RAYYIN 瑞银律师事务所

RAYYIN & PARTNERS P.R.C.LAWYERS
Tel: 86 10 84683690 Fax: 86 10 84683689
Website: www.rayyinlawyer.com

501, 05/F, Office Tower2, Kunsha Center, No.16 Xinyuanli, Chaoyang District, Beijing, P.R.China
北京市朝阳区新源里 16 号琨莎中心 2 座 501 室
邮编：100027

Attn: Case Manager MS. Andrea Stone
MS. Danielle Rudolph

Operations 2
Anti-Dumping Commission
5 Constitution Avenue
Canberra Act 2601

Re: Antidumping and Countervailing Investigation into Deep Drawn Stainless Steel Sinks Exported from The People's Republic of China

Dear Danielle and Andrea,

Please find the attached comments on the margin calculation of the Exporter Visit Report.

If you have any queries, don't hesitate to contact us.

Yours sincerely,

Lin Yang 杨麟

Date: Sep 17 2014

Zhongshan Jiabaolu Kitchen and Bathroom Products Co., Ltd, Flowtech Co., Ltd and Zhongshan Flowtech Co., Ltd's Comments on the Verification Visit Report

On behalf of Zhongshan Jiabaolu Kitchen and Bathroom Products Co., Ltd, Flowtech Co., Ltd and Zhongshan Flowtech Co., Ltd (collectively as "the Exporter"), we submit the following comments on the Exporter Visit Report issued by Australian Anti-Dumping Commission ("the Commission") on September 4 2014.

First of all, the Exporter would like to thank the Commission for offering sufficient chances to the companies to present their responses and opinions in this investigation, which is highly appreciated.

The Exporter Visit Report shows that the Commission, through its verification visit, is generally satisfied with the sales and cost data submitted by the Exporter, although there are some minor and unintentional errors in the questionnaire responses of the Exporter which have been discussed and corrected during the verification visit.

However, by using the sales and cost data submitted by the Exporter, the Commission calculates a very high dumping margin [redacted] **[Redacted – the dumping margin calculated by the Commission]**. This is a very surprising and frustrating result, which is totally contrary to the Exporter's business reality during the Period of Investigation("POI").

The Exporter's business with Australian market

Since [redacted] **[Redacted – the year in which the agreement was signed]**, the Exporter reaches an exclusive supply agreement with [redacted] **[Redacted – customer name]**. The Exporter manufactures and exports the subject merchandise to Australian market according to the purchase orders from [redacted] **[Redacted – customer name]**. The production and sales quantity to Australian market is wholly under the instruction of [redacted] **[Redacted – customer name]**. The sales price will be reviewed every four months, and the adjustment could be triggered if the variance of market price of cold rolled stainless steel exceeds [redacted] **[Redacted – a specific percentage]** which shall also be confirmed by the variance trend of nickel. Under this exclusive supply agreement, the Exporter is NOT allowed to sell the subject merchandise to other Australian customers. Moreover, it is NOT possible to the Exporter to enlarge its sales to Australian market by dumping its products, because neither the sales price nor the sales quantity is under the control of the Exporter. Not like the exporters who are not subject to exclusive supply agreement, the Exporter has no incentives to lower its selling price to increase the exports to Australian market.

The Exporter respectfully requests the Commission to take the above business model into consideration, and choose the appropriate and reasonable calculation method which reflects such business reality.

After reviewing the Commission's margin calculation, the Exporter finds that the high dumping margin has nothing to do with the sales and cost data submitted by the Exporter, and there is also no calculation errors in the calculation process, instead, such high dumping margin is due to some calculation methodology chosen by the Commission, which is unfair and unreasonable.

A. Sales price of scrap shall be adjusted according to MEPS or any reliable international market price

In original questionnaire response, Jiabaolu reports that around 30% of inputted stainless steel is wasted during the production process. In the Exporter Visit Report, the Commission also correctly records the following facts: (1) the sales value of scrap is recorded in both accounting ledger and the sales invoice; (2) [redacted] **[Redacted – information on the accounting practice relating to scrap sales];** (3) Jiabaolu provided printouts from the webpage of the local scrap steel market showing the market scrap price of 304 stainless steel across the investigation period, which was significantly higher on a per tonne basis than that recorded by Jiabaolu in its accounts.

