



## Exporter Verification Report

### Verification & Case Details

<b>Initiation Date</b>	17 February 2020	<b>ADN:</b>	2020/013
<b>Case Number</b>	542		
<b>The goods under consideration</b>	Aluminium Micro-Extrusions		
<b>Case type</b>	Investigation		
<b>Exporter</b>	Guangdong Zhongya Aluminium Co. Ltd.		
<b>Verification</b>	Desktop Verification		
<b>Investigation Period</b>	1 January 2019 <b>to</b> 31 December 2019		

# ONTENTS

<b>ONTENTS</b> .....	<b>2</b>
<b>PREFACE</b> .....	<b>3</b>
<b>1 COMPANY BACKGROUND</b> .....	<b>4</b>
1.1 CORPORATE STRUCTURE AND OWNERSHIP.....	4
1.2 RELATIONSHIP BETWEEN GUANGDONG ZHONGYA AND ZHONGYA HK .....	4
1.3 RELATED PARTIES.....	5
1.4 ACCOUNTING RECORDS .....	5
<b>2 THE GOODS AND LIKE GOODS</b> .....	<b>6</b>
2.1 PRODUCTION PROCESS .....	6
2.2 MODEL CONTROL CODES (MCCs) .....	6
2.3 THE GOODS EXPORTED TO AUSTRALIA .....	7
2.4 LIKE GOODS SOLD ON THE DOMESTIC MARKET .....	7
2.5 LIKE GOODS – ASSESSMENT .....	8
<b>3 VERIFICATION OF SALES COMPLETENESS AND RELEVANCE</b> .....	<b>9</b>
3.1 SALES COMPLETENESS AND RELEVANCE FINDING.....	10
<b>4 VERIFICATION OF SALES ACCURACY</b> .....	<b>11</b>
4.1 EXCEPTIONS DURING VERIFICATION OF SALES ACCURACY .....	11
4.2 SALES ACCURACY FINDING.....	11
<b>5 VERIFICATION OF COST TO MAKE AND SELL (CTMS) COMPLETENESS AND RELEVANCE</b> .....	<b>12</b>
5.1 EXCEPTIONS DURING VERIFICATION OF COMPLETENESS AND RELEVANCE OF CTMS DATA.....	14
5.2 COMPLETENESS AND RELEVANCE FINDING OF CTMS DATA.....	14
<b>6 VERIFICATION OF COST TO MAKE AND SELL (CTMS) ACCURACY</b> .....	<b>15</b>
6.1 COST ALLOCATION METHOD .....	15
6.2 VERIFICATION OF ACCURACY OF CTMS DATA .....	15
6.3 RELATED PARTY SUPPLIERS .....	16
6.4 ACCURACY FINDING .....	16
<b>7 EXPORT PRICE</b> .....	<b>17</b>
7.1 THE IMPORTERS.....	17
7.2 THE EXPORTER.....	17
7.3 ARMS LENGTH.....	17
7.4 EXPORT PRICE – ASSESSMENT.....	18
<b>8 DOMESTIC SALES SUITABILITY</b> .....	<b>19</b>
8.1 ARMS LENGTH .....	19
8.2 ORDINARY COURSE OF TRADE .....	19
8.3 SUITABILITY OF DOMESTIC SALES .....	20
8.4 PROFIT.....	20
<b>9 ADJUSTMENTS</b> .....	<b>22</b>
9.1 RATIONALE AND METHOD .....	22
9.2 ADJUSTMENTS.....	22
<b>10 NORMAL VALUE</b> .....	<b>24</b>
<b>11 DUMPING MARGIN</b> .....	<b>25</b>
<b>12 APPENDICES AND ATTACHMENTS</b> .....	<b>26</b>

## PREFACE

This report details the findings, analysis, evidence relied upon and reasoning on key verification outcomes of data submitted to the Anti-Dumping Commission (Commission) by the verification team for publication on the public record.

