



## Exporter Verification Report

### Verification & Case Details

<b>Initiation Date</b>	1/10/2019	<b>ADN:</b>	2019/122
<b>Case Number</b>	527		
<b>The goods under consideration</b>	Resealable Can End Closures		
<b>Case type</b>	Review of Measures		
<b>Exporter</b>	Federal Metal Printing Factory Sdn Bhd		
<b>Location</b>	Desktop		
<b>Review Period</b>	30/09/2018 to 1/10/2019		

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**

Federal Metal Printing Factory Sdn Bhd (Federal Metal) is 100% owned by Kian Joo Can Factory Berhad (KJCFB) (holding company).

Federal Metal's principal activities are metal printing, manufacturing and distribution of tin cans and containers.

During the review period, Federal Metal manufactured resealable can end closures (TRFs), the goods subject to this review (the goods), and sold it to Australia through its related trading company, KJ Can (Singapore) Pte Ltd (KJ Can).

### **1.2 Related Parties**

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

#### **1.2.1 Related suppliers**

Federal Metal purchased supplies for the TRFs from KJCFB, its holding company.

#### **1.2.2 Related customers**

During the review period, Federal Metal made domestic sales to its related company, KJCFB. KJCFB is the holding company of Federal Metal.

### **1.3 Accounting records**

Federal Metal's audited financial statement was audited by BDO PLT and includes a statement that the financial accounts comply with Section 266 of the Companies Act in Malaysia.

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

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

### **2.1 Production Process**

The TRF production process is as follows:

- The body of the can is cut from sheet (slitting process)
- The tops and ends are punched from sheet (punching process)
- taggers and rings are assembled onto the TRF; and
- the inside of the TRF is lined.

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

Federal Metal provided sales and cost data in its response to the exporter questionnaire (REQ) in accordance with the model control code (MCC) structure.

#### **2.2.1 Amendments to MCCs**

Based on analysis of the price comparability of the goods under consideration, the verification team considers it is not necessary to make amendments to the MCC structure.

### **2.3 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
diameter	TRFs are sold based on diameter size. The size of each TRF is detailed on invoices.

**Table 1 MCC sub-category determination**

### **2.4 The goods exported to Australia**

The verification team was satisfied that Federal Metal produced and exported the goods to Australia via its trading company, KJ Can. Federal Metal exported the goods to Australia with the following MCCs during the period:

127mm
153mm

**Table 2 List of MCCs exported to Australia**

## 2.5 Like goods sold on the domestic market

The verification team was satisfied that Federal Metal 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 not distinguished from the exported goods during production (the exported goods and goods sold on the domestic market 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;
- the goods 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.

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

127mm
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Table 3 MCC sold domestically

## 2.6 Like goods – assessment

The verification team considers that the goods produced by Federal Metal 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>1</sup>

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

<h3 style="margin: 0;">3 VERIFICATION OF SALES COMPLETENESS AND RELEVANCE</h3>
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Verification of relevance and completeness is conducted by reconciling selected data submitted "upwards" through management accounts up to audited financial accounts. The total sales value and quantity is reconciled to management reports with particular attention given to ensuring that all relevant transactions are included and irrelevant transactions are excluded. The total value from the management reports is then reconciled to the total revenue figure reported in the audited income statement.

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

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

- Federal Metal provided its audited financial statement for 2018 (January to December). It also provided the income statement for September 2019 which showed the net sales for January to September 2019; and January to September 2018.
- By deducting the January to September 2018 sales from the audited 2018 January to December 2018 revenue, the October to December 2018 sales figure was obtained. This figure was added to the 2019 January to September sales revenue to obtain the revenue in the review period.
- For the review period, Federal Metal provided a direct download from its accounting system which reported sales revenue for all of its products. TRFs falls into the "component" category.
- Federal Metal demonstrated how it extracted the sales information for TRFs from its system.

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

### 3.1 Exceptions during verification of sales completeness and relevance

No.	Exception	Resolution
1	While Federal Metal's response to the REQ stated it did not make any domestic sales of the goods. During the verification, it became apparent that Federal Metal did have domestic sales.	Federal Metal provided a domestic sales listing.

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

### **3.2 Sales completeness and relevance finding**

The verification team is satisfied that the sales data provided by Federal Metal, including any required amendments as outlined in the exception table above, is complete and relevant.

## **4 VERIFICATION OF SALES ACCURACY**

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

The verification team verified accuracy of the export and domestic sales listings submitted in the REQ by reconciling these to source documents in accordance with ADN No. 2016/30.

