



Australian Government
Department of Industry,
Science and Resources

Anti-Dumping
Commission

Exporter verification report

Verification and case details

Initiation date	13/04/2022	ADN:	2022/034
Case number	604		
The goods under consideration	2,4-Dichlorophenoxyacetic acid (2,4-D)		
Case type	Continuation Inquiry		
Exporter	Shandong Weifang Rainbow Chemical Co., Ltd		
Location	Virtual verification		
Verification date	12/07/2022	to	21/07/2022
Inquiry period	1/04/2021	to	31/03/2022

THIS REPORT AND THE VIEWS OR RECOMMENDATIONS CONTAINED THEREIN
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THE FINAL POSITION OF THE ANTI-DUMPING COMMISSION

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Preface

The Anti-Dumping Commission (the commission) has undertaken verification of data provided by Shandong Weifang Rainbow Chemical Co., Ltd for Continuation Inquiry 604. This report details the evidence gathered and the key findings from the verification of the data.

This report has been prepared for publication on the electronic public record for Continuation Inquiry 604.

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 sections 269SMG and 269SMR of the *Customs Act 1901* (Cth) (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

Shandong Weifang Rainbow Chemical Co., Ltd. (Rainbow) is a publicly traded company listed on the Shenzhen Stock Exchange Growth Enterprise Market. Established in 2000, it manufactures and sells 2,4-Dichlorophenoxyacetic acid (2,4-D) and a variety of herbicides, insecticides and other products for export and domestic markets.

Rainbow is a parent company with a large number of subsidiaries including related entities.

1.2 Related parties

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

1.2.1 Related suppliers

For Rainbow's production of the goods, Rainbow purchased raw materials from a related company.

Refer chapter 6.3 for supplier arms length assessment.

1.2.2 Related customers

The verification team determined Rainbow sold non-subject goods to its related Australian customer.² The verification team identified Rainbow is related to one domestic customer.

Refer chapter 8.1.1 for customer arms length assessment.

1.3 Accounting records

Zhang Lifa and Yin Zuoyong from Shanghai Shanghui Certified Public Accountants audit Rainbow's financial statements and include a statement that,

"In our opinion, the Financial Statements of the Rainbow Co., Ltd have been prepared according to the Accounting Standards for Business Enterprises and present fairly in all important respects, the Consolidated Financial Position Statement and Financial Position Statement of the Company as of December 31st, 2021, and of its Consolidated Financial Performance Statement, Financial Performance Statement of the Company and its Consolidated Cash Flows Statement and Consolidated Cash Flows Statement of the Company of 2021."

Therefore, the verification team considers that the accounting records held by the company are in accordance with the generally accepted accounting principles of China.

² A small number of export sales to an Australian customer were listed in Rainbow's data. As explained in chapter 4, these were found to be outside the inquiry period.

2 Goods under consideration and like goods

2.1 Production process

2,4-D products are produced from a chemical reaction involving 2- Ethylhexyl Ester, Triisopropanolamine, Picloram and soluble liquids. 2,4-D products are supplied in their acid form or converted to intermediate 2,4-D salts or esters. The purpose of this conversion process is to convert 2,4-D product into a soluble form. After the 2,4-D product is converted to either 2,4-D salts or esters, it is combined with other incipients and water into a fully formulated product, ready for application as a herbicide.

2.2 Model control codes (MCCs)

Rainbow 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) 2022/034.

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 provides detail on how the MCC sub-categories were determined.

Category	Determination of the sub-category [note evidence]
Form ³	Either 'technical' or 'formulation'. Rainbow provided a detailed structure of the product coding system for both technical and formulation. The 'end code' part of the product code defines whether the form is 'technical' or 'formulation.'
Product Type	Product codes indicated in commercial invoices, purchase orders and packing lists
Strength	Based on the percentage strength of 2,4-D (% w/v).

Table 1 - MCC sub-category determination

2.4 The goods exported to Australia and like goods sold on the domestic market

2.4.1 The goods intended to be exported to Australia

The verification team was satisfied that Rainbow produced goods that fell within the goods description and that could be exported to Australia in the future.

³ 'Technical' are the active ingredient forms of 2,4-D that have herbicidal activity, but is not fit for use by end users. Note that amine/salt forms are rare as a saleable unit, as they are typically formed as part of the formulation process. 'Formulation' are the products that end users apply as herbicides, which contain an active ingredient form of 2,4-D.

