



**Australian Government**  
**Australian Customs and**  
**Border Protection Service**

Public record

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**INVESTIGATION INTO THE ALLEGED DUMPING OF  
FORMLATED GLYPHOSATE**

**EXPORTED FROM**

**THE PEOPLE'S REPUBLIC OF CHINA**

**EXPORTER VISIT REPORT**

**SHANDONG WEIFANG RAINBOW CHEMICAL CO., LTD**

**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 CUSTOMS AND BORDER  
PROTECTION**

**May 2012**

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**2 BACKGROUND****2.1 The application**

On 21 December 2011, Nufarm Ltd (Nufarm) and Accensi Pty Ltd (Accensi) (herein referred to as the applicants) lodged an application requesting that the Minister for Home Affairs (the Minister) publish a dumping duty notice in respect of formulated glyphosate exported to Australia from the People's Republic of China (China).

The applicants subsequently provided further information in support of their application. As a result, Customs and Border Protection restarted the 20 day period for considering the application.

On 6 February 2012, following consideration of the application, the Australian Customs and Border Protection Service (Customs and Border Protection) initiated an investigation. Public notification of initiation of the investigation was made in *The Australian* on 6 February 2012. Australian Customs Dumping Notice No. 2012/05 provides further details of this investigation and is available at [www.customs.gov.au](http://www.customs.gov.au).

Customs and Border Protection has previously conducted two investigations into formulated glyphosate from China. The most recent investigation was in 2001-02, following an application lodged by Monsanto Australia Limited (Trade Measures Report 45 refers). Shandong Weifang Rainbow Chemical Co., Ltd (Rainbow) was not an interested party in this investigation.

There are no current anti-dumping or countervailing measures on formulated glyphosate exported to Australia from China.

**2.2 Purpose of visit**

Prior to initiation of the investigation, Rainbow was identified in the Customs and Border Protection's import database (import database) as a supplier of formulated glyphosate from China during 1 January to 31 December 2011 (the investigation period). Consequently, Rainbow was invited to participate in the investigation, and subsequently requested a copy of an exporter questionnaire to complete.

Rainbow provided an exporter questionnaire response which was supported by confidential appendices and attachments, including confidential spreadsheets containing sales and costs data.

A non-confidential version of Rainbow's exporter questionnaire response was placed on the public record.

The purpose of the visit was to verify information submitted by Rainbow in their exporter questionnaire response.

Customs and Border Protection will use the information and data verified at the exporter verification visit to make preliminary assessments of:

- like goods;
- who is the exporter and who is the importer;

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- export prices;
- normal values; and
- dumping margins.

### 2.3 Meeting dates and attendees

Verification meetings were held at Rainbow's manufacturing facility in Weifang on Wednesday 9 May 2012 to Thursday 10 May 2012. A further verification meeting was held at Rainbow's head office in Jinan on Friday 11 May 2012.

#### Contact details

Company:	Rainbow
Address (factory):	1# Haigang Road, Binhai Economic Development Area, Weifang, Shandong, China
Address (head office):	6 <sup>th</sup> Floor Gaoxinjishuchuangye Center, 750# Shunhua Road, Jinan, Shandong, China
Date of meetings:	9 May 2012 to 11 May 2012

The following representatives were present at various stages of the meetings.

Rainbow	<ul style="list-style-type: none"> <li>• Mr Wicky Wang, President</li> <li>• Ms Sandya Fan, Sales Manager of Asia Pacific Manager of Commercial Dept.2</li> <li>• Other financial accounting and production support staff</li> </ul>
Consultants - Zhong Lun Law Firm	<ul style="list-style-type: none"> <li>• Mr Liu Jianwei, Partner</li> <li>• Mr Liu Jingwei</li> </ul>
Customs and Border Protection	<ul style="list-style-type: none"> <li>• Chris Vincent, Manager, Operations 1</li> <li>• Christie Sawczuk, Manager, Operations 2</li> <li>• Rachel Lohan, Supervisor, Operations 1</li> </ul>

### 2.4 Preliminary issues

Prior to the verification visit an exporter verification visit agenda was forwarded to Rainbow that included sales transactions and costs selected for detailed verification. A copy of the visit agenda is at **Confidential Attachment GEN 1**.

