



## Exporter Verification Report

### Verification & Case Details

<b>Initiation Date</b>	3/03/2020	<b>ADN:</b>	2020/020
<b>Case Number</b>	546		
<b>The goods under consideration</b>	Steel Reinforcing Bar		
<b>Case type</b>	Continuation Inquiry		
<b>Exporter</b>	Compania Espanola de Laminacion S.L.		
<b>Location</b>	Desktop verification		
<b>Verification from</b>	11/05/2020	<b>to</b>	2/07/2020
<b>Review Period</b>	1/01/2019	<b>to</b>	31/12/2019

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**

Compañía Española de Laminación, S.L. (Celsa), an integrated steel manufacturer, is wholly owned by Barna Steel S.A. Celsa is located in Barcelona, Spain. Celsa did not export any steel reinforcing bar (rebar) to Australia during the export period.

### **1.2 Related Parties**

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

#### **1.2.1 Related supplier**

A related company supplied Celsa with raw material during the review period.

#### **1.2.2 Related customer**

Celsa sold to a related domestic customer during the review period.

### **1.3 Accounting records**

Celsa's audited financial statement was audited by Ernst & Young and includes a statement that the financial accounts comply with the accounting principles approved by Royal Decree 1514/2007 of November 16, modified in 2016 through Royal Decree 602/2016 of December 2, and prevailing mercantile law in Spain.

The verification team considers that the accounting records held by the company are in accordance with the generally accepted accounting principles of Spain.

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

### **2.1 Production Process**

Celsa’s production process for rebar sold on the domestic market is as follows: raw materials (steel scrap and ferro alloys) are placed into the electric arc furnace (EAF) and melted. Liquid steel is transported to a continuous casting machine and billets are produced. The billets are transported to the rolling mill operations, where reheated billets are progressively reduced in thickness and shaped into the final product.

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

Celsa provided sales and cost data in its response to the exporter questionnaire in accordance with the model control code (MCC) structure detailed in Anti-Dumping Notice (ADN) No. 2020/02 with one amendment.

Celsa amended the nominal diameter subcategory to reflect Celsa’s product differentiation. Celsa provided a price list and invoices that demonstrated the amended MCC for diameter had an effect on price.

<b>Category</b>	<b>ADC MCC Sub-category</b>	<b>Celsa MCC</b>	<b>Celsa Identifier</b>
Nominal diameter (millimetres or “mm”)	Less than 12	Less than 12	A
	Greater than or equal to 12 and less than or equal to 16	12	B
		16	C
	Greater than 16 and less than or equal to 32	20	D
	Greater than 32 and less than or equal to 50	Above 20	E

**Table 1 Amended sub-category (diameter)**

Celsa provided sales and cost data for all mandatory and optional MCC categories.

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

Based on analysis of the price comparability of the goods under consideration, the verification team considers it necessary to make amendments to the MCC structure.

<b>No.</b>	<b>Exception</b>	<b>Resolution</b>
1	Celsa amended the nominal diameter subcategory to reflect Celsa’s product differentiation.	Celsa provided a price list and invoices that demonstrated the amended MCC for diameter had an effect on price.

**Table 2 Amendments to the MCCs**

### 2.3 Verification of MCCs

Table 3 below provides detail on how the MCC sub-categories were determined and verified to source documents.

Category	Determination of the sub-category
Prime/Non-Prime	Reconciliation to: <ul style="list-style-type: none"> <li>• Product code information;</li> <li>• Purchase orders</li> <li>• commercial invoices</li> <li>• packing lists; and</li> <li>• bill of lading (where relevant)</li> </ul>
Minimum yield strength	
Finished form	
Nominal diameter	
Length	
Deformation pattern along the length	All of Celsa's products are non-threaded as per Celsa's product catalogue.

**Table 3 MCC sub-category determination**

### 2.4 The goods exported to Australia

The verification team was satisfied that Celsa did not export the goods to Australia during the review period.

### 2.5 Like goods sold on the domestic market

The verification team was satisfied that Celsa 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 that Celsa have exported to Australia in previous periods, 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.

