



## **Exporter Verification Report**

### **Verification & Case Details**

<b>Initiation Date</b>	23/08/2019	<b>ADN:</b>	ADN No. 2019/100
<b>Case:</b>	Zinc coated (galvanised) steel – The People’s Republic of China		
<b>Case Number</b>	521		
<b>Exporter</b>	Guanxian Hongshun Composite Material Co., Ltd		
<b>Review Period</b>	1/7/2018	<b>to</b>	30/6/2019

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

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## **1 BACKGROUND**

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

Guanxian Hongshun Composite Material Co., Ltd. (Hongshun) is a steel coils company. Specifically, the company maintains a production line for cutting coils and consigns the production of certain goods to other manufacturers. Hongshun is located in the People's Republic of China (China) and is owned by one shareholder.

### **1.2 Related Parties**

The verification team found that Hongshun did not have any related party customers or suppliers of the goods during the review period.

### **1.3 Accounting records**

Hongshun's audited financial statement were audited by Guanxian Shuofeng Accounting Firm.

Therefore, the verification team considers that the accounting records held by the company are in accordance with the generally accepted accounting principles of China.

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

### **2.1 Production Process**

Hongshun does not maintain a production facility to produce steel product. Instead, Hongshun has a tolling arrangement in place with Shandong Guanzhou Dingxin Plate Technology Co Ltd (Dingxin), which is a non-affiliated company. During the review period, Hongshun provided Dingxin the raw material (hot-rolled coil) it had purchased in order for Dingxin to manufacture into the finished goods (galvanised steel). Dingxin charged a processing fee based on tolling fee invoices issued to Hongshun.

While Hongshun does not manufacture the goods under consideration, it provided details of the production process of galvanised steel which is summarised by the verification team as follows: after acid pickling the hot-rolled coil, the steel is rolled to generate the required thickness of steel. A thin layer of zinc is then applied.

Section 4.1 of this report contains the verification team’s recommendation as to who is the exporter of the goods under consideration, shall the goods be exported to Australia.

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

Hongshun provided sales and cost data in its response to the exporter questionnaire (REQ) in accordance with the model control code (MCC) structure detailed in Consideration Report 521 & 522 and ADN 2019/100.

### **2.3 Verification of MCCs**

Category	Determination of the sub-category
Alloy content	All domestic sales were non-alloy.
Prime	All domestic sales were prime.
Steel base	The company was able to identify the steel base from its internal sales and costing systems.
Coating type	All sales were zinc coated.
Coating mass	The company was able to identify the coating mass from its internal sales and costing systems.
Steel grade	The company was able to identify the steel grades from its sales contracts and invoices.
Base metal thickness	The company was able to identify the base metal thickness from its internal sales systems. This was cross referenced to the sales contract.
Width	The company was able to identify the width from its internal sales. This was cross referenced to the sales contract.
Form	The company was able to identify the form (sheet or coils) from its internal sales systems. This was cross referenced to the sales contract.

**Table 1 MCC sub-category determination**

In the original investigation, previous continuation inquiry and the most recent review of measures, the Commission determined that a particular market situation exists in China in relation to the domestic sales of zinc coated (galvanised) steel. Further analysis of the market situation finding will be included in the Statement of Essential Facts (SEF) for Review no. 521. In the event that market situation finding exists for this review period, the verification

## PUBLIC RECORD

team notes that constructing normal values under section 269TAC(2)(c) of the *Customs Act 1901* (the Act)<sup>1</sup> does not require matching domestic models to export models.

### 2.4 The goods exported to Australia

The verification team has examined the information provided by Hongshun in their REQ and relevant Australian Border Force (ABF) data and is satisfied that based on the information available, Hongshun did not export the goods to Australia during the review period.

### 2.5 Like goods sold on the domestic market

The verification team were satisfied that Hongshun 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 under consideration, as they:

- are produced in the same way, subject to individual customer specifications, and the costs of production for models sold are the same regardless being sold in the domestic market or being exported;
- are produced at the same facilities, using the same raw material inputs and manufacturing processes;
- the goods compete in the same market sector; and
- can be considered functionally alike, as they have similar end uses.

