



Importer Verification Report

Verification & Case Details

Initiation Date	31/03/2020	ADN:	2020/30
Case Number	550		
The goods under consideration	Precision Pipe and Tube		
Case type	Dumping and Subsidy Investigation		
Importer	Steelforce Australia Pty Ltd (via Steelforce Trading Pty Ltd)		
Location	Remote		
Investigation Period	1/01/2019 to 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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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 for Investigation No. 550 into precision pipe and tube (the goods).

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).¹

¹ 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

Steelforce Australia Pty Ltd (Steelforce Australia) operates in the Australian market as a distributor of steel products, including the goods. Steelforce Australia's imports of the goods during the investigation period (1 January 2019 to 31 December 2019) were facilitated through an intermediary, Steelforce Trading Pty Ltd (Steelforce Trading)². Steelforce Trading is wholly owned by Steelforce Australia and Steelforce Australia is wholly owned by Steelforce Holdings Pty Ltd (Steelforce Holdings).

On 9 August 2019, Steelforce Holdings was acquired by InfraBuild Trading Pty Ltd.

The verification team considers that both Steelforce Australia and Steelforce Trading have a role in the importation of the goods. Steelforce Australia sells the goods in the same condition as imported to both unrelated and related parties. The verification team considers that Steelforce Australia pays for the cost of the goods and related importation costs, including paying for freight from the Australian port to Steelforce Australia's distribution centres. Steelforce Australia and Steelforce Trading describe this process as Steelforce Australia having responsibility for the Steelforce Group of companies' treasury function, such that Steelforce Australia owns the bank accounts and therefore pays for all expenses incurred by entities in the Steelforce Group.

As part of the importation process, Steelforce Trading holds an administrative role in the day-to-day ordering and delivery of goods from Dalian Steelforce Hi-Tech Co., Ltd. (Dalian Steelforce), including discussing sales prices, processing purchase orders from Steelforce Australia to Dalian Steelforce and arranging for the delivery of goods to Steelforce Australia's distribution centres. Steelforce Trading also provides Australian market price information to Dalian Steelforce so that Dalian Steelforce can assess the competitiveness of its prices for Australian-destined goods.

Steelforce Australia pays Dalian Steelforce for the cost of goods and importation. The goods are initially registered in Steelforce Trading's accounts before being transferred to Steelforce Australia's accounts. Physically, the goods are delivered from the Australian port of arrival directly to one of Steelforce Australia's distribution centres.

For the purposes of this investigation, the verification team has identified Steelforce Australia as the importer. In coming to this view, the verification team verified data and information with respect to Steelforce Trading and Steelforce Australia.

The verification team's conclusion about the importer is discussed in chapter 6.

² Steelforce Trading has subsequently changed its name following the investigation period. It is now named Austeel Trading Pty Ltd.

1.2 Related parties

The verification team examined the relationships between related parties involved in the importation and sale of the goods. The verification team noted that there are related suppliers and customers.

1.2.1 Related suppliers

The goods are manufactured by Dalian Steelforce. The goods are purchased initially by Steelforce Trading and then delivered to Steelforce Australia. All three companies involved in the importation are related.

1.2.2 Related customers

Steelforce Australia sells mostly to unrelated customers. Steelforce Australia made some sales to related entities.

2 THE GOODS

2.1 The goods

The verification team conclude that Steelforce Australia imported the goods from China during the investigation period matching the description of the goods that are the subject of this investigation.

2.2 Model control codes

Steelforce Trading provided data in relation to its purchase of the goods from Dalian Steelforce and sales to Steelforce Australia in accordance with the template provided by the Commission, which included linking individual sales transactions to the MCC structure detailed in ADN No. 2020/30.

Similarly, Steelforce Australia provided sales data in accordance with the template provided by the Commission, which also included linking individual sales transactions to the MCC structure detailed in ADN No. 2020/30.

