



## **Exporter Verification Report**

### **Verification & Case Details**

|                                      |   |             |          |
|--------------------------------------|---|-------------|----------|
| <b>Initiation Date</b>               | 27/05/2020  | <b>ADN:</b> | 2020/050 |
| <b>Case Number</b>                   | 553   |             |          |
| <b>The goods under consideration</b> | Painted Steel Strapping                           |             |          |
| <b>Case type</b>                     | Dumping and Subsidy Investigation                 |             |          |
| <b>Exporter</b>                      | Qinhuangdao Jiashilun Packaging Materials Co. Ltd |             |          |
| <b>Location</b>                      | Remote verification                               |             |          |
| <b>Investigation Period</b>          | 1/04/2019 to 31/03/2020                           |             |          |

**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.

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**

Qinhuangdao Jiashilun Packaging Materials Co., Ltd. (Jiashilun) is an unlisted private company owned by individual shareholders with no subsidiaries based in China.

Jiashilun manufactures steel strapping and related products, widely used in ferrous metallurgy, non-ferrous metals, glass and building materials and materials for wood and other industries.

### **1.2 Related Parties**

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

### **1.3 Accounting records**

Jiashilun's accounting records are not audited. The company stated that the accounts are held in accordance with the generally accepted accounting principles in China and the verification team relied on finalised tax records for the purpose of verifying the completeness of the data provided. Based on the information provided by the company and verified, the verification team considers that the accounting records held by the company are in accordance with the generally accepted accounting principles of China.

## 2 THE GOODS AND LIKE GOODS

### 2.1 Production Process

Jiashilun described its production process as follows:

- Raw material unsealing
- Smooth end & Butt weld
- Loading into machine
- Slitting
- Deburring
- Heat treatment (bluing)
- Painting
- Drying
- Waxing
- Drying
- Cooling
- Packing

### 2.2 Model Control Codes (MCCs)

Jiashilun provided sales and cost data in its response to the exporter questionnaire (REQ) in accordance with the model control code (MCC) structure detailed in Anti-Dumping Notice (ADN) No. 2020/050.

Sales and cost data were provided to the mandatory MCC level, with the sales data also including the optional category of coil winding.

#### 2.2.1 Amendments to MCCs

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

### 2.3 Verification of MCCs

Table 1 below provides detail on how the MCC sub-categories were determined and verified to source documents.

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| <b>Category</b>                | <b>Determination of the sub-category</b>  |
|--------------------------------|---|
| Hot rolled coil carbon content | Determined with reference to the specifications in the Mill Test Certificates   |
| Width                          | Determined with reference to the nominal width shown on the commercial invoices.  |
| Thickness                      | Determined with reference to the nominal thickness shown on the commercial invoices   |
| Break force                    | Determined with reference to conversion formula from megapascal (MPa) to kilonewtons (kN), the MPa recorded on the Mill Test Certificates, and the minimum MPa required by the relevant manufacturing standard. |
| Metres per kilogram            | Determined with reference to additional product sales documents.  |
| Coil winding                   | Determined with reference to the specifications in the Mill Test Certificates   |

**Table 1 MCC sub-category determination**

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

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

- C1-W1-T1-B1-L-R
- C1-W2-T1-B1-L-R
- C1-W3-T1-B1-L-R
- C1-W3-T2-B2-M-M
- C1-W4-T2-B3-S-R

### **2.5 Like goods sold on the domestic market**

The verification team was satisfied that Jiashilun 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,

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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.