2.4.2 Like goods sold on the domestic market

Section 269T(1) provides that:

like goods, in relation to goods under consideration, means goods that are identical in all respect to the goods under consideration or that, although not alike in all respects to the goods under consideration, have characteristics closely resembling those of the goods under consideration.

The verification team was satisfied that Rainbow 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 under consideration, as they:

- are produced at the same facilities using similar raw material inputs and similar costs of manufacturing and production processes
- are functionally alike and interchangeable
- are commercially alike as they compete and sell in the same market sector

2.5 List of MCCs

Rainbow sold and produced the following MCCs during the period:

Australian Sales	Domestic Sales	Costs
Nil ⁴	T-E-63.7%	T-E-63.7%
	T-A-97%	T-A-97%
		F-M-30% ⁵

Table 2 - List of MCCs

2.6 Like goods – assessment

The verification team considers that the goods produced by Rainbow for domestic sale have characteristics closely resembling those of the goods under consideration and are therefore 'like goods' in accordance with section 269T(1) of the Act.

⁴ Verification team determined no export sales in the IP therefore no export MCC's

⁵ This MCC was produced but not sold during the inquiry period.

3 Verification of sales completeness and relevance

The verification team conducts verification of relevance and completeness by reconciling selected data submitted 'upwards' through management accounts up to audited financial accounts. The verification team reconciles total sales value and quantity to management reports, with particular attention given to including all relevant transactions and excluding all irrelevant transactions. 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 domestic sales listing submitted in the REQ by reconciling it to audited financial statements in accordance with ADN 2016/30.

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

1. Rainbow's total sales revenue reconciled to the most recent audited financial report, the most recent income statement and the accounting system for the most recent accounting period and the inquiry period.
2. Rainbow's sales revenue reconciled to its sales report, which included all products sold.
3. Rainbow demonstrated the method used to classify the goods and non-subject goods based on the product code. The sales volume and the revenue for the GUC reconciled to the sales report.

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 submitted by Rainbow, is complete and relevant.

4 Verification of sales accuracy

The verification team verifies the accuracy of data 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.

The verification team verified accuracy of the domestic sales listing submitted in the REQ by reconciling it to source documents in accordance with ADN 2016/30.

The verification team identified the following 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**.

Exception No	Description	Resolution
1	Rainbow exported GUC to one Australian customer and claimed the order date as the date of sale for export sales. The verification team considers the invoice date as the date of sale as it reflects the material terms of sale and it is the closest day to the exportation date. The verification team raised an exception because by applying the invoice date as the date of sale this changes the value and volume from the submitted REQ and it can impact the calculation of the dumping margin.	The verification team considers the invoice date as the date of sale and updated the Australian sales listing. As a result of this change, Rainbow has not exported the goods to Australia during the inquiry period (IP) and the verification team has not calculated an export price.
2	The verification team determined that sales between Rainbow and, a related company, appears influenced by their relationship and therefore considered non-arms length. Refer to section 8.1.1 for further details.	Pursuant to section 269TAA(1)(b), sales by Rainbow to a related company is not considered arms length. Therefore, the verification team has removed domestic sales to the related company from the domestic sales listing.
3	Rainbow claimed the date of the sales contract for sales to unrelated customers and the order date for sales to a related company as the date of sale. Consistent with its finding for export sales, the verification team considers the invoice date as the date of sale as it reflects the material terms of sale. The verification team raised an exception because by applying the invoice date as the date of sale changes the value and volume from the submitted REQ and it can impact the calculation of the dumping margin. Rainbow also revised the domestic sales listing due to an administration error in relation to invoice numbers and dates, however no changes to the value and volume.	The verification team considers the invoice date as the date of sale and updated the domestic sales listing.

Table 3 - Exceptions

4.1 Sales accuracy finding

The verification team is satisfied that the sales data submitted by Rainbow, including any required amendments as outlined in Table 3, 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

The verification team conducts verification of relevance and completeness by reconciling selected data submitted 'upwards' through management accounts up to audited financial accounts. The verification team reconciles total cost to make data to the cost of production in the management reports with particular attention given to including all relevant costs and excluding all irrelevant costs. The verification team then reconciles cost of production data, through relevant account ledgers, to the cost of goods sold figure reported in the audited income statement. Additionally, the verification team reconciles selling, general and administrative (SG&A) expenses to income statements, with particular attention given to specific expenses that the company excluded or that the verification team should exclude.

The verification team verified the completeness and relevance of the cost to make and sell (CTMS) information submitted in the REQ by reconciling it to audited financial statements in accordance with ADN 2016/30.