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	Source Documents
MCC Category 1 - Prime	Consistent with the verification for Dalian Steelforce, all goods sold to Australia by Dalian Steelforce are manufactured to an internal standard or Australian Standard and are considered to be prime. No non-prime goods are sold on the Australian market by Steelforce Australia.	The invoice between Dalian Steelforce and Steelforce Trading shows details including: <ul style="list-style-type: none"> • Prime • Whether the goods are black, painted or galvanised • Shape • Product description including width and dimensions • Length The invoice between Steelforce Trading and Steelforce Australia shows details including: <ul style="list-style-type: none"> • Product description including width, dimensions, thickness, shape and length The invoice between Steelforce Australia and customers shows details including: <ul style="list-style-type: none"> • Product description including width, dimensions,
MCC Category 2 - Steel Base/Type	The first digit of the accounting system's product code indicates whether the goods are black (B), painted (P) or galvanised (G). All galvanised goods are sub-category G and all black and painted goods are sub-category H (hot-rolled).	
MCC Category 3 - Steel grade	Consistent with the verification for Dalian Steelforce, all goods imported are of a single grade.	
MCC Category 4 - Surface protection	As all goods are galvanised or painted, they are reported as having the surface protection sub-category P.	

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Category	Determination of the sub-category	Source Documents
MCC Category 5 - Coating mass	The coating mass has been specified as 2 for black/painted and 3 for galvanised.	thickness, shape and length The coating mass is traceable to company brochures.
MCC Category 6 - Shape	Goods are identified as R (rectangular or square) or C (circular).	
MCC Category 7 – Circular size	The circular size is determined for circular goods based on the product description.	
MCC Category 8 - Square or rectangular Size	The square or rectangular size is determined for square and rectangular goods based on the product description.	
MCC Category 9 – Thickness	The thickness is determined by the product description.	
MCC Category 10 - Length	The length is determined by the product description.	
MCC Category 11 – End type	Consistent with the verification for Dalian Steelforce, all imported goods have plain ends.	

Table 1 MCC Verification

2.4 The goods imported and sold in Australia

The verification team were satisfied that Steelforce Australia sold goods to customers in Australia with the following MCCs during the investigation period:

- P-G-2-P-3-C-1-N-A-2-P
- P-G-2-P-3-C-2-N-A-2-P
- P-G-2-P-3-R-N-1-A-2-P
- P-G-2-P-3-R-N-2-A-1-P
- P-G-2-P-3-R-N-2-A-2-P
- P-G-2-P-3-R-N-3-A-1-P
- P-G-2-P-3-R-N-3-A-2-P
- P-H-2-P-2-C-2-N-B-2-P
- P-H-2-P-2-R-N-2-A-1-P
- P-H-2-P-2-R-N-2-A-2-P
- P-H-2-P-2-R-N-3-A-1-P
- P-H-2-P-2-R-N-3-A-2-P

2.5 Like goods

Steelforce Australia and Steelforce Trading agreed that the Australian industry produced like goods to the goods that it imported during the investigation period.

3 VERIFICATION OF SALES COMPLETENESS AND RELEVANCE

3.1 Background

Verification of sales completeness and relevance is conducted by reconciling selected data submitted "upwards" through management accounts 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 sales listing provided in Part C of the questionnaire response by both Steelforce Australia and Steelforce Trading in accordance with ADN No. 2016/30.

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

- Relying on a previous verification for Steelforce Australia and Steelforce Trading in Review of Measures No. 529 (REV 529) in relation to hollow structural sections (HSS).³ In that review, the sales of Steelforce Australia and Steelforce Trading were verified to managements accounts and the audited financial statements of Steelforce Holdings for the financial accounting period 1 July 2018 to 30 June 2019; and
- Matching the volumes and values of Steelforce Trading and Steelforce Australia's Part C sales listings to sales reports, profit and loss statements and trial balances for the investigation period.

The verification team identified one issue during this process, discussed below.