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

| Domestic MCCs   |                 |                 |                 |
|-----------------|-----------------|-----------------|-----------------|
| C1-W1-T1-B1-L-M | C1-W3-T1-B1-S-M | C1-W4-T1-B3-M-M | C1-W4-T2-B4-S-R |
| C1-W2-T1-B1-L-M | C1-W3-T1-B1-S-R | C1-W4-T1-B3-M-R | C2-W4-T2-B3-M-R |
| C1-W2-T1-B1-L-R | C1-W3-T1-B2-L-M | C1-W4-T1-B3-S-R | C2-W4-T2-B4-M-M |
| C1-W2-T1-B1-S-M | C1-W3-T1-B2-L-R | C1-W4-T2-B3-S-R | C2-W4-T2-B4-S-M |
| C1-W3-T1-B1-L-M | C1-W3-T2-B2-M-M | C1-W4-T2-B3-M-M | C2-W4-T2-B4-S-R |
| C1-W3-T1-B1-L-R | C1-W3-T2-B2-M-R | C1-W4-T2-B3-M-R |                 |
| C1-W3-T1-B1-M-M | C1-W3-T2-B3-M-M | C1-W4-T2-B3-S-R |                 |
| C1-W3-T1-B1-M-R | C1-W3-T2-B3-M-R | C1-W4-T2-B4-S-M |                 |

### 2.6 Like goods – assessment

The verification team considers that the goods produced by Jiashilun 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.



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| <h3 style="margin: 0;">3 VERIFICATION OF SALES COMPLETENESS AND RELEVANCE</h3> |
|--|

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 company did not have audited financial statements but provided the Commission with unaudited financial statements as well as income tax returns. The verification team verified the completeness and relevance of the export and domestic sales listings provided in the Response to the REQ by reconciling these to the unaudited financial statements and reconciling the revenue from the unaudited financial statements to the company's tax returns in accordance with ADN No. 2016/30.

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

- Jiashilun's sales revenue for the relevant period was reconciled to financial reports and tax returns, quarterly income statements, and trial balance;
- Jiashilun's trial balance reconciled to a detailed sales ledger;
- The detailed sales ledger was reconciled to the domestic and export sales listing submitted in the REQ; and
- Relevant exports to Australia were reconciled to the ABF import database.

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 Exceptions during verification of sales completeness and relevance

| No. | Exception   | Resolution  |
|-----|---|---|
| #1  | Three sales of goods that are outside of the goods description due to their widths being greater than 32mm were included in the domestic sales listing. | The verification team confirmed the diameters of these goods with Jiashilun and removed these sales from the sales listing. |

**Table 2 Exceptions during verification of completeness and relevance of sales data**

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

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

## **4 VERIFICATION OF SALES ACCURACY**

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

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

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

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

| No. | Exception   | Resolution   |
|-----|---|--|
| #1  | The bank charges incurred for all Australian sales were not recorded in the Australian sales listing. | The verification team manually allocated the bank charges across the listing according to source documents.  |
| #2  | The port handling charges for one sale in the Australian sales was not correctly allocated.           | The verification team manually amended the port handling charges for the sale according to source documents. |

**Table 3 Exceptions during verification of accuracy of sales data**

### **4.2 Sales accuracy finding**

The verification team is satisfied that the sales data provided by Jiashilun, 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**.

|  |
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| <b>5 VERIFICATION OF COST TO MAKE AND SELL (CTMS)<br/>COMPLETENESS AND RELEVANCE</b> |
|--|

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:

- Jiashilun provided its income statements for 2019, the March 2019 and March 2020 quarters. The income statement for 2019 matched its 2019 tax return.
- The cost of goods sold in the investigation period was worked out by removing the March 2019 quarter and adding the 2019 quarter to the 2019 operating costs. This figure matched the trial balance for the investigation period.
- Jiashilun's trial balance for finished goods details the cost to make of all its products manufactured during the investigation period, including the GUC.

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

- The SG&A listing's expenses in account period reconciled to the 2019 income statement.
- Jiashilun provided the administration, financial and sales expense ledgers for each month of 2019 and for the first three months of 2020. This allowed the verification team to verify the SG&A expenses in the investigation period.

