



Australian Government  
Department of Industry, Science,  
Energy and Resources

Anti-Dumping  
Commission

## Exporter Verification Report

### Verification & Case Details

<b>Initiation Date</b>	22 July 2019	<b>ADN:</b>	ADN No. 2019/096
<b>Case:</b>	Review - Grinding balls - China		
<b>Case Number</b>	520		
<b>Exporter</b>	Changshu Longte Grinding Ball Co. Ltd		
<b>Location</b>	China		
<b>Verification from</b>	18 November 2019	<b>to</b>	22 November 2019
<b>Review Period</b>	1 July 2018	<b>to</b>	30 June 2019

THIS REPORT AND THE VIEWS OR RECOMMENDATIONS CONTAINED THEREIN  
WILL BE REVIEWED BY THE CASE MANAGEMENT TEAM AND MAY NOT REFLECT  
THE FINAL POSITION OF THE ANTI-DUMPING COMMISSION

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## **1 COMPANY BACKGROUND**

### **1.1 Corporate Structure and Ownership**

During the review period the companies involved in the production and exportation of the goods were:

- Changshu Longte Grinding Ball Co., Ltd. (Longte);
- Longte's parent company, Changshu Longteng Special Steel., Ltd (Longteng);
- ME Longteng Grinding Media (Changshu) Co., Ltd. (ME Longteng); and
- Compania Electro Metalurgica S.A. (ME).

Longte and Longteng are part of a company group located in Changshu, China, with the same ultimate controlling shareholders, whilst ME is a multinational company listed on the Chilean stock exchange.

ME Longteng is a joint venture between Longteng and ME for the purpose of manufacturing and exporting grinding balls.

Below is a breakdown of each entity's role in relation to the goods and the like goods:

#### **1.1.1 Longte**

Longte is a limited liability company specialising in the production and sale of self-produced grinding balls both in the domestic and export markets. Longte also functions as the coordinating and facilitating entity in relation to grinding balls processed by ME Longteng.

#### **1.1.2 Longteng**

Longteng is the majority owner of Longte and an integrated steel producer. It is a supplier of raw material steel feed for grinding balls and grinding bar. Longteng is also a joint venture owner of ME Longteng. During the review period Longteng produced and supplied the majority of grinding bar for Longte and ME Longteng's production of grinding balls.

#### **1.1.3 ME Longteng**

ME Longteng manufactures grinding balls under a toll processing agreement. Under the agreement Longte pays a processing fee to ME Longteng to cover the cost of the manufacture. The grinding balls produced under this agreement, for export only, are sold to Australian customers (and other export markets) through ME.

#### **1.1.4 ME**

ME is a joint venture owner of ME Longteng. ME also functions as the exporting sales/trading arm in relation to the goods manufactured by ME Longteng.

### **1.1.5 Treatment of Longte, Longteng and ME Longteng as a single entity**

The original investigation, outlined in *Anti-Dumping Report No. 316* (REP 316), treated the related entities Longte, Longteng and ME Longteng as a single entity for the purpose of calculating a dumping margin.

During the visit Longte presented a submission in which it proposed that Longte, Longteng, ME and ME Longteng be treated as one entity with regards to dumping margin calculations.<sup>1</sup>

For the purpose of this report, the verification team has decided to treat Longte as the exporter of the goods, and Longteng and ME Longteng as related suppliers. Similarly, Longte is regarded as the exporter of the goods to Australia sold via ME. Further details are found at section 7.2.

## **1.2 Related Parties**

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

### **1.2.1 Related suppliers**

#### **1.2.1.1 Longteng**

Longteng is an integrated steel manufacturer, and produces the majority of grinding bar for Longte. Longteng also supplies utility services to Longte, including water, electricity and blast furnace gas.

Evidence provided at the verification confirmed that Longteng has a controlling interest in Longte and is therefore considered a related supplier.