During the factory tour, the investigators also saw how the scrap were generated from the production stages, and how large-size scrap and small-size scrap were stored separately.

In the Exporter Visit Report, the Commission concludes that "While we acknowledge the difference between the recorded sales price of scrap in Jiabaolu's accounts and the market price evidence provided by Jiabaolu, we do not consider that sufficient reliable evidence exists to demonstrate that Jiabaolu in fact received more revenue for sales of scrap than is recorded in the company's accounts. We therefore consider it reasonable to retain the calculations in Jiabaolu's CTMS that rely on the actual scrap revenue recorded in the company's accounts."

The Exporter cannot agree to above conclusion. As to the issue of scrap offset, there are two key issues need to be investigated, (1) whether scrap is generated from the normal production; and (2) how much quantity is generated from normal production, which can be verified and used as an offset to production cost. The Commission and the Exporter did not dispute on the first key issue. For the second key issue, the Commission goes to a wrong direction. What is the actual sales revenue of scrap or whether the full sales revenue of scrap is recorded in the accounts is nothing to do with the calculation of production cost. The Commission has preliminary found that there has been significant GOC interventions in the Chinese iron and steel industry that are considered to extend to the manufacturers of steel and steel inputs. Due to this preliminary finding, the Commission decides to uplift the input cost of stainless steel by calculating the difference between MEPS price and purchase price recorded by Jiabaolu. Following this preliminary finding, the Commission shall logically determine that the scrap price of 304 stainless steel in China is also intervened by GOC, so the actual transaction price of scrap shall be discarded and the same uplift calculation shall be done to the sales price of the scrap of 304 stainless steel. Because eventually the sales price of scrap shall be uplift to the MEPS level, the sales price of the scrap recorded by Jiabaolu, no matter it is higher or less, partial or complete, is not important. Since the Commission has preliminary concluded that there is significant GOC interventions in the Chinese iron and steel industry, the Commission shall do the uplift calculation to both purchase of 304 stainless steel and sales of scrap of 304 stainless steel.

In sales invoice of scrap which has been verified during the verification visit, there are the respective sales quantity of large-size scrap and small-size scrap, which is consistent with the sales quantity of scrap reported in original questionnaire response. When selling the scraps to the outside purchase, the scraps are weighted and the quantity is recorded in the sales invoice. Although the sales quantity is not exactly same with the quantity of scraps generated from the production, in a long period like POI, the sales quantity is close to the production quantity of scraps. The Commission could use the sales quantity of scraps to calculate the offset to the production cost, which will not distort the calculation.

Furthermore, at the beginning of its business with the customer [redacted] **[Redacted – customer name]**, when negotiating the price adjustment formula, the customer understands that around 30% of inputted stainless steel will be wasted during the production process (the scrap ratio may vary among the different models), and such loss has been considered for fixing the price adjustment formula. The Exporter has requested the customer to present its statement on this issue to the Commission.

B. It is totally unacceptable to discard the model cost kept in historical and verified record, while recalculating the model cost

In the Exporter Visit Report, the Commission has recalculated monthly model cost. "the Commission has made corrections to the monthly CTMS categories to ensure that the total costs of each category in each month are evenly attributed across all models using the model production weight/total monthly production weight allocation method using the model production weight/total monthly production weight allocation method".

The Exporter agrees to the Commission's observation that the monthly cost of some models is abnormally high either due to the correction to the CTMS of previous month or due to the low production quantity during Chinese New Year holiday. However, it is not necessary to recalculate the model cost for all models and for all months, because this kind of recalculation in fact rejects all existing model cost kept in Jiabaolu's normal business. It is sufficient to make the adjustment only to certain models or certain months whose production cost is abnormal.

Article 2.2.1.1 of the WTO Anti-Dumping Agreement provides "*For the purpose of paragraph 2,* ***costs shall normally be calculated on the basis of records kept by the exporter or producer under investigation****, provided that such records are in accordance with the generally accepted accounting principles of the exporting country and reasonably reflect the costs associated with the production and sale of the product under consideration.* ***Authorities shall consider all available evidence on the proper allocation of costs, including that which is made available by the exporter or producer in the course of the investigation provided that such allocations have been historically utilized by the exporter or producer****, in particular in relation to establishing appropriate amortization and depreciation periods and allowances for capital expenditures and other development costs...* "(emphasis added by the Exporter).