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  | Jiashilun's cost to make listing did not contain scrap offsets. | Jiashilun updated its cost to make listing with a column for scrap offset which the verification team verified in downwards costs. |

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|----|--|--|
| #4 | The verification team identified expenses listed in Jiashilun's income statement that were not included in the SG&A listing. | Jiashilun amended the SG&A listing which the verification team verified to source documents. |
| #5 | The verification team identified indirect expenses that related solely to exports.   | The verification team removed these expenses from the SG&A listing.                          |

**Table 4 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 Jiashilun, including any required amendments as outlined as an exception above, is complete and relevant.

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| <b>6 VERIFICATION OF COST TO MAKE AND SELL (CTMS) ACCURACY</b> |
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**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 5 below outlines the allocation method applied to each cost item.

| Cost item               | Method applied  |
|-------------------------|---|
| Raw Materials           | Raw material costs are allocated based on production quantity. Ledgers were examined.                 |
| Scrap Allocation        | Scrap is allocated based on production quantity. Ledgers were examined.                               |
| Manufacturing Overheads | Manufacturing overheads is allocated to products based on production quantity. Ledgers were examined. |
| Labour                  | Labour is allocated based on production quantity. Ledgers were examined.                              |
| Depreciation            | Depreciation is allocated based on production quantity. Ledgers were examined.                        |

**Table 5 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 Accuracy finding**

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

## 7 EXPORT PRICE

### 7.1 The importer

The verification team considers Jiashilun's Australian customer to be the beneficial owner of the goods at the time of importation and therefore the importer as the 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 ABF;
- pays for all the importation charges; and
- arranges delivery from the port.

In relation to the goods exported by Jiashilun to Australia, the verification team considers that the customer listed for each shipment was the beneficial owner of the goods at the time of importation, and therefore was the importer of the goods.

### 7.2 The exporter

The verification team considers Jaishilun to be the exporter of the goods<sup>2</sup>, as Jaishilun is:

- the manufacturer of the goods;
- named on the commercial invoice as the supplier;
- named as consignor on the bill of lading;
- arranges and pays for the inland transport to the port of export;
- arranges and pays for the port handling charges at the port of export; and
- arranges and pays for the ocean freight and marine insurance.

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

### 7.3 Arms length

#### 7.3.1 Unrelated customers

In respect of Jiashilun'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 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

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<sup>2</sup> The Commission generally identifies the exporter as a principal in the transaction, located in the country of export from where the goods were shipped, that gave up responsibility by knowingly placing the goods in the hands of a carrier, courier, forwarding company, or its own vehicle for delivery to Australia; or a principal in the transaction, located in the country of export, that owns, or previously owned, the goods but need not be the owner at the time the goods were shipped.

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- the buyer, or an associate of the buyer, was directly or indirectly reimbursed, compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.<sup>3</sup>

The verification team therefore considers that all export sales made by Jiashilun 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 Jiashilun, the verification team recommends that the export price be determined under section 269TAB(1)(a), as the price paid by the importer to the exporter less transport and other costs arising after exportation.

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

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



## 8 DOMESTIC SALES

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

### 8.1 Arms length

#### 8.1.1 Unrelated customers

In respect of Jiashilun'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 Jiashilun 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>4</sup>

The verification team have collected the necessary data to conduct an OCOT assessment, based on the reported costs and sales at the time of verification. The application has claimed that Jiashilun'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 assessment of whether domestic sales are in the OCOT has been referred to the case management team for consideration.

### 8.3 Volume of relevant sales

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

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<sup>4</sup> In general, the Commission will consider 'extended period' and 'reasonable period' to be the investigation, review or inquiry period.

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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 Jiashilun'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.

## 9 ADJUSTMENTS

To ensure the normal value is comparable to the export price of goods exported to Australia at free-on-board (FOB) terms, the verification team has considered the following adjustments may be necessary.

