



Investigation 554

Concrete Underlay Film exported to Australia from Malaysia

Variable factors assessment – JL Plastic Industries Sdn Bhd

Verification

The Commission conducted a remote verification of the response to the exporter questionnaire (REQ) from JL Plastic Industries Sdn Bhd (JLP).

Based on the information examined, the verification team is satisfied that JLP is the exporter of the goods. Secondly, the verification team found that JLP and related party Jiao Long Enterprise (M) Sdn Bhd (Jiao Long) are involved in the production of the goods.

The verification was conducted in accordance with Anti-Dumping Notice 2016/30, which seeks to reconcile information 'upwards' to audited financial statements and 'downwards' to source documents. JLP did not provide audited financial statements or tax returns for the investigation period. The verification team therefore sought to reconcile information to the management accounts provided by JLP.

The verification team is satisfied that the sales information provided by JLP, including any required amendments as outlined as an exception, is complete, accurate and relevant for the purpose of ascertaining the export price applicable to JLP's exports of the goods.

The verification team is not satisfied that sufficient information was provided to demonstrate JLP's cost information is complete, accurate or relevant. The verification team is not satisfied the information provided is suitable to ascertain the cost of production in accordance with section 43(2) of the Customs (International Obligations) Regulation 2015. As a result, the verification team did not rely on JLP's cost data for the purpose of ascertaining the normal value of the goods.

A summary of the preliminary findings of the verification team are detailed below.

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Exceptions encountered during the verification

No.	Exception	Resolution
1	<p><u>Removal of non-subject goods</u></p> <p>JLP's Australian sales listing and cost data included goods of specifications outside of the scope of the goods under consideration (i.e. orange and clear film, black film of less than 150 micron thickness and black film of greater than 230 micron thickness).</p>	<p>The verification team revised the Australian sales listing to remove all products outside the scope of the goods under consideration.</p> <p>Secondly, the verification team relied only on relevant cost data for the purpose of assessing JLP's production costs for the goods.</p>
2	<p><u>Revised production quantities and incorrect methodology to allocate costs</u></p> <p>JLP reported production quantities based on the raw material purchase quantities, rather than the production quantities of finished goods.</p>	<p>JLP revised the production quantities to reflect the quantity of finished goods produced and sold. Consequently, JLP also revised its cost allocations, based on the finished goods quantities.</p> <p>The verification team relied on JLP's revised cost data for the purpose of assessing JLP's production costs for the goods.</p>
3	<p><u>Issues with upwards cost verification</u></p> <p>The verification team was unable to reconcile the costs reported upwards, in line with ADN 2016/30, as JLP did not provide records for verification.</p> <p>Cost information could also not be directly traced to JLP's accounting systems, as JLP did not participate in a virtual verification.</p> <p>JLP provided internal management records for upwards verification, although there remained a variance between the costs allocated to the goods and costs reported in management accounts.</p> <p>JLP's operations appear to be highly integrated with related party Jiao Long. However, JLP did not make information for Jiao Long available that may be relevant to the assessment of the costs reported such as for production costs and shared services.</p>	<p>Because of the inability to complete the upwards costs reconciliation due to deficiencies in relevant information and remaining variances which could not be resolved, the verification team is not satisfied that JLP's costs are complete or relevant.</p>
4	<p><u>Assessment of whether production costs are reflective of competitive market costs</u></p> <p>The verification team sought relevant information to test whether raw materials supplied by Jiao Long, were reflective of 'arms length' transactions and therefore reflective of competitive market costs.</p> <p>The verification team was unable to assess information for Jiao Long (e.g. costs/sales information), that may be relevant to the</p>	<p>The verification team had regard to information that was available to assess JLP's raw material input costs, such as the nature of the party relationships, contractual terms and details provided by JLP.</p> <p>The verification team further assessed JLP's raw material input costs and total production costs against other verified exporters of the goods from Malaysia. It was observed that JLP's costs were materially below all other exporters.</p>

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<p>assessment. This was due to this information not being made available for verification.</p> <p>JLP claimed that pricing largely followed market prices, while directing the verification team to The Plastics Exchange¹, as a source of market price data. The verification team understands that the website provides an index of international prices for resins such as LDPE film.</p> <p>However, the verification team did not consider the index price data to be relevant to the assessment of JLP's input prices. It is noted that raw materials listed are not readily comparable to the mixed input that is supplied by Jiao Long, which the verification team understands to be compromised of various raw material inputs. In addition, price information was not specific to the Malaysian market.</p> <p>As such, the verification team has not relied on this information.</p>	<p>Based on the information assessed, the verification team is not satisfied that raw material input costs reflect competitive market costs.</p> <p>In addition, the verification team does not have access to reliable information that could be used to replace the raw material costs.</p> <p>This is because JLP purchases materials in a mixed form, while other exporters purchase raw materials in a different, less processed state. Information has not been made available from Jiao Long to make an accurate assessment of the conversion costs incurred by Jiao Long.</p> <p>Based on the assessment of JLP's input costs and the limitations in relevant information available to assess conversion costs, the verification team does not consider that JLP's cost data is suitable to ascertain the cost of production in accordance with section 43(2) of the Regulation.</p>
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Export price