It provides interested parties with information regarding all material aspects of the verification, including explanations of any material issues identified during the verification. It outlines the nature, extent and consequences of any changes made to the data submitted, including data corrections made by the company or by the verification team.

Verification teams are authorised to conduct verifications under section 269SMG and 269SMR 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.

# 1 COMPANY BACKGROUND

## 1.1 Corporate Structure and Ownership

Guangdong Zhongya Aluminium Company Limited (Guangdong Zhongya or the company) is a limited liability company (or wholly foreign owned enterprise) located in Asia Aluminium Industrial City, New and High-Tech Industrial Development Zone, Zhaoqing, Guangdong, P.R. China (China). Guangdong Zhongya is owned by two Hong Kong companies, being Karlton Aluminium Company and Zhongya Shaped Aluminium (HK) Holding Limited (Zhongya HK).

Guangdong Zhongya is a producer of aluminium extrusions with different finishes. Guangdong Zhongya sells the products on the domestic market and exports through its affiliated trading company, Zhongya HK.

## 1.2 Relationship between Guangdong Zhongya and Zhongya HK

Zhongya HK is a trading company for Guangdong Zhongya. It acts as the trading platform for Guangdong Zhongya's export sales.

During the verification, it became apparent that:

- Guangdong Zhongya and Zhongya HK share the same management team;
- Guangdong Zhongya has the main manufacturing premises, is the producer of the goods, and a principal in the transaction. It is located in the country of export from where the goods are shipped and gives up responsibility by knowingly placing the goods in the hands of a carrier, courier, forwarding company or its own vehicle for delivery to Australia;
- Guangdong Zhongya is therefore responsible for assisting with much of the logistical process in shipping the goods; it takes carriage of sourcing and allocating raw materials for production of the extrusions and controls its own production activities;
- Guangdong Zhongya is aware of all price negotiations between Zhongya HK and its customers;
- Zhongya HK is responsible for receiving purchase orders and acts as Guangdong Zhongya's agent in all export sales transactions by receiving orders and negotiating prices;
- Zhongya HK reimburses Guangdong Zhongya on an ongoing and ad hoc basis.

As noted in the Commission's Dumping and Subsidy Manual (the Manual), 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. Typically, the manufacturer of the goods who knowingly exported the goods will be the exporter.

For all Australian export sales during the investigation period, the verification team considers Guangdong Zhongya to be the exporter of the goods. Further details are found at chapter 7.2.

## **1.3 Related Parties**

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

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

### **1.3.1 Related suppliers**

The verification found that the company only purchased raw materials from unrelated suppliers during the investigation period.

### **1.3.2 Related customers**

The verification team found that, during the investigation period, Guangdong Zhongya only made domestic sales of the goods to unrelated parties.

## **1.4 Accounting records**

Guangdong Zhongya provided audited financial statements which were prepared on an accrual basis and in accordance with historical cost convention. The accounting period of the company is the calendar year from 1 January to 31 December. Guangdong Zhongya also complies with the taxation bureau's mandatory reporting requirements by providing quarterly financial statements.

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

## 2 THE GOODS AND LIKE GOODS

### 2.1 Production Process

Guangdong Zhongya purchases aluminium ingot, which undergoes the following process to produce the goods and like goods.

- Aluminium ingot is smelted and cast/extruded into aluminium bar.
- Aluminium bar then goes through a quenching and aging process.
- Mill - Aluminium bar is then heated and extruded through a die to produce an aluminium extrusion of the desired shape.
- Finishing – the aluminium extrusions are then either:
  - Anodized – with some going through electrophoresis
  - Coated – powder coated, chromated
  - Further processed (punching, cutting, insulating etc.) or packed for distribution.

### 2.2 Model Control Codes (MCCs)

The Commission determined the model control code (MCC) structure outlined in the following tables below to capture the parameters of the goods description. The proposed MCC structure is detailed in Anti-Dumping Notice (ADN) No. 2020/013.<sup>2</sup>

Guangdong Zhongya provided sales and cost data in its response to the exporter questionnaire (REQ) in accordance with the model control code (MCC) structure detailed in ADN No. 2020/013.