#### **1.2.1.2 ME Longteng**

ME Longteng provides processing services on a fee basis to Longte under a tolling agreement between Longte and ME Longteng, and as part of the joint venture arrangement between Longteng and ME. Evidence provided at the verification confirmed that ME Longteng is owned by Longteng and ME and is therefore considered a related supplier through joint ownership.

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<sup>1</sup> Case page 520, item 10 on the Anti-Dumping Commission website refers.

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

### **2.1 Characteristics of the goods and like goods**

The goods subject to the measures are 'ferrous grinding balls, typically used for the comminution of metalliferous ores:

- whether or not containing alloys;
- cast or forged;
- with diameters in the range 22 mm to 170 mm (inclusive)'.

The grinding balls manufactured by Longte in its own facility and through toll processing by ME Longteng, are all forged. However, for production arrangement and cost accounting purposes, Longte further separates the goods into two sub-categories being 'forged' and 'hot-rolled'. Both the forged and hot-rolled grinding balls are forged for the purpose of the goods description, however they are manufactured through different forging processes.

The visit team found that grinding balls with smaller diameters are hot rolled; grinding balls of a larger diameter are forged and a small range of grinding balls could be manufactured through either process.

### **2.2 Production process**

The process is slightly different for the hot-rolled and the forged balls. The production processes relevant for the forged and hot-rolled balls are detailed below. The verification team conducted a tour of the manufacturing facilities of Longte and ME Longteng and is satisfied that there is no difference in the production method between the goods and the like goods.

#### **2.2.1 Forged production process**

- Raw materials enter production as round bar.
- Cutting of materials (band saw).
- Heating materials.
- Forging.
- Heat treatment of grinding balls.
- The finished goods exit the production process once they have been cooled down after the heat treatment.
- Scrap exits the production process as off-cuts or defective balls. Longte sells the scrap to related entity Longteng.

#### **2.2.2 Hot-rolled production process**

- Raw materials enter production as steel round bar.
- Cutting of materials (plasma cutting).
- Heating materials.
- Rolling (forged for the purpose of the goods description).
- Heat treatment of grinding balls.
- The finished goods exit the production process once they have been cooled down after the heat treatment.

## PUBLIC RECORD

- Scrap exits the production process as off-cuts or defective balls. Longte sells the scrap to related entity Longteng.
- Longte stated in the response to the exporter questionnaire (REQ) that there is no difference in packaging between domestic and export markets. The type of packaging is based on the customer's requirements. Grinding balls can be packed in plastic bags, drums or in bulk (container). The visit team observed during the factory tour that the goods were packed in plastic bags that each contain 2 tonnes of grinding balls.
- The goods are dispatched in shipping containers on trucks or in case of ex-works (EXW) domestic sales, picked up in trucks.

### 2.3 Model Control Codes (MCCs)

The Commission determined the model control code (MCC) structure outlined in tables 1 and 2 below to capture the parameters of the goods description. The proposed MCC structure is detailed in Anti-Dumping Notice (ADN) No. 2019/96.

Longte provided sales and cost data in its response to the exporter questionnaire in accordance with the MCC structure detailed in ADN No. 2019/96.

Specifically, Longte provided its sales data in accordance with the MCC structure in respect of all categories (production method, diameter and steel grade). Longte provided its cost data in accordance with the MCC structure in respect of production method and diameter only.

### 2.4 Verification of MCCs

Table 1 below provides detail on how the MCC sub-categories were determined and verified to source documents.

Category	Determination of the sub-category
Production method	Whether the grinding balls are cast or forged. (C or F)
Diameter	Based on the nominal diameter shown on the commercial invoices. The verification team noted that some commercial documentation stated the diameter in imperial measurement (inches). In these instances Longte converted the measurement from inches to millimetres. The verification team reviewed the conversions and is satisfied that the diameters as stated in the sales listings are correct.
Product code	Based on the steel grade shown on the commercial invoices. Where steel grade was not shown on the invoice, the grade was verified based on chemical composition requirements of the customer.

