Investigation 553 – Painted Steel Strapping - Exporter Briefings

I. Chinese exporter – Qinhuangdao Jiashilun Packaging Materials Co., Ltd

(a) *Background*

Qinhuangdao Jiashilun Packaging Materials Co., Ltd ("Jiashilun") has completed an Exporter Questionnaire Response ("EQR") and is considered 'cooperative' by the Anti-Dumping Commission ("the Commission").

Jiashilun identifies itself as a private enterprise and is located in the Lulong Economic and Technical Development Zone, Qinhuangdao City, Heibei Province, northern China. Jiashilun purchases its raw material coils from suppliers located in the 'steel city' of Tangshan. The company was established in 2012 and produces a broad range of steel strapping, steel strips, packaging steel strapping, strapping band and steel packing strips.

Jiashilun manufactures steel strapping on what it refers to as a "high strength steel strapping production line" with approx. 21 steel strapping crimping machines. Jiashilun can produce ribbon/oscillated coils in a range from 10kg to 500kg, of various widths including 200mm, 300mm, and 406mm.

(b) *Exports to Australia*

Jiashilun has only one customer for goods exported to Australia. Jiashilun confirms at Section C-1 of its EQR that it exports:

> "*Painted steel strapping, of carbon steel, ribbon or mill, with a nominal width from 12.7 mm to 32 mm, a nominal thickness of 0.5 mm to 0.8 mm.*"

Jiashilun's exported goods fall within the goods description the subject of investigation and notified in ADN 2020/050.

Jiashilun confirms that there is no difference between the painted steel strapping sold domestically and goods exported to Australia. The MCCs of goods exported to Australia by Jiashilun are also identified as MCCs that are sold on the domestic market in China by Jaishilun.

It is noted that goods sold domestically by Jiashilun have a thickness up to 0.9 mm.

(c) *Adjustments*

Jiashilun states that "*there are no distinct differences in packaging between JIASHiLUN'S domestic and export sales*". It is noted at Section E-2.1 that "*Anti-rust papers, Anti-rust films, steel pallet are used for packaging of domestic sales of like goods"*. It is anticipated that the packaging for export sales to Australia would involve a higher cost associated with papers, films and pallets to ensure goods are not damaged upon freighting to Australia. For example. For export sales, fumigation is required, along with extra filling (including a plastic vapor corrosion inhibitor (VCR) film cover to protect from salt air), and a pallet.

Jiashlun has not identified any cost differences that exist between domestic and export sales as a basis for adjustments to normal values. Signode anticipates that the Commission will make relevant adjustments for inland freight, port and wharf charges at point of export, credit charges, as appropriate.

(d) *Cost to make and sell*

Jiashilun states at G-6 that its cost allocation basis is as follows:

> Raw materials – based on actual consumption;
> Labour – apportioned equally on basis of weight;

Manufacturing overheads – apportioned equally on basis of weight.

Signode would anticipate that the allocation of costs would reflect the actual activity involved.

Jiashilun indicates that it purchases cold rolled steel (cold hardening strip 'CRS') from unrelated suppliers to manufacture steel strapping. All Jiashilun suppliers of CRS are local.

Jiashilun would only have access to domestic prices for CRS. CRS is manufactured from HRC.

(e) VAT rebate

It is noted for the majority of the investigation period, the domestic VAT rate for the subject goods was 13 per cent. The export VAT rebate was 10 per cent. However, with effect from 20 March 2020, the export VAT rebate increased to 13 per cent.

The Commission will therefore need to uplift Jiashilun's normal value by 3 per cent for the investigation period (with a zero adjustment for VAT rebate required for sales made post 20 March 2020).

(f) Countervailing

Jiashilun confirms that is qualifies for a number of different subsidies from the Government of China ("GOC"). Jiashilun is located in an 'Economic and Technological Zone" (or ETDZ). Development Zone sin China are classified as high-tech, heavy, light, agriculture or service. The zones are also classified as local or national.

There are a range of benefits associated with locating in a development zone. These include a range of regulatory benefits and privileges that reduce the cost of investment and facilitating imports/exports. Certain benefits include reduced land costs, tax awards and exemptions, facilitated customs clearance and access to domestic markets. For companies in ETDZs, benefits include:

- tax exemptions for manufacturing firms;
- export tax rebates;
- financial support for the provision of some facilities/services; and
- lower rental fees.