Category	Determination of the sub-category
Form	Whether the goods are fly screen or hollow. (F or H)
Finish	Aluminium extrusions exported to Australia during the investigation period were classified into the following three types: mill finished, anodized and coated (powder coated). (M, A, or P) Aluminium extrusions sold domestically during the investigation period were classified into the following four types: mill finished, anodized, coated and electrophoresis.
Grade	For all aluminium extrusions exported to Australia and sold domestically, the International Alloy Designation System (IADS) alloy code for aluminium used in manufacture were 6063 and the aluminium heat temper grade were T5.

Table 1 MCC Sub-Category determination

Product Code	MCC		
	Form	Finish	Steel grade
FP	Flyscreen	Coated	6063/T5
HM	Hollow	Mill Finish	6063/T5

Table 2 MCC mapping

<sup>2</sup> [ADN 2020/013](#) refers

### 2.2.1 Amendments to MCCs

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

## 2.3 The goods exported to Australia

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

<b>MCCs exported to Australia</b>
FA
HA
FM
HM
FP
HP

**Table 3 MCC's exported to Australia**

## 2.4 Like goods sold on the domestic market

The verification team was satisfied that Guangdong Zhongya 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;
- 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.

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

<b>MCCs sold domestically</b>
HA
HE*
HM
HP

**Table 4 MCC's sold domestically**

\*HE-Electrophoresis is a kind of face treatment for aluminium extrusions. As with anodizing and painting, the electrophoresis finish is applied to mill finished extrusions. Guangdong Zhongya also produce a heat insulation extrusion, which is a downstream product of anodized, painted and electrophoresis extrusions. It is further processed by adding heat insulation materials (such as PVC or nylon) between the aluminium extrusions.

Guangdong Zhongya only sell electrophoresis and heat insulated aluminium extrusions into its domestic market. No heat insulated extrusions within the micro-extrusion goods description were exported during the investigation period.

## **2.5 Like goods – assessment**

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

### 3 VERIFICATION OF SALES COMPLETENESS AND RELEVANCE

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

During the remote verification, the exporter submitted revised sales listings of those provided in the REQ for export sales. The changes made were minor and are detailed in chapter 4. Minor amendments were made to the sales value or quantity in these revised listings.

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

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

#### General category goods-Aluminium extrusions

- Using income statements from 2019, the total company revenue was reconciled for the investigation period.
- This amount was then reconciled through to the principle revenue ledger.
- Using this revenue ledger, the verification team was then able to reconcile sales value and quantity to the general category of goods, domestic sales, Australian sales and third country sales.

There was a slight variation due to timing differences, which was deemed as immaterial.

#### Goods under consideration

The verification team understands that the GUC is a subset<sup>3</sup> product group of general aluminium extrusions of all sizes. Both have been classified under the same tariff code. The exporter normally sells the goods within its general aluminium product range to both domestic and overseas customers.

In order to reconcile the value and volume of the GUC, during the verification Guangdong Zhongya explained that in identifying the goods, they followed the following process:

- Filtered its warehouse information management system for the GUC classification.
- Filtered its product drawing/design system to confirm those goods that fall within the GUC classification and using these product codes to identify the GUC.
- Filtered its manufacturing and delivery system by the GUC product codes and matching this to warehouse information.
- Reconciled the sales ledger and related source documents to confirm the related sale.

A substantial amount of source documents have been provided to the verification team to ensure the classification of the GUC was accurate and reliable. A small number of goods were identified on invoices that had not been recorded in the sales listing. Further details are provided in chapter 4.

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<sup>3</sup> Case 542 [Consideration report](#) page 29 refers.

Based on the information available, the verification team did not identify any significant 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**

Based on the information available, the verification team is satisfied that the sales data provided by Guangdong Zhongya 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 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**.