At the commencement of the meeting, we provided a summary of the investigation process and key reporting timeframes as follows:

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- the investigation period is 1 January to 31 December 2011;
- Customs and Border Protection will examine the Australian market from January 2008 for the purpose of analysing the condition of the Australian industry;
- a preliminary affirmative determination (PAD) may be made no earlier than 10 April 2012 – which is the first working day after the Easter public holiday. Provisional measures may be imposed at the time of the PAD or at any time after the PAD has been made, but Customs and Border Protection would not make such a determination until it was satisfied that there appears to be, or that it appears there will be, sufficient grounds for the publication of a dumping duty notice;
- a statement of essential facts (SEF) will be placed on the public record by 28 May 2012 or such later date as the Minister allows<sup>1</sup> - the SEF will set out the material findings of fact on which Customs and Border Protection Intends to base its recommendations to the Minister and will invite interested parties to respond, within 20 days, to the issues raised (submissions received in response to the SEF will be considered when compiling the report and recommendations to the Minister); and
- Customs and Border Protection's report to the Minister is due on 10 July 2012 (refer to footnote 1).

### Exporter questionnaire discrepancies

Upon assessment of Rainbow's exporter questionnaire response Customs and Border Protection identified several discrepancies with the information and data provided (**Confidential Attachment GEN 2** refers). Prior to the verification Rainbow provided additional information and revised confidential attachments to address / resolve the discrepancies (**Confidential Attachment GEN 3** refers).

## 2.5 Visit report

We briefly explained to Rainbow that we would prepare a report of our visit and provide it to the company to review its factual accuracy, and to identify those parts of the report considered to be confidential.

We noted that, in consultation with Rainbow, we would prepare a non-confidential version of the report to be placed on the Public Record.

Rainbow cooperated with the verification of the exporter questionnaire response and provided further information when requested.

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<sup>1</sup> Subsequent to the visit, on 25 May 2012 the Minister's decision to grant an extension to the SEF was publicly notified. The revised SEF due date is 25 June 2012. The revised final report due date is 9 August 2012.

3 COMPANY INFORMATION

3.1 Company information

In 2005, Rainbow was established in China as a Sino-foreign venture (invested by [redacted] and [redacted] [Company name]). Rainbow is a privately owned proprietary company limited by shares.

Rainbow advised that the company was previously known as Jinan Rainbow Chemical Co., Ltd (which commenced operations in 2000), however when the company's production facilities commenced in Shandong, its name was changed (which is required by Chinese commercial law).

Since 2005, Rainbow's corporate ownership has changed (this report does not details these changes). Currently, Rainbow's shareholders consist of the following [redacted] companies:

- [redacted] [Company names].

In their questionnaire response, Rainbow provided the shareholding structure for the companies listed above (Confidential Attachment COM 1 refers). The shareholders for these companies are private individuals and Rainbow advised that the shareholders (and shareholding percentages) are identical for [redacted] [Company names]. We note that Shandong Rainbow's share of the company was transferred to [redacted] [Company names] in [redacted].

Rainbow advised that their shareholding companies are not directly involved in the sale or production of formulated glyphosate. However we identified several importations of consignments of agrochemicals in the import database, which were supplied by [redacted]. One of these consignments was described as "glyphosate 450" and imported by one customer. Rainbow advised that it included this transaction in its Australian export sales spreadsheet in their exporter questionnaire response (commercial invoice number [redacted] refers).

[redacted] [export sales details]. Rainbow advised that for this transaction [redacted] only participated into the transferring of the goods payment. We were able to confirm that this export sale in Rainbow's Australian export sales spreadsheet.

No other importations by Rainbow's shareholding companies were identified.

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We also sought Rainbow's clarification regarding the company name and role of its main shareholding company, which is referred to as Rainbow International. Rainbow advised that this shareholder is a trading company only and while the Chinese names are different that when translated to English the names for these companies were extremely similar.

In 2011, Rainbow established [redacted] subsidiary companies; and [redacted] [subsidary details].

Both companies are [redacted] owned by Rainbow and Rainbow advised that these subsidiaries are not involved in either the production or the sale of formulated glyphosate.