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

Domestic Sales MCC	
1	P-C-C-A-C-N
2	P-C-C-B-C-N
3	P-C-C-C-C-N
4	P-C-C-D-C-N

## PUBLIC RECORD

5	P-C-S-A-1-N
6	P-C-S-A-2-N
7	P-C-S-B-1-N
8	P-B-C-A-C-N
9	P-C-S-B-2-N
10	P-C-S-C-1-N
11	P-C-S-C-2-N
12	P-C-S-C-3-N
13	P-C-S-D-1-N
14	P-C-S-D-2-N
15	P-C-S-D-3-N
16	P-C-S-E-2-N

**Table 4 List of MCCs sold domestically**

### 2.6 Like goods – assessment

The verification team considers that the goods produced by Celsa 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.

### 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.

The verification team verified the completeness and relevance of the export and domestic sales listings provided in the Response to the Exporter 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:

- Celsa's financial year is the same as the investigation period. Celsa's 2019 audited statements were not ready at the time of verification so the verification team accepted the 2019 provisional statement. As Celsa has its books audited each year, the verification team considers it low risk to use the 2019 provisional statements in the absence of other information.
- Celsa provided screenshots showing the sales revenue from each category of steel products it produced during 2019. The verification team requested sample source documents to demonstrate products were correctly categorised.
- For rebar sold in the review period, Celsa provided screenshots from its accounting system to demonstrate that the domestic sales listing came from its system.

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

#### 3.1 Sales completeness and relevance finding

The verification team is satisfied that the sales data provided by Celsa 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**

No.	Exception	Resolution
2	Celsa's domestic spreadsheet provided in the REQ identified domestic customers based on the delivery document.	Celsa amended the domestic sales spreadsheet to include the customer details. The details of the customer matched the invoices for selected sales.

**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 Celsa, 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:

- Celsa's financial year is the same as the investigation period. As Celsa's 2019 audited statements were not ready at the time of verification, the verification team accepted the 2019 provisional statement. As Celsa has its books audited each year, the verification team considers it low risk to use the 2019 provisional statements in the absence of other information.
- Celsa provided screenshots of the change in finished goods and work in progress inventory ledger that linked to the trial balance and matched the 2019 provisional statement.
- Celsa advised that certain costs reported in the provisional statement were not applicable to the cost of production of goods. Celsa provided explanation for these items and how the figure was worked out in its accounting system from the cost centres.
- Celsa provided spreadsheets directly from its system that showed the cost to make of the different product groups during the review period.
- There was a variance that Celsa explained was due to the effect of end of year stock valuation. Celsa provided screenshots to demonstrate the change in stock values.
- There was an immaterial variance (<0.0001%) between the total domestic cost to make reported in the upwards costs reconciliation table and the domestic CTM. Celsa explained the small variation is related to the different allocation basis applied for the upwards costs reconciliation table.

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

- Celsa reconciled its SG&A listing to its 2019 provisional statement.
- Celsa reported direct selling expenses and noted that some ledgers are partially direct selling expenses and explained the basis of classification. Celsa provided screenshots from its SAP system showing the direct SG&A expenses.

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>
3	During the verification, Celsa identified a reporting error in the CTM listing.	Celsa provided an updated domestic cost to make listing. The difference between the CTM provided in the REQ and the updated CTM is less than 1%. The verification team examined the SAP screenshots and is satisfied that the updated CTM is directly from the system.

**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 exporter questionnaire response by Celsa, 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	Celsa allocated raw material to each MCC based on unit costs and actual production levels. The verification team verified Celsa's production levels to the accounting system which is linked to the production systems and obtained invoices, proof of payment and ledgers for purchases of raw materials.
Scrap Allocation	Celsa advises that it does not sell scrap. It uses all the scrap it produces in the melting shop. The verification team verified the unit cost allocation of scrap to Celsa's accounting system and obtained scrap ledgers.
Labour	Labour cost is allocated on a reasonable basis as recorded by Celsa's accounting system.
Manufacturing Overheads	Celsa's manufacturing overheads were allocated on a reasonable basis and evidenced by its accounting system.
Electricity	Electricity costs was allocated on a reasonable basis and evidenced by Celsa's system, invoices, ledgers and payment slips.
Depreciation	Depreciation is allocated on a reasonable basis and evidenced by Celsa's accounting system.