### 4.1 Exceptions during verification of sales accuracy

No.	Exception	Resolution
1	In Australian sales listing, all trading term were showing as EXW, given all shipments were from Guangdong Zhongya to Australia and invoices were from Zhongya HK to Australia, details regarding inland transportation, marine insurance and handling charges need to be listed.	Additional columns added to the sales listing to report the costs for inland transportation, marine insurance and handling charges. This demonstrates the responsibilities of the two entities, being Guangdong Zhongya and Zhongya HK.
2	A small number of invoices were not included in the export sales listing.	The revised sales listing was amended to contain these transactions.

Table 5 Exceptions during verification of accuracy of sales data

### 4.2 Sales accuracy finding

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

### General category goods-Aluminium extrusions

- The verification team traced the total costs in the cost listing through monthly statements of amounts and balances in the financial records, to reconcile to the audited financial statements of 2019.
- The verification team reconciled the cost of goods sold to the cost to make (CTM) in the investigation period through finished goods ledger balances.
- The verification team is satisfied that domestic and export CTM is largely the same regardless of the market of the end customer.
- Using income statements from 2019, the total company revenue was reconciled for the investigation period.
- Using the revenue ledger, the verification team was then able to reconcile sales value and quantity to the general category of goods, domestic sales, and Australian sales.

### Goods under consideration

The verification team understands that the GUC is a subset<sup>4</sup> product group under general aluminium extrusions. As a result the exporter costs the goods within its general aluminium product range to customers both domestic and overseas.

In order to reconcile the CTM of the GUC, during the verification, Guangdong Zhongya explained that:

- Guangdong Zhongya has 37 aluminium extrusion machines. There are two small 600T extruders, which are only used to produce the GUC, whether in the form of hollow profiles (subject goods) or solid profiles (non-subject goods).
- As the 600T extruders run slower than Guangdong Zhongya's larger extruders, the production time for aluminium micro-extrusions is longer than larger aluminium extrusions. Therefore, the output of aluminium micro-extrusions will be less than the normal aluminium extrusions within the same production time.
- Based on the yearly production of micro-extrusions through the two 600T extruders, and the yearly production of other aluminium extrusions through the other 35

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<sup>4</sup> Case 542 [Consideration report](#) page 29 refers.

extruders, the company calculated a coefficient which is used for cost allocation between micro-extrusions and normal extrusions.

- By using the product drawings of extrusions weighing less than 200 grams per metre in length and by manual review, the company selected those micro-extrusions in the form of hollow profiles, Guangdong Zhongya then compiled data together to calculate the output of subject goods.
- Guangdong Zhongya then allocated the raw material and supplementary materials based on production quantity of the goods under the same product category with the same surface treatment.
- The coefficient, to allow for the production time of the GUC, was then applied to allocate labour and manufacturing overheads at the mill extrusion stage, to reach the reported data for labour and manufacturing overheads for the GUC.

By exercising this coefficient methodology, based on production quantity, the verification team was able to reconcile costs upwards to all aluminium extrusions and then reconcile downwards to the cost allocations for the GUC.

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

- Guangdong Zhongya 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 2019 audited financial statements.
- Zhongya HK's SG&A has also been verified for the same method.
- The verification team identified the issues outlined below during this process. Details of this verification process are contained in the verification work program and its relevant attachments, at **Confidential Attachment 1**.