Jiashilun's EQR response (Section L) identified that it received a reduced company tax rate in 2019 and 2020 years under the *Tax Relief for Small Low-profit Enterprises* program. Additionally, Jianshilun has received financial grants from the GOC including:

- Reward for export collection;
- Patent subsidy;
- Industrial Support funds;
- Special fund for industrialisation and upgrading in 2019;
- Exemption and reduction of social insurance payments for enterprises during the epidemic period.

The full value of the financial grants received must be identified for allocation across all sales by Jiashilun.

Jiashilun has included details of its loan arrangements to the Commission with the China Construction Bank (GOC-owned) and the Postal Savings Bank of China (GOC owned). The Commission can validate whether Jiashilun has received preferential interest rates on the loans obtained by the Chinese manufacturer.

II. Vietnam exporter – SAM HWAN VINA Co., Ltd

(a) Background

SAM HWAN VINA Co., Ltd ("SHVN") was established in 2007 and is located in the Nhon Trach V industrial zone, HoChiMinh, in Vietnam. SHVN has a production capacity of approx. 50,000 tonnes of steel strapping, plus approx. 4,000 tonnes of plastic (PET) strapping.

SHVN supplies only mini ribbon coil to Australia with diameter of 200 mm in coil weights of 10 kg to 50 kg (standard coil).

SHVN imports its raw material coil from POSCO of Korea.

(b) Exports to Australia

SHVN exports to a number of customers in Australia. SHVN indicates in its EQR that it exported goods covered by 4 product codes to Australia. According to SHVN, each of the exported models is sold by SHVN domestically in Vietnam.

(c) Adjustments

SHVN provides credit to its customers on its domestic sales in Vietnam. Adjustments to normal value will be required to reflect domestic credit terms.

SHVN states that "*There is not significant difference in packaging between SHVN domestic and export sales*". Further, it reports the packing cost for domestic and export sales under the same cost code. The Commission will need to request further details from SHVN as to actual costs incurred for domestic and export packaging so that actual costs can be identified for sales in either market. Please see comments re packaging (i.e. VCR film, steel pallets) above.

SHVN is seeking adjustments for inland freight costs on domestic and export markets. It would appear from Section E-3.1 that the freight charges for domestic and export sales are included in the same cost account. The Commission should request invoices to detail transport, export marine insurance, ocean freights, port charges and other fees, so that it can allocate accordingly between domestic and export sales.

SHVN claims that it sells goods domestically on a commission basis. The Commission is requested to evidence whether all sales (or only a percentage) are in fact commission-based. Commission fees may apply to non-subject goods so care is required in being satisfied which commissions apply to painted steel strapping sold domestically.

SHVN also claims that is sells exports on a commission basis. The Commission is requested to validate that sales commissions do apply on any export sales to Australia.

SHVN is seeking an "adjustment of sale allowance". It is stated (at Section E-5.1 of EQR) that this adjustment is required for invoice at wrong price or "defected" (sic) goods. Signode queries whether such sales would be the subject of credit notes. This claimed adjustment would appear arbitrary.

(d) Cost to make and sell

SHVN is a manufacturer of a range of products including painted steel strapping, high tensile steel strapping, plastic (PET) strapping, and a range of seals (clips and closures). The Commission will be required to validate allocated labour, manufacturing overheads and selling and general administrative expenses.

Steel strapping will be manufactured on separate lines to the plastic strapping and seals.

The allocation methodology will therefore be important as the plastic products do not generate the same unit revenues as steel strapping, and are more likely to represent higher volumes. The allocation methodology must be viewed as reasonable for the goods under consideration.

SHVN contends that it purchases *high quality* steel from POSCO for its steel strapping. It would be expected that SHVN's HRC/CRC input cost would represent premium HRC/CRC prices. SHVN states that it uses actual costing in its accounting system. Input prices for steel will therefore vary month-on-month.

SHVN claims that there is no cost difference between steel strapping produced for domestic and export markets. It further states that it "*does not keep track of which product is produced to sold (sic) in the domestic market or exported to other countries*". However, SHVN does identify the different grades of raw steel that it purchases (refer Section G-7.3). Signode would highlight with the Commission that the weighted-average costing methodology applied by SHNV would likely take account of lower quality steel for the domestic market (including defective products), whereas the products exported to Australia are of high quality standard (reflecting high quality steel). An adjustment to SHVN normal values to account for higher quality product exported to Australia should be considered.