3.2 Exceptions during verification of CTIS allocation

1	The verification team noted that sales of shorter length goods appeared to be missing from the Steelforce Australia's Part C Sales Listing.	Steelforce Australia explained that certain indent sales were missing from the original data and provided a revised Part C Sales Listing.
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Table 2 Exceptions during upwards sales verification

Details of this verification process are contained in the verification work program and its relevant attachments, at **Confidential Attachment 1**.

³ The verification for HSS covered a review period (1 October 2018 to 30 September 2019) which overlaps with the investigation period for Investigation No. 550 (1 January 2019 to 31 December 2019) by 9 months. It is also noted that HSS and PPT are similar products. Additionally, the verification for HSS was conducted at the importer's premises, during which the accounting system was viewed live by the Commission.

3.3 Sales completeness and relevance finding

The verification team is satisfied that the sales data provided by Steelforce Trading and Steelforce Australia is complete and relevant.

4 DOWNWARDS VERIFICATION OF SALES

4.1 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 sales listing submitted in Part C of the questionnaire response by Steelforce Trading and Steelforce Australia 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**.

4.2 Sales accuracy finding

The verification team is satisfied that the sales data provided by Steelforce Australia and Steelforce Trading 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 IMPORTS

5.1 Verification of imports

It is noted that, as part of the verification for Dalian Steelforce, the information in the Australian Border Force (ABF) import database was verified as a complete list of imports of the goods over the investigation period.

The verification team calculated the weighted average free-on-board export price using the ABF data at **Confidential Appendix 1**.

5.2 Verification of cost to import and sell

Prior to the verification, the Commission selected 12 shipments for Steelforce Trading and Steelforce Australia to complete the cost to import and sell (CTIS) spreadsheet of the importer questionnaire.

For each of the selected shipments, the following source documents were provided:

- commercial invoices from Dalian Steelforce to Steelforce Trading;
- bill of lading;
- customs entry documents;
- shipping documents;
- transport invoices;
- proof of payment (including bank statements).

5.3 CTIS allocation method

The verification team verified the reasonableness of the method used to allocate the CTIS provided in the questionnaire response.

Cost Area	Method applied
Ocean freight	Based on the actual ocean freight cost invoiced by the freight forwarder allocated to goods based on weight.
Marine insurance	Based on the marine insurance policy and allocated to goods based on weight.
Customs fees	Based on the actual customs fees invoiced by the customs broker and allocated to goods based on weight.
Quarantine charges	Based on the actual quarantine charges invoiced by the customs broker and allocated to goods based on weight.
Port service charges	Based on the actual port service charges invoiced by the customs broker and allocated to goods based on weight.
Bank charges	Bank charges are included in SG&A.
Delivery charges	Based on the actual delivery charges invoiced by the logistics provider and allocated to goods based on weight.
SG&A	Based on a percentage of revenue, separated into SG&A attributed to Steelforce Trading and Steelforce Australia.

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Intermediary profit	Based on profit margin typically attributed to Steelforce Trading during the internal sales process.
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Table 3 Verification of cost calculation 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**.

5.4 Exceptions during verification of CTIS allocation

2	The CTIS included SG&A costs allocated to Steelforce Trading but not Steelforce Australia.	The verification team calculated SG&A for Steelforce Australia based on the financial accounts.
3	The SG&A costs for Steelforce Australia was allocated based on tonnes and not as a percentage of sales revenue.	The verification team calculated SG&A as a percentage of sales revenue. The SG&A was expressed as a percentage value of sales and then applied to the shipment revenue to derive an SG&A value.
4	For three shipments, the allocation of CTIS to goods was incorrect.	A revised dataset was submitted that distinguished the goods from other products which was verified against the sales documentation.

Table 4 Exceptions during verification of CTIS allocation

5.5 Verification of CTIS 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 key information fields within the CTIS data down to source documents. This verifies the accuracy of the data.

The verification team verified the accuracy of the CTIS provided in the questionnaire response 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**.

5.6 CTIS verification finding

The verification team is satisfied that the CTIS provided by Steelforce Trading and Steelforce Australia, including any required amendments as outlined in the exception table above, is accurate.