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

### **4.1 Exceptions during verification of sales accuracy**

<b>No.</b>	<b>Exception</b>	<b>Resolution</b>
2	Federal Metal did not report any packaging costs in its export sales listing.	Federal Metal provided the packaging costs details and updated the export sales listing. This was verified to Federal Metal's accounting system.
3	For one export sale, Federal Metal did not report any freight costs in its export sales listing.	Federal Metal was unable to provide the actual costs incurred for this shipment. The verification team allocated freight costs using the weighted average costs from verified sales.

**Table 1 Exceptions during verification of accuracy of sales data**

### **4.2 Sales accuracy finding**

The verification team is satisfied that the sales data provided by Federal Metal, including any required amendments as outlined in the exception tables above, is accurate. Details of this verification process are contained in the verification work program and its relevant attachments, at **Confidential Attachment 1**.



## 5 VERIFICATION OF 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 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 were excluded or should be excluded.

The verification team verified the completeness and relevance of the cost to make and sell (CTMS) information provided in the REQ by reconciling it to audited financial statements in accordance with ADN No. 2016/30.

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

- Federal Metal provided its audited financial statement for 2018 (January to December). It also provided the income statement for September 2019 which showed the total cost of sales for January to September 2019 and January to September 2018. By deducting the January to September 2018 sales from the audited 2018 January to December 2018 costs, the October to December 2018 sales figure was obtained. This figure was added to the 2019 January to September costs to obtain the cost figure in the review period.
- For the review period, Federal Metal provided a direct download from its accounting system which reported the cost of production for all of its products. TRFs falls into the "component" category.
- When reconciling the cost of production to the cost of goods sold over the period, Federal Metal reported a variance. Federal Metal explained that this was derived from Manufacturing variance and carriage outward for the review period.
- Federal Metal demonstrated how it extracted the cost information for TRFs from its system.

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

- Federal Metal provided a trial balance for SG&A which reconciled to the audited profit and loss statement with no variance.

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**

<b>No.</b>	<b>Exception</b>	<b>Resolution</b>
4	As Federal Metal’s response to the REQ stated it did not make any domestic sales of the goods, it did not provide a domestic CTMS listing. During the verification, it became apparent that Federal Metal did have domestic sales.	Federal Metal provided a domestic CTMS listing.

**Table 2 Exception 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 Federal Metal, including any required amendments as outlined as an exception, is complete and relevant.

## 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 3 below outlines the allocation method applied to each cost item.

Cost item	Method applied
Raw Materials	Raw material costs are allocated based on production quantity.
Scrap Allocation	Federal Metal advised that no scrap was produced during the production of TRFs.
Manufacturing Overheads, including depreciation	Manufacturing overheads costs, including depreciation, are allocated based on production hours.
Labour	Labour costs are allocated based on production hours.

Table 3 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.

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

Federal Metal purchased raw materials from a related party during the review period.

Federal Metal's explained that in Malaysia, the transfer pricing act applies to all goods sold and purchased within related companies. Federal Metal advised that purchases are made at independent market prices.

#### **6.4 Accuracy finding**

The verification team is satisfied that the CTMS data provided in the REQ by Federal Metal is accurate and reasonably reflect the costs associated with the production and sale of the goods under consideration.

## 7 EXPORT PRICE

### 7.1 The importer

The verification team considers Federal Metal's Australian customer, Visy Packaging, to be the beneficial owner of the goods at the time of importation and therefore the importer as Visy Packaging is:

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

In relation to the goods exported by Federal Metal through KJ Can 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 Federal Metal to be the exporter of the goods<sup>2</sup>, as Federal Metal 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;
- arranges and pays for the ocean freight and marine insurance;

The verification team is satisfied that for all Australian export sales during the period that Federal Metal was the exporter of the goods.

### 7.3 Arms length

#### 7.3.1 Unrelated customers

In respect of Federal Metal's Australian sales of the goods to its unrelated customer 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

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<sup>2</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.

- the price appeared to be 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>3</sup>

The verification team therefore considers that all export sales made by Federal Metal through its related trader KJ Can to its unrelated Australian customer during the period were not treated as arms length transactions.

#### **7.4 Export Price – assessment**

In respect of Australian sales of the goods by Federal Metal, the verification team found that the importer has not purchased the goods from the exporter, therefore, export prices cannot be determined under sections 269TAB(1)(a) or 269TAB(1)(b). The verification team recommends that the export price be calculated under section 269TAB(1)(c) having regard to all the circumstances of the exportation. Specifically, the verification team recommends that the export price be calculated based on the price paid to the exporter less transport and other costs arising after exportation.

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

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<sup>3</sup> Section 269TAA refers.

## 8 DOMESTIC SALES

Section 269TAC(1) provides the general rule for calculating normal value. For sales to be relevant for the purpose of section 269TAC(1), they must be sales of like goods sold in the exporter's domestic market for home consumption that are at arms length and in the ordinary course of trade (OCOT).