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

Domestic like goods MCC			
NA-P-C-Z-1-NA-1-B-C	NA-P-C-Z-1-NA-5-B-C	NA-P-C-Z-2-NA-5-B-C	NA-P-H-Z-1-NA-8-B-C
NA-P-C-Z-1-NA-1-C-C	NA-P-C-Z-1-NA-5-C-C	NA-P-C-Z-2-NA-6-B-C	NA-P-H-Z-1-NA-8-C-C
NA-P-C-Z-1-NA-2-A-C	NA-P-C-Z-1-NA-6-C-C	NA-P-C-Z-3-NA-4-B-C	NA-P-H-Z-3-NA-7-C-C
NA-P-C-Z-1-NA-2-B-C	NA-P-C-Z-2-NA-1-B-C	NA-P-C-Z-3-NA-5-B-C	NA-P-H-Z-3-NA-8-C-C
NA-P-C-Z-1-NA-2-C-C	NA-P-C-Z-2-NA-2-B-C	NA-P-C-Z-3-NA-6-B-C	NA-P-C-Z-1-NA-7-C-C
NA-P-C-Z-1-NA-3-B-C	NA-P-C-Z-2-NA-3-B-C	NA-P-C-Z-3-NA-6-C-C	NA-P-C-Z-3-NA-7-C-C
NA-P-C-Z-1-NA-3-C-C	NA-P-C-Z-2-NA-4-B-C	NA-P-H-Z-1-NA-7-B-C	
NA-P-C-Z-1-NA-4-B-C	NA-P-C-Z-2-NA-4-C-C	NA-P-H-Z-1-NA-7-C-C	

**Table 2 Domestic Models**

Section 4.1 of this report contains the verification team's recommendation as to who is the exporter of the goods under consideration, shall the goods be exported to Australia.

### 2.6 Like goods – assessment

The verification team considers that the goods produced by Hongshun for domestic sale have characteristics closely resembling those of the goods under consideration and are therefore 'like goods' in accordance with section 269T(1) of the Act.

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<sup>1</sup> References to any section or subsection in this report relate to provisions of the Act, unless specifically stated otherwise.

### **3 VERIFICATION**

#### **3.1 Benchmark verification**

The verification team verified the reliability of Hongshun’s domestic sales and cost data provided in the REQ by benchmarking the data against other verified data.

This involved comparing the data to the following exporters:

- Dingxin (and its trading arm Guanxian Lianhao Metal Material Co Ltd) - subject to a full onsite verification visit concerning galvanised steel;<sup>2</sup> and
- Jiangyin Zongcheng Steel Co Ltd – subject to a benchmark verification.<sup>3</sup>

The verification team also verified the reliability of the domestic sales listings submitted in the REQ by reconciling to the source documentation provided as part of Hongshun’s REQ.

Where the examination of the data in Hongshun’s REQ produced results that were inconsistent with those observed in relation to the verified exporter’s data or other relevant information, the verification team has then escalated the level of verification for those targeted areas.

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

No.	Exception	Resolution
1	The verification team found that the company incurred transport costs as identified in its selling, general and administrative expenses (SG&A), however all domestic sales had delivery terms of ex-works (EXW).	The company amended the domestic sales list to include delivered sales and corresponding inland transport costs. The verification team benchmarked the inland transport costs against other Chinese exporters’ data.
2	The company revised its method for allocating costs. The method relies upon allocations based on cost pools relevant to each month and workshop for each cost input instead of deriving HRC costs using a flat percentage applied against the total CTM which was used in the REQ. There was no change to the total CTM, however the CTM for individual models was changed.	The verification team assessed the calculations and supporting data provided by the company. The verification team considers the revised method to be more accurate in determining the HRC costs and therefore accepts the revised method.
3	The company had excluded finance costs from SG&A.	The company provided a revised SG&A with source documents from its accounting system. The SG&A overall increased upon including the omitted finance expenses. The verification team relied on the company’s trial balances.

**Table 3 Exceptions during verification**

<sup>2</sup> EPR 521 Document #19 [www.adcommission.gov.au](http://www.adcommission.gov.au)

<sup>3</sup> EPR 521 Document #36 [www.adcommission.gov.au](http://www.adcommission.gov.au)

### **3.2 Benchmark verification finding**

The verification team is satisfied that the domestic sales and cost data provided by Hongshun, including any required amendments as outlined as an exception above, are reasonable and can be considered reliable for the purpose of ascertaining variable factors for Hongshun.

Hongshun's cost data is available at **Confidential Appendix 2**.

## 4 EXPORT PRICE

### 4.1 The exporter

The verification team notes that there is a tolling arrangement in place between Hongshun and Dingxin where Hongshun provides HRC (the raw material) it has purchased to Dingxin to manufacture into the finished goods (galvanised steel).

Subject to further enquires, the verification team considers Hongshun as the principal in the transaction, were the goods to be shipped to Australia.<sup>4</sup> The manufacturer, Dingxin, does not appear to have significant influence or control over the goods, and seems to operate purely on a tolling/processing fee basis. In the period assessed by the verification team, Hongshun sourced and prepared the primary raw material to the manufacture of the goods and also paid auxiliary material costs and manufacturing overheads. It also organised sales of these goods in the domestic market.

