a specific category packed with a specific product code is different. Take clips used for two product code as an example, there is

only one bag of clip is packed with product code 1015C0804001, which includes five pieces of clips while there are two bags of clips are packed with product code 1041C0830001, six pieces of clips in one bag and four piece of clips in the other bag.

The Commission roughly calculated the cost for each accessory pack without regard to what actual types of accessories or how many accessories of a specific category used on the sinks which led to the actual cost for the accessories could not be reflected and the normal value for each MCC with different accessory pack is inaccurate.

The basic problem is that the cost of accessories added to the MCC is not based on the actual costs of the types of accessories actually used in the products within the MCC. This is clear from **Table 6**, which is the calculation of Primy of "Accessory Pack Number" based on the actual accessory costs incurred for the product codes with Australian sales. Such accessory costs is fully based on the actual costs in the cost calculation of Primy as reflected in "(b) Australian CTM" of "517 - Primy - Appendix 2 - CTMS". Such actual costs in relation to accessories actually used in the MCC should be used by the Commission for the adjustment.

VI. Summary of the problems in the margin calculation methodology and Primy's proposals for revisions

VI.1 The Commission should rely on Primy's product codes for the purpose of product comparison

The dumping margin needs to be calculated accurately so that the "anti-dumping duty shall be collected in the appropriate amounts" [11] The appropriate methodology applied should be with the purpose to calculate an accurate dumping margin, and the choice of methodology would necessarily depend on the specific fact of each case with respect to each respondent.

Primy has a very detailed cost accounting system that calculated cost of production as detailed as for every product code, which is for a unique combination of a particular type of sink together with a particular combination of specific types of different kinds of accessories. The Commission has verified Primy's system as such and the accuracy and reasonableness of its cost accounting methods. Each product code of Primy with Australian sales has its unique cost of production, distinct from any other product codes, based on the amount of steel used and types of each kind of accessories used, which is the most accurate cost of production for that product code. If such product code also has domestic sales, domestic sales price of that product code might be the appropriate basis as normal value for that product code if the domestic sales passed the ordinary course of trade test and has sufficient quantity. Otherwise, normal value for that product code could be constructed based on the production costs of that particular product code, together with SGA and appropriate profit, as proxy for

[11] Article 9.2 of the WTO Antidumping Agreement

domestic price for that product code. Either way, it would be the most accurate reflection of the normal value of that particular product code, apt to be compared with the Australian export price of that product to establish if there is dumping, and if yes, how much is the dumping margin. Mixing a particular product code with some other product codes with different sets of production costs would not in any way contribute to a more accurate calculation of dumping margin for that product code or to Primy as a whole, but would necessarily reduce the accuracy.

Of course, this does not rule out that a particular product code would be grouped together with very similar or comparable other product codes to form a product group for the purpose of margin calculation, as envisaged in the model matching policies and practices. However, when Primy's cost accounting system is so specific to each product code, Primy failed to see how it would be meaningful to do so for Primy for the purpose of dumping margin calculation. In this respect, Primy noticed that the Model Matching Policy provides that "There may be specific cases where the Commission considers that a MCC structure is not meaningful". Primy believes its situation falls squarely into this category.

Primy also noticed the Model Matching Policy also provides that "(T)here may be specific cases where the Commission considers that a MCC structure ----cannot be established for the goods under consideration". In this respect, Primy recalls that, in the initiation notice of this particular inquiry, the Commission acknowledged that "in the original investigation, the Commission found that the goods and like goods vary in a number of different ways, and that there were many physical characteristics influencing prices. There were also different consumer preferences on the Australian and Chinese markets. The above factors limited the Commission's ability to identify sales of like goods that would be relevant for the purpose of determining a price under subsection 269TAC(1). ***The Commission considers it is likely that similar issues will be present in this inquiry.*** As a result, the Commission has elected not to propose an MCC structure at the outset of this inquiry. However, information gathered in responses received from importers and exporters, and from the Australian industry, will be examined to assess if an appropriate MCC structure can be developed".