### 8.1 Arms length

#### 8.1.1 Related party customers

In respect of Federal Metal's domestic sales of like goods to its related customer 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 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>4</sup>

However, the verification team found evidence that the price appeared to be 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 as domestic sales were not profitable.

The verification team therefore considers that all domestic sales made by Federal Metal to its related customer during the period were not treated as arms length transactions, pursuant to section 269TAA(1)(b).<sup>5</sup>

### 8.2 Ordinary course of trade

Section 269TAA D states that domestic sales of like goods are not in the OCOT if arms length transactions are:

- unprofitable in substantial quantities over an extended period; and
- unlikely to be recoverable within a reasonable period.<sup>6</sup>

As all of the domestic sales were found to be non-arms length, it was not necessary for the verification team to determine whether they were in the OCOT.

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<sup>4</sup> Section 269TAA of the Act refers.

<sup>5</sup> The Commission notes that the finding in this report that the sales to domestic customers did not take place on an arms length basis relates to the assessment of export prices for anti-dumping purposes under section 269TAC. It is not an assessment of the exporter's transfer pricing policy with respect to compliance with the revenue laws of any jurisdiction.

<sup>6</sup> In general, the Commission will consider 'extended period' and 'reasonable period' to be the investigation, review or inquiry period.

### 8.3 Volume of relevant sales

There are no relevant domestic sales, as the verification team has treated all domestic sales to be not arms length.

### 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).

Section 45(2) of the Regulation states that profit must be worked out using data relating to the production and sale of like goods by the exporter in the ordinary course of trade. In addition to not being at arms length, all domestic sales were unprofitable, and the verification team considers that those domestic sales were not in the ordinary course of trade. Therefore section 45(2) is not available.

The verification team has calculated an amount for profit based on the actual amounts realised by the exporter from the sale of the same general category of goods in the domestic market in accordance with section 45(3)(a) of the Regulation. For the purposes of the verification, goods taken to be of the same general category are components of cans.

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 free-on-board (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	Federal Metal offered credit terms for its domestic customer.	The credit rate is based on the borrowing rate as listed in Federal Metal's audited financial report.	N	Y
Export credit terms	Federal Metal through KJ Can offered credit terms for its Australian customer.	The credit rate is based on the borrowing rate as listed in Federal Metal's audited financial report.	N	Y
Export inland transport and handling	Federal Metal through KJ Can incurred inland transport expenses for all Australian sales.	Weighted average cost based on a standard unit cost per piece and the actual sales quantities listed in the export sales listing.	N	Y
Export packaging	Federal Metal through KJ Can incurred packaging cost for all Australian sales.	Weighted average cost based on a standard unit cost per piece and the actual sales quantities listed in the export sales listing.	Y	Y
Export sales commission	Federal Metal's export sales are made through a related trading company- Kian Joo (KJ Can).	The rate of the export commission is based on the commission achieved by KJ Can as evidenced through invoices.	N	Y

Table 8 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>
Domestic credit terms	Deduct an amount for domestic credit
Export credit terms	Add an amount for export credit terms
Export packaging	Add an amount for export packaging
Export inland transport and handling	Add an amount for export inland transport and handling
Export sales commission	Add an amount for export sales commission

**Table 9 Summary of adjustments**

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

## 10 NORMAL VALUE

The verification team is satisfied that because of the absence of sales of like goods in the market of the country of export that would be relevant for the purpose of determining a price under section 269TAC(1), the normal value of goods exported to Australia for the above models and quarters cannot be ascertained under section 269TAC(1).

The verification team has therefore calculated a preliminary normal value under section 269TAC(2)(c) using the sum of:

- the cost to make the exported goods based on the company'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 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(3) of the Regulation.

In constructing normal values under 269TAC(2)(c), the verification team considers that certain adjustments in accordance with section 269TAC(9), are necessary to ensure that the normal value is properly comparable with export prices as outlined in chapter 0 above. The verification team's preliminary normal value calculations are at **Confidential Appendix 4**.

## 11 DUMPING MARGIN

The dumping margin was assessed by comparing weighted average Australian export prices to the corresponding quarterly weighted average normal value for the review period under section 269TACB(2)(a).

The dumping margin for the goods exported to Australia by Federal Metal through KJ Can for the period is **11.6 per cent**.

The preliminary dumping margin calculation is at **Confidential Appendix 5**.

**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>	Profit
<b>Confidential Appendix 4</b>	Normal Value
<b>Confidential Appendix 5</b>	Dumping Margin
<b>Confidential Attachment 1</b>	Verification work program