Subject to further enquires by the case team, the verification team recommends Hongshun to be the exporter of the goods under consideration, were the goods to be shipped to Australia, as Hongshun has demonstrated in its sales of the goods in the domestic market that it is:

- the beneficial owner of the goods throughout; and
- responsible for coordinating the sale, production and delivery/ex works pick up of the goods.

Subject to further enquires, the verification team considers this recommendation reasonably reflects the nature of the activities actually undertaken by Hongshun, and the commercial risk borne by it, shall the goods be exported to Australia.

### 4.2 Export Price – preliminary assessment

The verification team has found that Hongshun did not export the goods to Australia during the review period. As such, the verification team considers that there is insufficient information to ascertain the export price of the goods under section 269TAB(1) due to an absence in volume of exports during the review period.

Subject to further enquiries by the case management team, the verification team recommends that the export price be determined under section 269TAB(3), having regard to all relevant information. The verification team considers it appropriate to determine the ascertained export price to be the same amount as that determined to be the normal value.

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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.



## **5 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).

### **5.1 Arms length**

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

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

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

### **5.2 Ordinary course of trade**

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

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

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

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

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

The following table sets out further detail:

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

**Table 4 OCOT details**

### **5.3 Suitability of domestic sales – particular market situation**

Section 269TAC(2)(a)(ii) provides that the normal value of goods exported to Australia cannot be ascertained under section 269TAC(1) where the situation in the market of the country of export is such that sales in that market are not suitable for use in determining a price.

The market situation finding in the original investigation (Investigation 190), previous continuation inquiry (Continuation inquiry no. 449) and the most recent review of measures (Review 457) in relation to zinc coated (galvanised) steel exported to Australia from China, rendered domestic prices of those goods unsuitable in determining a normal value under section 269TAC(1). Further analysis of the market situation finding will be included in the statement of essential facts for review of measures no. 521. In the event that a market situation is found, then such sales in that market will not be suitable for use in determining a normal value and therefore the normal value of goods exported to Australia cannot be ascertained under section 269TAC(1). Accordingly, the normal value has preliminarily been ascertained under section 269TAC(2)(c).

### **5.4 Profit**

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

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

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

## **6 ADJUSTMENTS**

Adjustments were made where a particular MCC had no cost to make value for a particular quarter.

To ensure the normal value is comparable to the export price of goods exported to Australia at free-on-board (FOB) terms, the verification team has considered the following adjustments in accordance with section 269TAC(9).

While Hongshun has not exported the goods under consideration to Australia during the review period, these adjustments are considered appropriate to establish a normal value, as if those goods were exported to Australia in the review period.

### **6.1 Rationale and Method**

<b>Adjustment type</b>	<b>Assessment for adjustment</b>	<b>Calculation method and evidence</b>	<b>Claimed in REQ?</b>	<b>Adjustment required?</b>
Export costs (inland transport, port handling charges and other costs)	An upwards adjustment was made to account for the difference between goods if exported to Australia at FOB terms and Hongshun's domestic sales at EXW.	Export costs have been calculated based on the weighted average of export costs from verified exporters from China for galvanised steel and aluminium zinc coated steel (a similar good) during the review period.	No	Yes

**Table 5 Assessment of adjustments**

### **6.2 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 port handling charges	Add an amount for port charges
Export other costs	Add an amount for other costs

**Table 6 Summary of adjustments**

## 7 NORMAL VALUE

The market situation finding in the original investigation, previous continuation inquiry and most recent review of measures in relation to zinc coated (galvanised) steel exported to Australia from China, rendered domestic prices of those goods to be unsuitable in determining a normal value under section 269TAC(1). The verification team has not determined whether there is a particular market situation and further analysis of the market situation finding will be included in the SEF for Review no. 521.

In the event that a market situation is found, normal values can be constructed under section 269TAC(2)(c) and as required by sections 269TAC(5A) and 269TAC(5B), in accordance with sections 43, 44 and 45 of the Regulation using:

- the cost to make that reasonably reflects competitive market costs; plus
- SG&A on the assumption that the goods, instead of being exported, were sold for home consumption in the OCOT in the country of export based on the company's records in accordance with section 44(2) of the Regulation; and
- an amount for profit based on data relating to the production and sale of like goods on the domestic market in the OCOT in accordance with section 45(2) of the Regulation.

### 7.1 Cost of Production

As required by section 269TAC(5A)(a), in ascertaining the normal value of the goods under section 269TAC(2)(c), the cost of production of the goods was established in accordance with section 43 of the *Customs (International Obligations) Regulation 2015* (the Regulation).

Section 43 of the Regulation provides that the cost of production must be worked out by using the information set out in Hongshun's records if the records are in accordance with generally accepted accounting principles (GAAP) in China and reasonably reflect competitive market costs associated with the production or manufacture of like goods. The verification team is satisfied that Hongshun's records are in accordance with GAAP in China.