**Table 1 MCC sub-category determination**

## PUBLIC RECORD

Table 2 displays the relationship between product specifications and MCC categories.

Product Code	MCC		
	Production method	Diameter	Steel grade
F-50-LTB2	F	50	LTB2
F-100-LTB3	F	100	LTB3

**Table 2 MCC mapping**

### 2.5 The goods exported to Australia

The verification team was satisfied that Longte produced and exported the goods to Australia. Longte exported the goods to Australia with the following MCCs during the period:

MCC's exported to Australia
F-25
F-30
F-40
F-50
F-65-
F-75
F-80
F-95
F-100
F-105
F-125

### 2.6 Like goods sold on the domestic market

The verification team considered the physical likeness, production likeness, commercial likeness and functional likeness of the exported goods and the goods sold by Longte to its domestic customers, and was satisfied that exporter 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:

- are produced in the same way, subject to individual customer specifications, and the costs of production for models sold domestically and for export are the same;
- are produced at the same facilities, using the same raw material inputs and manufacturing processes;
- compete in the same market sector, are interchangeable and use similar distribution channels; and
- can be considered functionally alike, as they have similar end uses.

## PUBLIC RECORD

Longte sold like goods on the domestic market with the following MCCs during the period under various Longte proprietary grades:

MCC's sold domestically
F-25
F-30
F-40
F-50
F-60
F-65
F-65
F-70
F-75
F-80
F-90
F-100
F-110
F-120
F-125
F-130
F-133
F-140

### 2.7 Like goods – assessment

The verification team considers that the goods produced by Longte for domestic sale have characteristics closely resembling those of the goods exported to Australia and are therefore 'like goods' in accordance with section 269T(1) of the *Customs Act 1901* (the Act).<sup>2</sup>

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



### 3 VERIFICATION OF SALES COMPLETENESS AND RELEVANCE

Verification of relevance and completeness is conducted by reconciling selected data submitted "upwards" through management accounts up to audited financial accounts. The total sales value and quantity is reconciled to management reports with particular attention given to ensuring that all relevant transactions are included and irrelevant transactions are excluded. The total value from the management reports is then reconciled to the total revenue figure reported in the audited income statement.

At the commencement of the visit, the exporter submitted revised sales listings of those provided in the REQ for both export and domestic sales. The changes made were minor and are detailed in section 4. No amendments were made to the sales value or quantity in these revised listings.

The verification team verified the completeness and relevance of these revised export and domestic sales listings by reconciling these to audited financial statements in accordance with ADN No. 2016/30.

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

1. Using income statements from 2018, as well as the first 6 months of 2018 and first 6 months of 2019, the total company revenue was reconciled for the review period.
2. This amount was then reconciled through to the principle revenue ledger.
3. Using the revenue ledger, the verification team was then able to reconcile (using filters), sales value and quantity to the general category of goods, goods under consideration, domestic sales, Australian sales and third country sales.

The verification team did not identify any issues during this process. Details of this verification process are contained in the verification work program and its relevant attachments, at **Confidential Attachment 1**.

#### 3.1 Sales completeness and relevance finding

The verification team is satisfied that the sales data provided by the exporter 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 revised export and domestic sales listings submitted by reconciling these to audited financial statements in accordance with ADN No. 2016/30.

The verification team was alerted to or 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	The reported costs for inland transportation, ocean freight and handling had been incorrectly calculated using an incorrect VAT amount.	Additional columns added to the sales listing to report the amended costs for inland transportation, ocean freight and handling. The amounts amended were only minor and reconciled to source documents.
2	A small number of invoices had pick-up/handling charges reported under inland transport rather than handling and other costs.	The revised sales listing was amended to contain the corrected handling and other costs. These changes were only minor and reconciled to source documents.
3	Importation costs exchange rate issue.	The sales listing was revised to have importation costs incurred reported in USD.