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
3	Natural gas was incorrectly allocated at the mill finish stage, as it had not been adjusted to account for the additional machine time required for the GUC.	The exporter provided a revised CTM listing with the correct cost allocation for natural gas as a manufacturing overhead at the mill finishing stage. This resulted in this cost element being allocated correctly by production quantity of the specific extruders used to produce the GUC.
4	The allocation for manufacturing overheads, direct labour and other materials was incorrectly applied to the CTM for downstream MCC's in the finishing workshop stage (anodized, powder coated and electrophoresis). The CTM incorrectly accounted for a longer finishing process per production quantity for the GUC.	The exporter provided a revised CTM listing and supporting documentation to the individual workshop level. This correctly allocated the costs for manufacturing overheads, direct labour and other materials for the finishing workshops based on all extrusions and not just the GUC.
5	Powder coated product that had been finished by an outsourced supplier were excluded from the CTM data.	The verification team adjusted the CTM to include the outsourced powder coated finished goods. However, it is noted that these only make up a small proportion of all powder coated goods, and therefore the change is minimal.
6	The verification team identified that the exporter had included exchange rate gains (a negative expense) and some freight costs related to exports in its domestic SG&A expenses.	The visit team removed this expense from the SGA listing and the domestic SG&A calculation.

**Table 6 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 Guangdong Zhongya, including any required amendments as outlined as an exception above 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 7 below outlines the allocation method applied to each cost item.

Cost item	Method applied
Raw Materials	Raw material costs are recorded based on actual monthly consumption incurred by each production department/workshop and allocated to each MCC based on production quantity as evidenced by monthly production reports generated by the cost accounting system.
Direct Labour	<p>Direct labour costs are recorded directly by workshop. This is on an actual basis as evidenced by monthly production reports generated by the cost accounting system.</p> <p>For goods that require finishing downstream (anodized, powder coated or electrophoresis), direct labour for the input material, mill finish extrusion, is already included in the input price for mill finish. Additional labour costs for the finishing process is then booked directly to the workshop based on hours.</p> <p>When allocating direct labour to mill finish for those goods under consideration, the coefficient is applied. This is to account for the longer machine time to produce the GUC, and the promotional cost based on the production quantity.</p> <p>There is no difference in the labour cost for Domestic and Export.</p>
Overheads (including equipment repairs, repair parts, mould allocation costs and depreciation)	Overhead costs are recorded based on an actual incurred basis. When allocating for the GUC, the coefficient was applied to account for the consumption proportion.
Utilities (electricity, water, and gas)	Utilities costs are recorded based on actual monthly consumption incurred by each production department/workshop as evidenced by monthly production reports generated by the cost accounting system. When allocating utilities for the GUC, the coefficient was applied to account for the additional consumption proportion.
Scrap Allocation	Manufacturing scrap was recycled in each workshop by being put back into the production process. The value of scrap is offset against the raw material of each product and reported in the CTM data.

**Table 7 Cost allocation method**

### 6.2 Verification of Accuracy of CTMS data

The accuracy of the data is verified by reconciling selected data submitted "downwards" to source documents. This part of verification involves the process of reconciling 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**

Guangdong Zhongya only purchased materials from unrelated parties during the investigation period.

### **6.4 Accuracy finding**

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

## **7 EXPORT PRICE**

### **7.1 The importers**

The verification team considers Guangdong Zhongya'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;
- pays for all the importation charges; and
- arranges delivery from the port.

In relation to the goods exported by Guangdong Zhongya 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 Guangdong Zhongya to be the exporter of the goods<sup>5</sup>, as Guangdong Zhongya:

- manufactured the goods exported to Australia;
- is located in the country of export from where the goods were shipped;
- knowingly placed the goods in the hands of a carrier, courier or forwarding company for delivery to Australia.

Whilst Zhongya HK is significantly involved in the transaction process, it is essentially acting as a facilitator or agent for Guangdong Zhongya in the sale and shipment of the goods. The verification team is satisfied that for all Australian export sales during the period that Guangdong Zhongya was the exporter of the goods.

### **7.3 Arms length**

#### **7.3.1 Related party customers**

The verification team is satisfied that Guangdong Zhongya did not sell goods to related customer in Australia.

In respect of Guangdong Zhongya'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

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<sup>5</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 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.

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

In respect of Australian sales of the goods by Guangdong Zhongya (via Zhongya HK), 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. To ensure a fair comparison to the normal value, trader to importer deductions were considered, and the verification team recommends that the export price be calculated on an ex-works (EXW) basis.