Customs Regulation 181(2) which interprets and reflects the principles of Art 2.2.1.1

(2) If:

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

(b) the records:

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

(ii) reasonably reflect the administrative, general and selling costs associated with the sale of the like goods;

the Minister must work out the amount by using the information set out in the records(emphasis added by the Exporter).

According to the above requirements, the historical allocation method and cost evidences kept by the Exporter in its normal business shall be respected by the Commission. Without any prevailing reasons, the Commission should avoid recalculating the model cost, because such recalculation is not only time-consuming, but also distorts the business reality. As discussed above, a limited adjustment is sufficient to correct the abnormal CTMS, the Exporter cannot understand why the Commission decided to reject all CTMS reported by the Exporter and did the unnecessary recalculation. Furthermore, the Exporter has submitted in previous emails that even some models' monthly cost is abnormal in some months, the Commission could easily and simply to use the POI cost to substitute the relevant monthly cost to avoid recalculating, because in a longer period like POI, such abnormal monthly cost has been corrected and adjusted automatically.

Furthermore, the Exporter wants to emphasize that there will be a serious defectiveness and distortion if the Commission decides to recalculate the model cost. As showed in sample monthly cost report submitted in verification visit, the input of stainless steel is first allocated among the different models of semi-finished goods by production weight basis, NOT allocated among the different models of finished goods directly. The semi-finished goods are bowls after deep drawing and shaping, but before trimming, polishing and welding. Any specific model of semi-finished goods is specially used for the production of a specific model of finished sink. So the direct material of finished sink is the semi-finished goods, NOT the stainless steel. In the normal business, there is always an inventory of semi-finished goods. The consumption of stainless steel of each month cannot be linked to the models of finished sinks directly. The current recalculation of monthly model cost is to allocate the input of stainless steel to the models of finished sinks directly, without considering the inventory movement of semi-finished goods. This calculation method is not consistent with the historically existing method used by Jiabaolu and definitely will distort the margin calculation.

C. The calculation of 'back out' accessories is more precise than the calculation of including accessories

In the Exporter Visit Report, the Commission has considered Jiabaolu's submission that the most reasonable method for the Commission to calculate dumping is to 'back out' the cost of accessories (sales value) in the export price calculation, and deduct the cost of accessories from the CTMS calculation. However, the Commission continues to examine the goods description of this investigation, which specifically states that the goods under investigation are deep drawn stainless steel sinks 'whether or not including accessories'. Consequently, the Commission considers that the goods description encompasses deep drawn stainless steel sinks sold with accessories and those without as both being 'the goods', and that 'the goods' are effectively the sink and accessories combined where they are sold collectively. As a result, the Commission concludes that there is no provision for it to dissect the products sold to Australia into segments of sinks and accessories and conduct the dumping assessment based wholly on the sink itself, as the sink with accessories combined is intrinsically 'the goods' as a whole.

The Exporter cannot agree to the above analysis. The Commission mistakenly confuses the two separate issues, i.e. goods description and comparison method.

Jiabaolu's submission is nothing to do with the goods description. It is very clear to the Exporter that the sink with accessories is part of the goods under investigation. Due to this understanding, the sales data or cost data relating to the sink with accessories are still kept in the data pool for the margin calculation. It is not correct for the Commission to state that Jiabaolu's submission of 'back out' accessories implies the sink with accessories shall be excluded from the goods under investigation.