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

1. Rainbow's total cost of the goods sold was reconciled to the most recent audited financial statement, the company's most recent income statement and accounting system for the most recent accounting period and inquiry period.
2. Rainbow's total cost of production for the period ascertained by adjusting for the change in finished goods inventory, purchased stock, audit adjustments and accrued expenses.
3. Rainbow demonstrated how it was able to ascertain the domestic and Australian cost to make values and volumes for the goods, using its accounting system.

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

1. Rainbow's SG&A listing was reconciled to the most recent audited financial statement and the company's accounting system for the most recent accounting period and inquiry period.

The verification team identified no 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 Completeness and relevance finding of CTMS data

The verification team is satisfied that the CTMS data submitted in the REQ by Rainbow, 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 submitted in the REQ to the relevant MCCs, in accordance with ADN 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 4 below outlines the allocation method applied to each cost item.

Cost item	Method applied
Raw Materials	Raw material costs allocated based on production quantity.
Labour	Direct labour allocated based on production quantity.
Manufacturing Overheads	Manufacturing overheads allocated based on production quantity.
Depreciation	Depreciation is allocation based on production quantity.

Table 4 - 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 submitted in the REQ by reconciling it to source documents in accordance with ADN 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

Rainbow purchased raw materials from a related supplier. The verification team performed a price analysis between the related supplier and unrelated suppliers and determined that the price was comparable between the related supplier and unrelated suppliers during the inquiry period.

Based on the findings above the verification team was satisfied that Rainbow's raw material purchases from the related supplier were arms length transactions.

6.4 Accuracy finding

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

7 Export price

7.1 Export price – assessment

As stated in Chapter 4 of this report there are no goods under consideration exported to Australia in the inquiry period and therefore the verification team does not have sufficient information to calculate an export price. Based on this finding, the verification team considers there are no importers and exporters involved in this verification.

The verification team has referred calculation of a preliminary export price to the case management team.

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 Related party customers

In respect of Rainbow'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 their price
- 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.⁶

However, the verification team found evidence that a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller appeared to influence the price because:

- Rainbow has a significant shareholding in the related customer; and
- Rainbow purchased the goods from unrelated suppliers and onsold these goods to the related customer at a substantially lower price;
- The related customer sets the price in an internal purchase order;
- There was no evidence of price negotiation or bargaining between Rainbow and the related customer provided;

The verification team therefore considers that domestic sales made by Rainbow to its related customer during the period were not arms length transactions, pursuant to section 269TAA(1)(b).⁷

8.1.2 Unrelated customers

In respect of Rainbow'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
- 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
- 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.

⁶ See sections 269TAA(1)(a) and 269TAA(1)(c).

⁸ The commission notes that the finding in this report that the sales to domestic customers did not take place on an arms length basis relates to the assessment of normal values for anti-dumping purposes under section 269TAC. It is not an assessment of the exporter's transfer pricing policy with respect to compliance with the revenue laws of any jurisdiction.

The verification team therefore considers that all domestic sales made by Rainbow 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 both:

- unprofitable in substantial quantities over an extended period
- unlikely to be recoverable within a reasonable period.⁸

The verification team tested profitability by comparing the net invoice price 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%) 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 net invoice price against the relevant weighted average cost over the period for each domestic sales transaction.

Table 5 sets out further detail:

OCOT particulars	Details
Price	Net invoice price
Cost	Quarterly cost to make and sell, including direct selling expenses
Weighted average cost	Weighted average cost to make and sell, including direct selling expenses, over the inquiry period.

Table 5 - OCOT details

⁸ In general, the commission will consider 'extended period' and 'reasonable period' to be the investigation, review or inquiry period.

9 Normal value

As stated in previous sections of this report the verification team did not determine any goods under consideration were exported to Australia. The Commission is required to determine what are relevant sales when calculating a normal value under section 269TAC(1). In deciding what relevant sales to use, the Commission has to ensure that a proper comparison can be made between the exported goods and the goods sold on the domestic market.

With no export sales a comparison of sufficient volumes of models on the domestic market could not be undertaken. Based on this finding the verification team did not calculate a normal value. The verification team has referred the calculation of a normal value to the case management team.

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

10 Dumping margin

An export price and normal value was not determined as part of the verification process. As such, the verification team was not able to calculate a dumping margin. The verification team has referred the calculation of the dumping margin to the case management team.

11 Appendices and attachments

Confidential appendix 2	Cost to make and sell
Confidential appendix 3	Domestic sales
Confidential attachment 1	Verification work program