The verification team performed a comparative analysis of Hongshun's actual purchases of the key raw material input, being HRC steel, with that of HRC bought competitively from the international market.<sup>5</sup> In the Commission's experience, HRC accounts for in excess of 80 per cent of the CTM of zinc coated (galvanised) steel, and a similar approach was taken in the original investigation of REP 190 and subsequently in the Review No. 456 and 457. Noting the significant distortions in the steel market in China outlined above in the section concerning particular market situation, the verification team considers that Hongshun's recorded costs of HRC therefore do not reflect competitive market costs.

The verification team has therefore adjusted Hongshun's recorded cost of HRC to reflect a weighted average of verified domestic HRC prices obtained by cooperating exporters of HRC from Korea and Taiwan in the review period for zinc coated (galvanised) steel. This data covers all four quarters of the review period.

The weighted average benchmark prices used for the purpose of this review are at **Confidential Attachment 2**.

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<sup>5</sup> Based on the Southeast Asia SBB HRC Prices index.

## **7.2 Selling, general and administrative costs**

As required by section 269TAC(5A)(b), in ascertaining the normal value of the goods under section 269TAC(2)(c), the SG&A costs were established in accordance with section 44 of the Regulation.

Hongshun provided information on SG&A costs associated with its domestic sales of zinc coated (galvanised) steel. Consistent with the requirements of section 44(2) of the Regulation, the verification team is satisfied that Hongshun's records are in accordance with the GAAP in China, and the records reasonably reflect the SG&A costs associated with the sale of like goods. As such, the verification team has used Hongshun's SG&A information to construct Hongshun's normal value.

## **7.3 Profit**

As required by section 269TAC(5B), when ascertaining the normal value of the goods under section 269TAC(2)(c), the amount of profit included in the normal value was determined having regard to section 45 of the Regulation.

Section 45(2) of the Regulation provides that, if reasonably practicable, profit is to be determined by using data relating to the production and sale of like goods by the exporter of the goods in the OCOT.

The verification team calculated a weighted average profit margin for zinc coated (galvanised) steel based on like goods sold domestically. The calculation of this profit margin was based on domestic sales of like goods made in the OCOT, the selling prices of which were compared to the company's domestic cost to make and sell (CTMS) for those goods as reported in the company's REQ (prior to the adjustments made to the cost of HRC discussed above). Profit applicable in the OCOT was applied to the CTMS (refer to **Confidential Appendix 4**).

The verification team recommends that in the event that the case management team finds a particular market situation then constructs the normal values under section 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 section 6 above.

## **8 DUMPING MARGIN**

As detailed in section 4 above, noting that Hongshun did not export the goods to Australia under consideration during the review period, the ascertained export price has been determined under section 269TAB(3) having regard to all relevant information, being equal to the normal value.

Subject to further enquiries by the case management team, the verification team therefore recommends that any interim dumping duty (IDD) be calculated in accordance with the floor price duty method. For this review, as Hongshun's ascertained export price is taken to be equal to the ascertained normal value, the dumping margin is not applicable, being zero per cent. A variable component of IDD may be applicable where the actual export price is below the ascertained normal value.

The verification team's preliminary export price and dumping margin calculation is at **Confidential Appendix 5**.

## 9 SUBSIDIES

### 9.1 Less than adequate remuneration

The verification team assessed Hongshun's raw materials listing for HRC and compared its HRC prices between state invested enterprise (SIE) and non-SIE suppliers. 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**.

### 9.2 Tax benefits

The verification team verified the income tax information provided in the REQ by reconciling the information to the tax returns. 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**.

### 9.3 Financial Grants

The verification team verified the reliability of the financial grants to source documents. 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**.

### 9.4 Preferential interest rate/loans

The verification team verified the reliability of the financial loans listing provided in the REQ by reconciling the listing down to source documents. 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**.

### 9.5 Subsidy margin

The verification team found that Hongshun received a benefit in relation to the following program:

Program name	Program Type
Enterprise support fund	Grant

**Table 7 Summary of subsidy program during the review period**

On the basis that the case management team finds these programs to be countervailable subsidies, the verification team has calculated a preliminary subsidy margin for Hongshun during the review period to be **0.2 per cent**.

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

**10 APPENDICES AND ATTACHMENTS**

<b>Confidential Appendix 1</b>	Export price
<b>Confidential Appendix 2</b>	Cost to make and sell
<b>Confidential Appendix 3</b>	Domestic sales, OCOT and profitability
<b>Confidential Appendix 4</b>	Normal Value
<b>Confidential Appendix 5</b>	Export price and dumping margin
<b>Confidential Appendix 6</b>	Subsidy Margin
<b>Confidential Attachment 1</b>	Verification work program
<b>Confidential Attachment 2</b>	Replacement costs benchmark