Table 7 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

Celsa purchased scrap from a related party during the review period.

## **PUBLIC RECORD**

The verification team has tested the purchases from the related supplier, including obtaining invoices, proof of payment and ledgers for a selected transaction and found that prices from the related party reflect market rates.

### **6.4 Accuracy finding**

The verification team is satisfied that the CTMS data provided in the exporter questionnaire response by Celsa is accurate and reasonably reflect the costs associated with the production and sale of the goods under consideration.

## 7 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).

### 7.1 Arms length

#### 7.1.1 Related party customers

In respect of Celsa'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 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>2</sup>

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

The verification team tested the sales to related customers and found that prices were comparable to those paid by unrelated customers.

#### 7.1.2 Unrelated customers

In respect of Celsa'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 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 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 arm's length transactions.

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<sup>2</sup> Section 269TAA of the Act refers.

## 7.2 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>3</sup>

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 per cent) 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:

OCOT particulars	Details
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**

## 7.3 Volume of relevant sales

As Celsa did not export any goods to Australia during the review period, the verification team did not undertake a volume analysis described in 269(TAC).

The verification team's analysis of domestic sales is at **Confidential Appendix 3**.

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<sup>3</sup> In general, the Commission will consider 'extended period' and 'reasonable period' to be the investigation, review or inquiry period.

## 8 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(8).

### 8.1 Rationale and Method

Adjustment type	Assessment for adjustment	Calculation method and evidence	Claimed in REQ?	Adjustment required?
Domestic credit terms	Celsa demonstrated that it incurred credit expense for its domestic sales. The verification team considers that a downwards adjustment to the normal value for domestic credit is necessary to ensure a fair comparison to the FOB cash export price.	Celsa's short term borrowing rate was applied to the payment days ascertained for domestic sales.	Y	Y
Domestic inland transport	Celsa demonstrated that it incurred domestic inland transport expenses. The verification team considers that a downwards adjustment to the normal value for domestic inland transport is necessary to ensure a fair comparison to the FOB export price.	The actual costs incurred for domestic inland transport were applied.	Y	Y
Export inland transport	The verification team considers that an upwards adjustment to the normal value for export inland transport is necessary to ensure a fair comparison to the FOB export price.	As Celsa did not have any export sales during the review period, the verification team used the verified export inland transport costs from Investigation 246.	N	Y

**Table 9 Assessment of adjustments**

### 8.2 Adjustments

The verification team considers the following adjustments under section 269TAC(8) are necessary to ensure that the normal value so ascertained is properly compared with the export price of those goods.

Adjustment Type	Deduction/addition
Domestic credit terms	Deduct an amount for domestic credit
Domestic inland transport	Deduct an amount for domestic inland transport
Export inland transport	Add an amount for export inland transport

**Table 10 Summary of adjustments**

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

## 9 NORMAL VALUE

The verification team found that there were sales of like goods sold for home consumption in the country of export that were arms length transactions and at prices that were within the OCOT. The verification team is therefore not satisfied that there is an absence, or low volume, of sales relevant for the purpose of determining a price under section 269TAC(1).

The verification team has determined a preliminary normal value under section 269TAC(1).

In using domestic sales as a basis for normal value, the verification team considers that certain adjustments, in accordance with section 269TAC(8), are necessary to ensure that differences between the normal value of goods exported to Australia and the export price of the exported goods would not affect comparison of domestic prices with export prices, as outlined in chapter 0 above.

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



## 10 EXPORT PRICE

### 10.1 No export sales to Australia during the review period

As outlined in chapter 2.4 above, Celsa did not export to Australia during the review period. The verification team is satisfied that Celsa did not export to Australia during the review period based on information from the Australian Border Force (ABF) customs database and verification of the completeness and relevance of sales data (chapter 3).

The calculation of export price has been referred to the case management team and will be detailed in the Statement of Essential Facts.

## **11 DUMPING MARGIN**

As Celsa did not export to Australia during the review period, a dumping margin cannot be assessed.

## 12 APPENDICES AND ATTACHMENTS

<i>There is no confidential appendix 1</i>	
<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 Attachment 1</b>	Verification work program