### 9.1 Rationale and Method

| Adjustment type              | Assessment for adjustment                                      | Calculation method and evidence  | Claimed in REQ? | Adjustment required? |
|------------------------------|--|--|-----------------|----------------------|
| Domestic inland transport    | Jaishilun incurred inland transport costs on some sales.       | Weighted average unit value based on the total inland transport and invoice quantity.          | Y               | Y                    |
| Export inland transport      | Jiashilun incurred costs of inland transport for export sales. | Actual inland transport applied over invoice quantity.   | Y               | Y                    |
| Export port handling charges | Jiashilun incurred costs of port handling for export sales.    | Actual port handling charges applied over invoice quantity.                                    | Y               | Y                    |
| Export bank charges          | Jiashilun incurred bank charges for export sales.              | Actual bank charges applied over invoice quantity.   | N               | Y                    |
| Non-refundable VAT           | Jiashilun incurred a non-refundable VAT cost on export sales.  | Calculated as a percentage of the FOB cash price as per the relevant non-refundable VAT rates. | Y               | Y                    |

**Table 6 Assessment of adjustments**

### 9.2 Adjustments

The verification team considers the following adjustments 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 inland transport    | Deduct an amount for domestic inland transport |
| Export inland transport      | Add an amount for export inland transport      |
| Export port handling charges | Add an amount for port charges                 |
| Export bank charges          | Add an amount for export bank charges          |
| Non-refundable VAT           | Add an amount for non-refundable VAT           |

**Table 7 Summary of adjustments**

## **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 has not considered whether section 269TAC(2)(a)(ii) is satisfied. 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 normal value is determined under section 269TAC(2)(c), certain adjustments in accordance with section 269TAC(9) are necessary to ensure that normal values are properly comparable with export prices.

## **11 DUMPING MARGIN**

Normal values were not determined as part of the verification process (see chapter 10 of this report). As such, the verification team was not able to calculate a dumping margin for the goods exported to Australia by Jiashilun 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 SUBSIDIES

### 12.1 Less than adequate remuneration

The verification team verified the completeness, relevance and accuracy of the raw material purchase listing provided in the REQ by reconciling the listing up to the general ledger and down to source documents.

The verification team also collected information on whether the raw material was supplied by and/or manufactured by a State Invested Enterprise.

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**.

### 12.2 Tax benefits

The verification team verified the income tax information provided in the REQ by reconciling the information to the tax returns and proof of payment documents.

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

### 12.3 Financial Grants

The verification team verified the completeness, relevance and accuracy of the financial grants listing provided in the REQ by reconciling the listing up to the general ledger and down to source documents.

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

### 12.4 Preferential interest rate/loans

The verification team verified the completeness, relevance and accuracy of the financial loans listing provided in the REQ by reconciling the listing up to the general ledger and down to source documents.

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

## 12.5 Subsidy margin

The verification team found that Jiashilun received a benefit in relation to four programs and determined its attribution and allocation to the goods as follows:

| Program name  | Attribution and allocation of the subsidy   |
|---|---|
| Income tax relief for small low-profit enterprises  | The amount of benefit from received from paying a lower amount of income tax as a result of this program has been attributed to all the company's sales over the period. It was then allocated to the goods based on the net revenue over the period. |
| Special fund for industrial transformation and upgrading in 2019                                | The amount received from this fund has been attributed to all of the company's sales. It was then allocated to the goods based on the export revenue over the period.   |
| Exemption and reduction of social insurance payments for enterprises during the epidemic period | The amount received from this fund has been attributed to all of the company's sales. It was then allocated to the goods based on the export revenue over the period.   |
| Exemption and reduction of social insurance payments for enterprises during the epidemic period | The amount received from this fund has been attributed to all of the company's sales. It was then allocated to the goods based on the export revenue over the period.   |

**Table 8 Subsidy programs**

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

Details of the preliminary subsidy margin calculation are at **Confidential Appendix 5**.

**13 APPENDICES AND ATTACHMENTS**

|                                  |                           |
|----------------------------------|---------------------------|
| <b>Confidential Appendix 1</b>   | Export price              |
| <b>Confidential Appendix 2</b>   | Cost to make and sell     |
| <b>Confidential Appendix 5</b>   | Subsidy Margin            |
| <b>Confidential Attachment 1</b> | Verification work program |