Jiabaolu's submission of 'back out' accessories is only relating to the issue of comparison method. The precise margin calculation is based on precise comparison between export model and domestic model, that is to say, an apple to apple comparison shall be guaranteed. The most precise method is to artificially create "product control number" for each unique type and possible combination of accessory, for all products produced and exported to Australia as well as for those sold domestically. This method is quite common in US and EU investigations. In this investigation, because the Commission does not use the "product control number", Jiabaolu voluntarily proposes the method of 'back out' accessories to assure the precise comparison. Although the 'back out' accessories is not a perfect method, the Exporter considers this method is more reasonable than the method of including accessories as proposed by the Commission:

(1) Sink to sink comparison, backing out the accessories, is more precise, because this comparison will not affected by the misallocation of accessories cost;
(2) Sink to sink comparison reflects the business reality. The price adjustment documents of every four months clearly shows the adjustment is only apply to the sink itself. Accessories price aren't reviewed and is individually determined. So in business reality there is no selling price for "the sink with accessories" as a single set. There are always separate price for sink and separate price for accessories. The final invoice price is the sum of these two separate prices;
(3) Under the method of including accessories cost, the accessories cost has to be allocated among models. It is very difficult to develop a precise allocation method. The current allocation method used by the Commission considers the accessories difference among markets, so the CTMS for Australian sales is more precise than the original cost, however, the CTMS for domestic sales is still facing the serious misallocation of accessories cost. The accessories for domestic sales often vary among the different customers, or even the different transactions of the same customer. That is to say, the allocation of accessories cost is not solely based on the market or model. The Commission's method does not less the misallocation of accessories cost for domestic sales, which inevitably will increase the calculated profit ratio.

D. There is no persuading reason why Asian market price of MEPS shall be excluded for the calculation of substituted price of stainless steel

In the preliminary determination, the Commission concludes "the Commission's assessment of the 'world composite' price put forward by Tasman in its application has found that the Asian prices included in this composite include Chinese domestic prices, which the Commission does not consider reasonably reflect competitive market costs. The inclusion of Chinese domestic prices in the composite thus potentially distorts the benchmark price. Consequently, the Commission has derived a monthly MEPS composite price for 304 grade stainless steel coil using the monthly reported MEPS

North American and European prices alone (excluding the Asian price)".

The only fact that inclusion of Chinese domestic prices in the composite itself is not sufficient to the Commission to conclude that Asian prices have been distorted. The Commission does not occupy any convincible evidences or conduct any reliable analysis to show that MEPS Asian prices has also been impacted by the existence of significant GOC interventions. The word "potentially" in the Commission's preliminary determination implies that the Commission's above conclusion is a "mere conjecture". At least the following facts shall be investigated before any affirmative conclusion:

(1) How GOC interventions affect the pricing mechanism in Asian market;
(2) Whether the effective competition in international market has forced Chinese exporters to raise their prices to intentional market level;
(3) The market shares of exports from China in Asian market;
(4) Whether the thickness of US products (at 0.10 inches) which is different from Asian and EU products affect the comparability;
(5) Whether Tasman mainly uses stainless steel from Japan and other Asian SS suppliers

Lacking any contrary evidences, the Exporter considers MEPS Asian prices is the most appropriate benchmark price, because both China and Australia are parts of this market, and the Exporter also believes that Tasman mainly sources stainless steel from Asian suppliers.

E. The profit ratio used for constructing the normal value is unreasonably high

In Exporter Visit Report, the Commission calculates a very high profit ratio, i.e. [redacted] **[Redacted – the profit ratio calculated by the Commission]** for the Exporter's domestic sales, which is used for the calculation of constructed normal value. This profit ratio is very unreasonable. The Exporter does not believe that any sink manufacturer either in China or in Australia or in any third country could achieve such high profit ratio.

Article 2.2 of the WTO Anti-Dumping Agreement provides that the normal value can be constructed by "*the cost of production in the country of origin plus a* ***reasonable amount*** *for administrative, selling and general costs and for profits.*" (emphasis added by the Exporter). Regulation 181A (4) (b) also provides "*the Minister must disregard the amount by which the amount worked out* **exceeds the amount of profit normally realised** *by other exporters or producers*". (emphasis added by the Exporter)

As required by the WTO Anti-Dumping Agreement and the Commission's own Regulations, any calculated profit ratio, whichever method is used, must be reasonable and must not exceed the amount of profit which would be normally realised by the manufacturers in the same industry. This is a fundamental requirement on determining the profit ratio.