Based on Primy's analysis and comment above, it is clear that there are still many physical characteristics influencing costs and prices, and the MCC established by the Commission for Primy failed to capture many of them. Also, another unique situation with Primy's sinks sale is that sinks are always sold together with accessories as one single product and priced together. In the case of Primy, sinks and accessories are actually also treated as one single product in the cost accounting, and the cost of production is calculated together as one single product. In addition, there are large number of possible combination of different types of accessories to be sold together with sinks. In such a situation, if MCC structure is applied and grouped together different sinks with different combination of different types of accessories into one

MCC, it inevitably will give rise to the need to make all kinds of adjustments to try to neutralize these differences caused by grouping different products into one MCC, and in such adjustment, all kinds of averaging and presumptions would be needed. In the end, after all the grouping, adjustments, nobody really knows what is the kind of sink the normal value still stands for which is finally used to be compared with the exported sinks. In the end, the exported sinks are actually compared with a non-existent sink with non-existent combination of accessories. Such a "monster sink" could not serve as reasonable basis for the comparison with export price to establish an appropriate amount of dumping.

Primy could not understand, in light of the specific situation of this case and Primy, why the Commission would first group different products together and then try to adjust the differences that causing all the problems and distortions, instead of just using Primy's product code to conduct an exact product matching in the first place. Model matching system is provided for appropriate calculation of dumping margin, and should be considered by the Commission based on the facts of each case and respondent if MCC is needed for such purpose. MCC should not be applied just for the sake to apply it. Primy respectfully propose that the Commission refrain from applying MCC for Primy in this inquiry and relied on Primy's product code for the purpose of product comparison for the calculation of dumping margin.

VI.2 If MCC has to be used, adjustments of the significant differences between normal value and export price is needed

Even if for some reason, the Commission decides that MCC still needs to be applied to Primy, the data shows very clearly there is significant differences between the normal value established and the export price. In such situation, for a fair comparison between normal value and export price, Article 2.4 of the WTO Antidumping Agreement requires due allowance be made for "any other differences which are also demonstrated to affect price comparability".

As analyzed and explained by Primy above, there are significant differences in costs between normal value and export price in the same MCC, and the close correlation between costs and prices demonstrated such differences "affect price comparability". Thus, the fair comparison obligation under Article 2.4 of WTO Antidumping Agreement obliged the Commission to make adjustments to neutralize such differences between normal value and export price.

Primy considers carefully the reasonable, effective and feasible ways for making such adjustments, which could also be easily implemented by the Commission for this purpose.

In order to make the adjustment, first the differences that "affect price comparability" between normal value and export price need to be identified. In this respect, the differences

in costs are clearly reflected in "(a) Domestic CTMS" of "517 - Primy - Appendix 2 - CTMS" and "(b) Australian CTM" of "517 - Primy - Appendix 2 - CTMS". Primy has compiled **Table 7** for the unit costs based on these documents for the three MCCs for which domestic selling prices were used by the Commission as the basis for normal value. Primy calculated "Total CTM less accessories" for both domestic and Australian CTMS for each quarter and each MCC and then calculated a difference in costs between domestic and Australian costs in "ADJUSTMENT RATIO". This is the difference in costs that affects price comparability between normal value and export price. In such calculation, Primy did not include the accessory costs because, in the methodology developed by the Commission, accessories were adjusted separately.

In order to make the adjustment for such differences that affect price comparability, Primy believes the Commission should apply the "ADJUSTMENT RATIO" to adjust (either to increase or decrease) the "Invoice price at EXW Cash (RMB/Unit)" in the sheet "(a) OCOT Sales" in the disclosure document "517 - Primy - Appendix 4 - Normal Value". Primy believes the ratio should be applied to this price because, based on the methodology of the Commission, this price is purported to be the net sink's price which matched to the "Total CTM less accessories".

Primy does not believe that for the MCCs for which a constructed normal value is used such adjustment is necessary because the costs used are already the Australian CTMS net of accessory costs, which do not contain such difference in domestic and Australian CTMS that affects price comparability between normal value and export price in the first place.

Primy believes, with this adjustment, a fair comparison between normal value and export price are not prevented by the significant difference in costs in domestic products and Australian products due to the MCC structure by the Commission.

VI.3 Certain adjustments are needed regardless general methodology applied

Primy respectively requests the Commission to (1) remove the double counting of packing costs in the construction of normal value; and (2) use the actual accessories costs incurred in the production of the product codes for Australian exports in the adjustment for normal value, either constructed or based on domestic price. Primy has elaborated on these two issues above.