Specifically, for the purposes of this verification, the export price is considered to be the price paid or payable by the Australian importer, less relevant costs including:

- handling and transport costs applicable to certain sales;
- the costs of Zhongya HK;
- the profit of Zhongya HK; and
- invoice fees incurred by Zhongya HK.

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

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<sup>6</sup> Ibid.

## 8 DOMESTIC SALES SUITABILITY

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

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

In respect of Guangdong Zhongya'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 Guangdong Zhongya to its unrelated domestic customers during the period were arm's length transactions.

### 8.2 Ordinary course of trade

Section 269TAAD 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>7</sup>

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.

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<sup>7</sup> In general, the Commission will consider 'extended period' and 'reasonable period' to be the investigation, review or inquiry period.

## PUBLIC RECORD

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 8 OCOT details**

The application for the investigation has claimed that Guangdong Zhongya's records do not reasonably reflect competitive market costs associated with the production or manufacture of like goods. The Commission is currently considering this claim. Therefore, the final assessment of whether domestic sales are in the OCOT has been referred to the case management team for consideration.

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

Section 269TAC(2) provides alternative methods for calculating the normal value of goods exported to Australia where there is an absence, or low volume, of relevant sales of like goods in the market of the country of export. An exporter's domestic sales of like goods are taken to be in a low volume under section 269TAC(14) where the total volume of sales of like goods for home consumption in the country of export by the exporter is less than five per cent of the total volume of the goods under consideration that are exported to Australia by the exporter (unless the Minister is satisfied that the volume is still large enough to permit a proper comparison for the purposes of assessing a dumping margin).

The verification team have collected the necessary data to conduct a volume analysis, based on the reported costs and sales at the time of verification. The application has claimed that the market in the country of export is such that sales in that market are not suitable for use in determining a normal value under section 269TAC(1) (section 269TAC(2)(a)(ii)). The application has also claimed that exporter's records do not reasonably reflect competitive market costs associated with the production or manufacture of like goods.

The Commission is currently considering these claims. Therefore, the verification team has referred consideration of the volume of relevant sales to the case management team.

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 chapter 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).

## PUBLIC RECORD

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 EXW terms, the verification team has considered the following adjustments in accordance with section 269TAC(9).

### **9.1 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 packaging	Guangdong Zhongya makes export packing trolleys in house and the cost was reflected in the cost of production.	The verification team found there was no difference in packaging between sales to domestic and Australian customers.	N	N
Export credit terms	Payment terms were different for export customers compared to domestic customers.	The actual credit days that applied to export customers and the average short term interest rate for the investigation period.	Y	Y
Export Commission	Commission was paid on a proportion of export sales for export custom declaration procedure.	Based on the amount of sales (volume and value) and commission rate, a percentage was applied to adjust the normal value.	N	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 rates less VAT refund. Applied to 2019-Q1 as the remaining quarters during the investigation period received a full VAT refund.	N	Y

**Table 9 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.

## PUBLIC RECORD

<b>Adjustment Type</b>	<b>Deduction/addition</b>
Export credit terms	Add an amount for export credit terms
Export commission	Add an amount for export commission
Non-refundable VAT	Add an amount for non-refundable VAT for 2019-Q1

**Table 10 Summary of adjustments**

The verification team's preliminary adjustment calculations are included in normal value calculations at **Confidential Appendix 3**.

## 10 NORMAL VALUE

As stated in chapter 8, the application has claimed that the situation in the market in the country of export is such that sales in that market are not suitable for use in determining a normal value under section 269TAC(1) (section 269TAC(2)(a)(ii)). Where section 269TAC(2)(a)(ii) is satisfied, normal value may be constructed under section 269TAC(2)(c).

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 Guangdong Zhongya'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 Guangdong Zhongya'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 Guangdong Zhongya'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 0 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 Guangdong Zhongya 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.

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