**Table 3 Exceptions during verification of accuracy of sales data**

### **4.2 Sales accuracy finding**

The verification team is satisfied that the sales data provided by exporter, including any required amendments as outlined in the exception table 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 COST TO MAKE AND SELL (CTMS) COMPLETENESS AND RELEVANCE**

Verification of relevance and completeness is conducted by reconciling selected data submitted "upwards" through management accounts up to audited financial accounts. The total cost to make (CTM) 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 of Longte's cost to make and sell (CTMS) information provided in the first amended cost listing by reconciling it to audited financial statements in accordance with ADN No. 2016/30.

The verification team verified the relevance and completeness of Longte's cost data as follows:

1. Throughout the process the verification team used an extract of the REQ to trace the total costs in the cost listing through trial balances in the financial records, to reconcile to the audited financial statements of 2018.
2. Longte had reported non-refundable VAT on a separate line. This item was verified in the financial system and the visit team considered the adjustment reasonable.
3. The verification team reconciled the cost of goods sold to CTM in the review period through finished goods ledger balances and found a small variance due to timing difference/stockholding only.
4. The verification team is satisfied that CTM is largely the same regardless of the market of the end customer, hence the CTM was not split into export and domestic CTM. However, the CTM is split into Longte self-produced balls that are sold on the export and domestic markets, and balls processed by ME Longteng. The balls processed by ME Longteng are for export only. Hence the domestic CTM is made up by costs of Longte self-produced balls only and the export CTM is made up by the combined cost of self-produced and processed balls.

The verification team verified the relevance and completeness of Longte's SG&A data as follows:

1. Longte calculated SG&A allocation to each MCC using the Commission's standard method (as per the formulas in G-4.2 of the REQ). The verification team reviewed the formulas provided in the REQ and consider it to be accurate. The SG&A listing was then verified to the trial balance for the review period and the 2018 audited financial statements. Longte prepared a trial balance for the review period to establish the SG&A amounts in their REQ which reconciled to the financial accounts used.

## PUBLIC RECORD

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
4	Prior to the visit the verification team identified that the costs listing did not contain a breakdown of the costs incurred by ME Longteng for the toll processing of the goods.	At the start of the visit Longte provided an amended cost listing that included a breakdown of the costs incurred by ME Longteng. This is hereafter referred to as the first amended cost listing.
5	During the visit Longte presented a submission in which it proposed that Longte, Longteng and ME Longteng be treated as one entity with regards to dumping margin calculations. <sup>3</sup>	Longte provided an integrated cost listing in which the cost of grinding bar raw materials was amended to reflect Longteng's CTM of the grinding bar. The integrated cost listing is referred to as the second amended cost listing.
6	The visit team identified that Longte had included exchange rate gains (a negative expense) in its domestic SG&A expenses. Given that Longte does not import its production inputs the visit team removed this expense irrelevant to the domestic SG&A calculation.	The visit team removed this expense from the SGA listing and the domestic SG&A calculation.

**Table 4 Exceptions during verification of completeness and relevance of CTMS data**

### 5.2 Completeness and relevance finding of CTMS data

The verification team is satisfied that the CTMS data provided in the REQ by Longte, including the first amended cost listing, is complete and relevant.

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<sup>3</sup> Case page 520 item 010 on Anti-Dumping Commission's website refers.

## **6 VERIFICATION OF COST TO MAKE AND SELL (CTMS) ACCURACY**

### **6.1 Cost allocation method**

The verification team verified the reasonableness of the method used to allocate the cost information provided in the REQ to the relevant MCCs, in accordance with ADN No. 2016/30.

The verification team did not identify any issues during this process. Details of this verification process are contained in the verification work program and its relevant attachments, at **Confidential Attachment 1**.

Table 5 below outlines the allocation method applied to Longte self-produced goods.

Longte classifies the goods as hot-rolled (smaller diameters) and forged (larger diameters) depending on production method. Each production method forms a department for the purpose of capturing production costs. There is also a support department for joint costs. The costs of the support department are in turn allocated to the rolled and forged departments based on production quantities each month.