The verification team considers JLP to be the exporter of the goods that it supplied to Australian customers during the investigation period, as JLP is:

- the principal, located in the country of export
- the manufacturer of the goods (JLP manufactures the goods to Australian customer specifications via blown film extrusion)
- named on the commercial invoice as the supplier
- responsible for arranging and paying for inland transport to the port of export
- responsible for arranging and paying for port handling charges at the port of export and
- responsible for arranging and paying for ocean freight and insurance (where applicable).

In respect of JLP's exports of the goods to Australia 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
- 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

¹ <https://www.theplasticsexchange.com/>

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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.

The verification team therefore considers that JLP's export sales to Australia during the investigation period were arm's length transactions.

The verification team ascertained an export price for JLP under section 269TAB(1)(a), as the price the importer paid to the exporter less transport and other costs arising after exportation.

Normal value

The verification team found that JLP did not have any domestic sales of like goods during the investigation period. The verification team considered whether the normal value could be ascertained under 269TAC(1), having regard to sales by other sellers of like goods.

The verification team considers this volume is not large enough to permit a proper comparison for the purposes of determining a normal value under section 269TAC(1), as:

- sales by other sellers were of low volume
- there was not a material volume of sales for domestic consumption in all quarters during the relevant period
- there were differences in models for domestic sales of other sellers and the goods exported to Australia by JLP and
- insufficient information is available to make specification adjustments for differences in sales in accordance with section 269TAC(8).

The verification team assessed whether the normal value could be determined under section 269TAC(2)(c).

The verification team considers that insufficient information was provided for verification that the cost information provided by JLP is complete, accurate and relevant, or suitable for the purpose of ascertaining the cost of production in accordance with section 43(2) of the Regulation.

Cost of Production

The Customs (International Obligations) Regulation 2015 (the Regulation), provides for the assessment of an exporter's cost of production to be undertaken in accordance with section 43 of the Regulation. Section 43(2) of the Regulation states the following;

If:

(a) an exporter or producer of like goods keeps records relating to the like goods and

(b) the records:

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(i) are in accordance with generally accepted accounting principles in the country of export and

(ii) reasonably reflect competitive market costs associated with the production or manufacture of like goods

the Minister must work out the amount by using the information set out in the records

The Dumping and Subsidy Manual describes that, when considering competitive market costs, the Commission will examine inputs more carefully where they are sourced from related parties, such as where a major input is produced by an associate of the exporter. In such cases, it may be reasonable for that company to cooperate with dumping inquiries.²

From the verification of JLP's response, it was observed that:

- JLP's production process is highly integrated with its related party supplier, Jiao Long and
- Jiao Long is involved in the procurement, recycling and mixing of raw materials – which are sold to JLP at a fixed 'transfer price'.

The verification team observed that JLP's raw material costs are not readily comparable to market prices incurred by other exporters, as materials are supplied in a mixed form, subject to additional conversion costs.

However, it was observed that JLP's cost to make and sell data reported was significantly below all other exporters of the goods. In addition, JLP's unit raw material costs were materially below all other exporters of the goods, although other exporters incurred additional conversion costs (comparative to JLP), subsequent to the purchase of raw materials.

Furthermore, the verification team found that there were significant limitations in the information available for further verification of the cost data, including due to the following factors:

- JLP did not have audited financial statements or tax returns for the investigation period or prior periods for upwards costs verification in accordance with ADN 2016/30, to confirm the completeness of the cost data reported
- JLP indicated that it was unable to participate in a virtual verification scheduled by the Commission, or make finance staff available for direct correspondence, due to COVID-19 restrictions and
- Relevant information for Jiao Long was not made available for verification, for the purpose of assessing whether costs reported by JLP were reflective of competitive market costs.

² Dumping and Subsidy Manual (November 2018), pp. 45-6.

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Assessment of cost data

Having regard to these factors, the verification team is not satisfied that sufficient information was provided for verification that JLP's cost information is complete, accurate and relevant, or suitable to ascertain the cost of production in accordance with section 43(2) of the Regulation.

Therefore, the verification team did not consider JLP's cost data provided to be reliable, for the purpose of ascertaining the normal value.

The verification team proposes ascertaining the normal value for JLP in accordance with section 269TAC(6) of the Act, using the weighted average normal value of other Malaysia exporters of the goods during the investigation period, with respect to the models exported by JLP.

Dumping margin

Normal values were not determined as part of the verification process.

As such, the verification team was unable to calculate a dumping margin for the goods exported to Australia by JLP. The calculation of the dumping margin has been referred to the case management team and will be detailed in the Statement of Essential Facts.