The weighted average unit CTIS is at **Confidential Appendix 3**.

6 EXPORT PRICE

6.1 The importer

The verification team understands the involvement of Steelforce Australia and Steelforce Trading in the importation of the goods to be as follows:

- Steelforce Trading arranges for the goods to be imported to Australia, which includes the quantity and price of goods from the exporter, Dalian Steelforce;
- Steelforce Trading is named as the customer on the exporter invoice and consignee on the bill of lading;
- on arrival in Australia, Steelforce Trading documents the receipt of the goods, being the exporter invoice value and the quantity in its stock holding ledger;
- once the goods are receipted, Steelforce Trading then transfers them to Steelforce Australia's stock holding ledgers. An invoice is issued listing Steelforce Australia as the customer, the quantity (which is the same as the quantity listed on the Dalian Steelforce invoice to Steelforce Trading) and Steelforce Trading's price (which covers the price listed on the Dalian Steelforce invoice to Steelforce Trading plus import costs and a premium for Steelforce Trading). No money is exchanged between Steelforce Trading and Steelforce Australia with consideration being settled via intercompany loan account. Steelforce Australia holds the bank account and the Steelforce Trading invoice directs payment to the bank account held by Steelforce Australia. Steelforce Trading does not have a separate bank account;
- as Steelforce Australia holds the bank account, it pays the exporter invoice and other importation costs on behalf of Steelforce Trading, even though Steelforce Trading is listed as the customer on these documents. However, Steelforce Trading is not exclusively listed as the customer on relevant importation documents, for example, Steelforce Australia is also listed as the customer on the debit notes for ocean freight (Steelforce Trading was the named counterparty on the original contract with the shipper). Steelforce Trading explained that omitting it as customer on the debit notes was an error on the part of the shipper, which was not corrected by it. Steelforce Australia is named as the co-insured on the marine insurance policy and is described as the customer on some inland freight invoices from port to distribution centre. Steelforce Trading explained that the marine insurance policy is a group policy covering a number of entities, including itself and Steelforce Australia.

Steelforce Australia then sells the goods from its distribution centres, primarily to unrelated customers in the Australian market (there is an immaterial volume of sales to related entities). Steelforce Australia receives money from these unrelated customer sales and this money goes to a bank account held by Steelforce Australia.

Given the nature of the relationship between Steelforce Trading and Steelforce Australia and the role each plays in the importation of the goods, the verification team considers Steelforce Australia to be the beneficial owner of the goods at the time of importation and therefore the importer of the goods, as Steelforce Australia:

- paid for the goods;

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- paid for all costs related to importation, via payment of money from Steelforce Australia's bank account to the bank account of the relevant broker and shipping and inland transport agent;
- insured the goods while the goods were on the water; and
- took possession of the goods once the goods arrived in Australia, delivering the goods from the port of arrival to Steelforce Australia's distribution centres where the goods are unloaded to be sold to customers in the Australian market. As a part of this process, Steelforce Trading and Steelforce Australia journals the receipt of the goods in its inventory movement ledger, being the exporter invoice quantity and the exporter invoice value plus Steelforce Trading's premium.

The verification team is of the view that, despite Steelforce Trading being listed as the consignee on the bill of lading and declaring itself as the owner of the goods to ABF, this does not mean that Steelforce Trading is the beneficial owner of the goods.

6.2 The exporter

The verification team considers that the goods were imported to Australia by Steelforce Australia. Subject to further inquiries, the verification team considers Dalian Steelforce to be the exporter of the goods,⁴ as Dalian Steelforce is:

- the manufacturer in China, the country of export;
- named on the commercial invoice and packing lists; and
- named as consignor on the bill of lading.

6.3 Related party customers

Steelforce Australia sold goods during the investigation period to related parties.

The verification team did not identify significant price differences between Steelforce Australia's sales to related customers versus unrelated customers.