<b>Cost item</b>	<b>Method applied</b>
Raw Materials	Raw material costs are recorded based on actual monthly consumption incurred by each production department and allocated to each MCC based on production quantity as evidenced by monthly production reports generated by the cost accounting system.
Processing fee	Actual incurred basis.
Direct Labour	Direct labour costs are recorded based on an actual basis as evidenced by monthly production reports generated by the cost accounting system.
Overheads (including depreciation)	Overhead costs are recorded based on an actual incurred basis. The visit team reconciled the depreciation costs to Longte's asset list and monthly depreciation schedules of randomly selected assets.
Utilities (Water, electricity, BFG and sewage treatment fee)	Utilities costs are recorded based on actual monthly consumption incurred by each production department as evidenced by monthly production reports generated by the cost accounting system.
Safety fee	Safety fee is provision that is allocated to each MCC based on production quantity as evidenced by monthly production reports generated by the cost accounting system.
Scrap Allocation	Scrap is a by-product of the manufacturing process. Longte allocates a cost for this scrap on an actual cost basis.

**Table 5 Cost allocation method**

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

The accuracy of data is verified by reconciling selected data submitted "downwards" to source documents. This part of verification involves the process of agreeing the volume, value and other key information fields within the cost data down to source documents. This verifies the accuracy of the data.

## **PUBLIC RECORD**

The verification team verified the accuracy of the CTMS information provided in the REQ by reconciling it to source documents in accordance with ADN No. 2016/30.

The verification team did not identify any issues during this process. Details of this verification process are contained in the verification work program and its relevant attachments, at **Confidential Attachment 1**.

### **6.3 Related party suppliers**

#### **6.3.1 Longteng – Raw material**

Longte purchased a large proportion of grinding bar used for production of grinding balls from a related party, Longteng, during the review period. Longte also purchased grinding bar from unrelated entities during the review period. Longte further stated that the integrated nature of the group of companies' production arrangement has been significantly enhanced and is now the dominant feature of the group.

Longte submitted in the REQ that Longteng sells grinding bar to Longte at a transfer price which is set based on a commercial arrangement between the Longteng group of companies.

Longte proposed during the visit that the Commission should treat Longte, Longteng, ME Longteng and ME as a single economic entity for the purpose of establishing the variable factors, and to this effect calculate the cost of production to reflect the integrated nature of sale and production arrangements. Longteng's CTM of the grinding bar therefore formed part of the second revised cost listing that was provided to the visit team during the visit. This cost listing was only verified back to the billet input cost, with the main focus of the visit team being to verify the CTM data provided with the REQ.

The visit team compared Longte's purchases of grinding bar from Longteng to the price paid by Longte to unrelated suppliers in each quarter of the review period.

#### **6.3.2 ME Longteng – Toll processing**

As first mentioned in section 1.1.3, ME Longteng manufactures grinding balls under a tolling arrangement. The verification team reviewed the agreement and compared costs of goods produced under the tolling arrangement to those directly produced by Longte. The verification team found that the costs were comparable.

### **6.4 Accuracy finding**

The verification team is satisfied that the CTMS data provided in the REQ by Longte is accurate. Notwithstanding Longte's submission and the original investigation's treatment of Longte and its affiliated companies as a single economic entity, the verification team considers that the CTMS data for Longte, as provided in the first amended cost listing, should be used for all calculations.

## 7 EXPORT PRICE

### 7.1 The importers

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

- named on the commercial invoice as the customer;
- named as the consignee on the bill of lading,
- declared as the importer on the importation declaration to Australian Border Force (ABF);
- pays for all the importation charges; and
- arranges delivery from the port.

In relation to the goods exported by Longte to Australia, the verification team considers that the customers listed for each shipment were the beneficial owners of the goods at the time of importation, and therefore were the importers of the goods.