Additionally, the Exporter requests Commission to consider the following facts:

(1) the calculated profit ratio highly depends on what calculation method the Commission chooses. As the Commission itself observed in the Exporter visit report, the recalculation of model cost and rejection of 'back out' accessories in fact result in the significant increasing of profit ratio. To avoid any very unreasonable profit ratio, it is very important to compare the calculated profit ratio with the normal industrial level to check

its "reasonableness";

(2) As the Commission also observed "In performing an ordinary course of trade test using Jiabaolu's invoice values compared to its CTMS, this may result in sales with inaccurately high profits due to disproportionate rebates being applied". Jiabaolu's current sales record of domestic market did not support a very precise calculation of profit ratio due to disproportionate of rebates;

(3) in the calculation sheet of price adjustment with the customer [redacted] **[Redacted – customer name]**, the target profit ratio is [redacted] **[Redacted – the profit ratio in the calculation sheet of price adjustment with the customer]**, which includes the profit of both Flowtech and Jiabaolu, for both deep drawn and fabricated, is already an amount higher than domestic sales. Even this target profit ratio is still lower than the Commission's calculated profit ratio. The Exporter has requested the customer [redacted] **[Redacted – customer name]** to present its statement on this issue to the Commission, according to its long-term experience in Australian market.

Due to the above reasons, the Exporter respectfully requests the Commission to determine a more reasonable profit ratio for constructing the normal value. One possible solution could be to use the profit ratio in the Income Statement of Jiabaolu.

F. Other adjustments need to be discussed

(1) Coil slitting costs: the copy of stainless steel purchase agreement with 'sheet slitting' extra cost is just an example for one supplier. During the verification visit, the Exporter has orally informed the investigators that the slitting cost of this supplier is at high level. The more precise method is to calculate the monthly price difference between coil and sheet based on the sheet "steel purchase", and such difference can be considered as the sheet slitting cost. If the monthly price difference is not available, then the POI price difference can be used for this month;

(2) the same VAT refund ratio shall be applied to both sales channels: no matter what sales channel is applicable, the loss of VAT refund (8% = 17%-9%) is same to the combination of Flowtech + Jiabaolu. The difference is that when direct exports to Flowtech, such loss of VAT refund is assumed by Jiabaolu, when exports through Zhongshan Flowtech, such loss of VAT refund is assumed by Zhongshan Flowtech. But anyway, the loss is only 8%. So in Appendix 4 Normal Value, the same VAT adjustment ratio 8% shall be applied;

(3) the adjustment of "other costs" in domestic sales shall be accepted: in the Exporter Visit Report, the Commission states "As outlined at Section 7.4.2, Jiabaolu submitted it incurs marketing expenses in relation to domestic sales that are not attributed to export sales. Jiabaolu submits that it factors these expenses in to its domestic sales prices. We consider that a downwards adjustment to normal value may be warranted to account for these domestic marketing expenses. However, **Jiabaolu has been unable to accurately quantify these domestic marketing expenses,** and as such we consider no adjustment for these is possible"(emphasis added by the Exporter).

The Exporter does not understand why this adjustment cannot be "accurately quantified". In Annex E-2.10 Adjustment of Various Selling Expenses of the original questionnaire response, Jiabaolu has provided the complete listing of all selling expenses by month and by item for whole POI. For each item of selling expenses, Jiabaolu has manually identify whether it is for domestic sales, or exports sales or both. Such identification and data have been verified and used for CTMS calculation. It is very difficult to understand why the same identification and data is rejected for the downward adjustment to normal value calculation;

(4) the allocation of SG&A shall be done on the basis of weight: the Exporter reconsiders this issue. It is more reasonable to allocate SG&A based on weight, not based on the unit. A controlling fact is that the inland transportation is relating to the weight, not relating to the number of units. Normally the heavier model is more expensive, which maybe independently packed with paper box. Such models with paper box cost more transportation expenses. Another fact has been presented before is more 'selling effort' would go in to the sales of more heavy and expensive model;

(5) POI cost shall be used: as discussed above, the monthly cost of some models may be abnormal high due to the low production in holiday month or cost correction to previous month, although POI cost is normal. Due to this fact, the calculation of dumping margin by comparing quarterly normal value to quarterly exports price maybe distorted, the Exporter suggests to use POI cost to be compared to quarterly exports price.

杨麟