6.4 Profitability of imports

The verification team assessed the profitability for 12 selected shipments by estimating the revenue received to the CTIS for each shipment. As each selected shipment cannot be traced to actual sales transactions, the verification team used a monthly weighted average sales revenue of the imported products to estimate the profitability of each selected shipment. The monthly weighted average sales revenue related to the location in which the goods were imported and was either in the month

⁴ 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.

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of importation or following two months, noting that the goods are sometimes warehoused in Australia.

The outcome of this assessment is below.

Shipment	Profitable (Y/N?)
1	Y
2	Y
3	Y
4	Y
5	Y
6	Y
7	Y
8	Y
9	Y
10	Y
11	Y
12	Y
Weighted average all shipments	Y

Table 5 Profitability of selected imports

The assessment is at **Confidential Appendix 3**.

6.5 Arms length

6.5.1 Steelforce Australia's prices into the Australian market

The verification team are satisfied that Steelforce Australia's prices into the Australian market during the investigation period are the result of real bargaining. In addition, as outlined in section 6.4, those sales are profitable.

The verification team found no evidence that:

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

The verification team consider that Steelforce Australia's prices into the Australian market are arms length.

6.5.2 Prices between the related parties

Similar to the verification report for REV 529, the verification team found no evidence of real price bargaining between Dalian Steelforce and Steelforce Australia, either directly or indirectly via Steelforce Trading. The verification team understands that Steelforce Australia does not “negotiate” prices directly with Dalian Steelforce or Steelforce Trading in response to its Australian customer orders. However, market intelligence and import costs of Steelforce Australia are relevant considerations in setting the prices between the related parties.

The Commission’s *Dumping and Subsidy Manual* states at section 5.2 that:

“Whether transactions are at arms length is a matter of fact to be determined having regard to all the circumstances of the sales in question”...

In practical terms, the mere fact parties are associated—and in a legal sense not at arms length—is not taken to automatically mean that they cannot be engaged in arms length transactions. In assessing whether transactions between related parties are at arms length, the Commission looks beyond the legal or functional relationship. It will determine whether the parties deal with each other as arms length parties would, and whether outcomes are the result of real bargaining.”

In this instance, the prices between the related parties do not appear to be the result of real bargaining. Notwithstanding, the verification team are satisfied that:

- Steelforce Australia’s sales of the goods into the Australian market (the final price) are profitable;
- the prices between the related parties relies on market intelligence relevant to the final price;
- import costs of Steelforce Trading and Steelforce Australia and are factored in and mark-ups are applied when setting prices between the related parties.

The verification team consider that, in this instance, the outcome is that the prices between the related parties do not appear to be influenced by the relationships. Accordingly, despite the related parties not undertaking real bargaining, there is no compelling reason to treat the prices as not being not arms length.

In relation to the related parties, the verification team found no evidence that:

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

Subject to further inquiries, the verification team is satisfied that the prices between the related parties are arms length transactions.

6.6 Export price assessment

The verification team is of the opinion that for the goods imported by Steelforce Australia from Dalian Steelforce, via Steelforce Trading:

- the goods have been exported to Australia otherwise than by the importer (the goods were exported by Dalian Steelforce);
- the goods have not been purchased by the importer (Steelforce Australia) from the exporter (Dalian Steelforce). Instead, the goods were purchased by Steelforce Australia from Steelforce Trading facilitating the imports as an intermediary; and
- the purchases of the goods by Steelforce Australia were arms length transactions.

As the goods are not purchased by the importer from the exporter, the export price cannot be established under sections 269TAB(1)(a) or (b) of the Act.

The verification team recommends that the export price be established under section 269TAB(1)(c) of the Act, having regard to all the circumstances of the exportation.

Specifically, the verification team recommends that export price be established using the FOB export price between Dalian Steelforce and Steelforce Trading. The verification team are satisfied that this is an arms length price as outlined at section 6.5.

7 ATTACHMENTS

Confidential Appendix 1	Export price
Confidential Appendix 2	Forward orders
Confidential Appendix 3	Profitability of imports
Confidential Attachment 1	Verification Work Program