### 7.2 The exporter

The verification team considers Longte to be the exporter of the goods<sup>4</sup> for those exported directly from Longte, as Longte is:

- the manufacturer 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;
- arranges and pays for the port handling charges at the port of export; and
- arranges and pays for the ocean freight and marine insurance (for CIF and CFR sales).

The verification team also considers Longte to be the exporter of the goods for those exported via ME, as Longte is:

- the manufacturer of the goods (or via ME Longteng through its tolling arrangement);
- named on the commercial invoice to ME as the supplier;
- knowingly placed the goods in the hands of ME for delivery to Australia;
- has maintained ownership throughout the production process through the tolling arrangement with ME Longteng until the goods were placed in the hands of ME.

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<sup>4</sup> The Commission generally identifies the exporter as a principal in the transaction, located in the country of export from where the goods were shipped, that gave up responsibility by knowingly placing the goods in the hands of a carrier, courier, forwarding company, or its own vehicle for delivery to Australia; or a principal in the transaction, located in the country of export, that owns, or previously owned, the goods but need not be the owner at the time the goods were shipped.

## PUBLIC RECORD

The verification team was satisfied that for all Australian export sales during the review period, Longte is the exporter of the goods.

### 7.3 Arms length

#### 7.3.1 Related party customers

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

- there was any consideration payable for, or in respect of, the goods other than its price; or
- the price was influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- the buyer, or an associate of the buyer, was directly or indirectly reimbursed, compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.<sup>5</sup>

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

The arms length assessment was undertaken through comparing prices for unrelated and related customers. In addition the export price to its related customer is by reference to an agreed pricing formula that is adjusted based on a raw materials index, which is included in a contract between Longte and ME.

#### 7.3.2 Unrelated customers

In respect of Longte's Australian sales of the 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 directly or indirectly reimbursed, compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.<sup>6</sup>

The verification team therefore considers that all export sales made by the exporter to its unrelated Australian customers during the period were arms length transactions.

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<sup>5</sup> Section 269TAA refers.

<sup>6</sup> Ibid.



## **7.4 Export Price – assessment**

In respect of Australian sales of the goods by Longte to unrelated customers, the verification team recommends that the export price be determined under section 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**.

In respect of Australian sales of the goods by Longte via ME to ME in Australia, the verification team considers that the importer has not purchased the goods from the exporter, therefore, export prices cannot be determined under sections 269TAB(1)(a) or 269TAB(1)(b). The verification team recommends that the export price be calculated under section 269TAB(1)(c), having regard to all the circumstances of the exportation. Specifically, the verification team considers that the export price should be calculated based on the price Longte sells to ME at the Free on Board (FOB) level.

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**

The verification team is satisfied that Longte did not sell like goods to related customers during the review period.

In respect of Longte's domestic sales of like goods to its unrelated customers during the period, the verification team found no evidence that:

- there was any consideration payable for, or in respect of, the goods other than its price; or
- the price was influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- the buyer, or an associate of the buyer, was not directly or indirectly reimbursed, compensated or otherwise received a benefit for, or in respect of, the whole or any part of the price.

The verification team therefore considers that all domestic sales made by Longte to its unrelated domestic customers during the period were arm's length transactions.

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

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

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

The verification team tested profitability by comparing the price at EXW 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 EXW against the relevant weighted average cost over the period for each domestic sales transaction.

The following table sets out further detail:

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

**Table 6 OCOT details**

### **8.3 Suitability of domestic sales**

Under section 269TAC(2)(a)(i), the normal value of goods exported to Australia can not be worked out 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 under section 269TAC(14) where the total volume of like goods is less than five per cent 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 in low volumes. As a result, the normal value can not be ascertained under section 269TAC(1), and therefore the verification team recommends that the normal value is constructed under section 269TAC(2)(c).

In addition, the verification team notes the finding outlined in REP 316 that the situation in the country of export was such that sales in that market were not suitable for use in determining a normal value. Without pre-empting the Commissioner's decision as to whether a market situation may be present in the China domestic market for grinding balls during the review period, the verification team notes that such a finding would also be likely to lead to the constructing of normal values under section 269TAC(2)(c).

In the event that normal values are constructed, the cost of production or manufacture of the goods would be undertaken for each model having regard to the MCC structure outlined in section 2.3.

### **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 section 45 of the *Customs (International Obligations) Regulation 2015* (the Regulation).

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

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

## 9 ADJUSTMENTS

To ensure the normal value is comparable to the export price of goods exported to Australia at FOB terms, the verification team has considered the following adjustments in accordance with 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	Domestic payment terms.	N/A	N	N
Domestic inland transport	Domestic delivery terms.	Weighted average domestic inland transport cost was calculated based on actual cost. Adjustment not required under 269TAC(9).	Y	N
Export packaging	The verification team is satisfied that there was no difference in packaging between sales to domestic and Australian customers.	N/A	N	N
Export inland transport	Inland transport expenses were incurred for export sales of goods to Australia.	Weighted average cost based on actual costs incurred over the period and allocated to the goods by weight.	Y	Y
Export handling and other charges	Port handling charges were incurred for export sales of the goods to Australia.	Weighted average cost based on actual costs incurred over the period and allocated to the goods by weight.	Y	Y
Export credit terms	Export payment terms.	Average accounts receivable turnover for each Australian customer.	Y	Y
Finance/bank charges	A finance/bank charge was incurred on export sales of goods to Australia.	Weighted average cost based on actual costs incurred over the period and allocated to goods by weight.	Y	Y
Non-refundable VAT	A non-refundable VAT expense was incurred for export sales of the goods to Australia.	The difference between the general VAT rate less VAT refund. Applied as a weighted average cost incurred over the period and allocated to goods by weight due to different VAT applied during the review period.	Y	Y

**Table 7 Assessment of adjustments**

## **9.2 Adjustments**

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

<b>Adjustment Type</b>	<b>Deduction/addition</b>
Export inland transport	Add an amount for export inland transport
Export handling and other charges	Add an amount for port charges
Export credit terms	Add an amount for export credit terms
Export finance/bank charges	Add an amount for export finance charges
Non-refundable VAT	Add an amount for non-refundable VAT

**Table 8 Summary of adjustments**

## **10 NORMAL VALUE**

The verification team believe 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 can not be worked out under section 269TAC(1).

The verification team therefore recommends that the normal value be calculated under section 269TAC(2)(c) using the sum of:

- the CTM of the exported model based on Longte's records in accordance with section 43(2) of the Regulation;
- SG&A on the assumption that the goods, instead of being exported, were sold domestically based on Longte'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 the event that a market situation is found, normal values could also be constructed under 269TAC(2)(c) using:

- the cost to make that reasonably reflect competitive market costs in accordance with section 43(2) of the Regulation; plus
- SG&A on the assumption that the goods, instead of being exported, were sold domestically based on Longte's records in accordance with section 44(2) of the Regulation; plus
- 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.

The verification team has not determined what effect a particular market situation finding would have on the exporter or whether the costs of production in the exporter's records reasonably reflect competitive market costs. Therefore, the verification team has not calculated a normal value and has referred the calculation of the normal value to the case management team.

The verification team recommends that in the event the case team constructs normal values under 269TAC(2)(c), 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.

## **11 DUMPING MARGIN**

As detailed in Chapter 10 above, normal values have not been determined as part of the verification process. As such, the verification team was not able to calculate a dumping margin in respect of the goods exported to Australia by Longte for the period. The calculation of the dumping margin has been referred to the case management team and will be detailed in the Statement of Essential Facts.

**PUBLIC RECORD**

**12 APPENDICES AND ATTACHMENTS**

<b>Confidential Appendix 1</b>	Export price
<b>Confidential Appendix 2</b>	Cost to make and sell
<b>Confidential Appendix 3</b>	Domestic sales, OCOT and profitability
<b>Confidential Attachment 1</b>	Verification work program