We noted that two other subsidiaries [redacted] [subsidary details] were listed in Rainbow's audited financial reports for 2011. Rainbow confirmed that [redacted]

[redacted] [subsidary details], are Rainbow's subsidiaries and that they were established for the operations of registrations for relevant pesticides in other countries. These subsidiaries are not involved in either the production or the sale of formulated glyphosate.

We did not identify any importations of agrochemical chemicals from Rainbow's subsidiaries in the import database.

Rainbow provided details of its internal corporate structure in its exporter questionnaire response (**Confidential Attachment COM 2** refers).

### Commercial functions

Rainbow is one of the major manufacturers and exporter of agrochemicals in China. Rainbow manufacture and supply a wide range of fine chemical products (excluding hazardous chemicals), raw agrochemicals, pesticides and dangerous chemicals (including methyl chloride, sulphuric acid 80% and hydrochloric). Rainbow manufactures technical chemical products (i.e. glyphosate technical) and also acts as a trader for these goods. Rainbow manufactures fully formulated products and also repacks formulated products.

The company is export orientated and supply products to 60 (22 in respect of formulated glyphosate) export markets (including Asia, Australia, the Middle East, North and South America). They also supply certain agrochemical products to the domestic market in China. In 2011, based on the total sales revenue (RMB) for all products exports sales and domestic sales represented [redacted] and [redacted] respectively.

### Production facilities

The company advised that its three major product lines relate to triazines, 2,4-D and glyphosate, which reflects their different production facilities.



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Rainbow has three production facilities located in Weifang Binhai Economic Development Zone, as described below.

- *Factory 1* – predominantly utilised for glyphosate production (including glyphosate technical and formulated glyphosate).
- *Factory 2* – predominantly utilised for the production of triazines herbicides (including atrazine, ametryn, simazine, terbuthylazine, terbutryn and prometryn).
- *Factory 3* – predominantly utilised for the production of 2,4-D related products (including 2,4-D acid, 2,4-D dimethylamine salt, 2,4-D sodium salt, 2,4-D butyl ester, 2,4-D isobutyl ester, 2,4-D isooctyl ester and 2,4-D ethyl hexyl ester). Rainbow advised that this factory is located at a distance from the production sites for other agrochemicals.

Rainbow's production facilities incorporate a number of segregated manufacturing sheds, laboratories, offices and warehouse. The sites also include laboratories for quality control and formulation development.

### Company background as relevant to formulated glyphosate

Rainbow advised that it commenced manufacturing formulated glyphosate in 2005 and that production volumes have since increased exponentially. Rainbow manufacture formulated glyphosate (in liquid and dry / granular forms) at its factories in Weifang (and are also responsible for financial, R&D and logistic functions).

Rainbow stated that it commenced exporting formulated glyphosate to Australia in 2008. It advised that prior to this period, Chinese exporters were unable to enter the Australian market due to consumers concerns regarding product quality. In 2008 the price of glyphosate technical decreased significantly from USD \$ [REDACTED] per Kg to USD \$ [REDACTED] per Kg (over a two year period). Rainbow advised that Australian manufacturers with high inventories attempted to maintain higher domestic selling prices, despite declined global market prices. Rainbow was able to capitalise on the opportunity to commence supplying the Australian market, by supplying a lower priced product. Rainbow was able to establish Australian supply channels, with export volumes increasing due to continued customer satisfaction for supplying quality products.

Rainbow advised that since 2008 the overall importance of formulated glyphosate in respect of their total sales has decreased, as profits for glyphosate have decreased as a result of market prices being sustained at lower levels. In 2011, Rainbow's sales of formulated glyphosate represented [REDACTED] of total sales for all products.

### Relationship with suppliers of raw materials

Rainbow advised that it has normal commercial relationships (of buyer and seller) with Chinese suppliers of raw materials used to manufacture formulated glyphosate. It advised that it does not purchase any of its major raw materials from related companies and all sales transactions are arms length. Rainbow provided a list of Chinese companies which it sourced major raw materials from in 2011 (**Confidential Attachment COM 3** refers).

**PUBLIC RECORD**Relationship with customers

Rainbow advised that it has normal commercial relationships (of buyer and seller) with Australian importers of formulated glyphosate and that all sales transactions are arms length.

**3.2 Accounting structure and details of accounting system**

The accounting period utilised by Rainbow is financial year January to December. For accounting purposes Rainbow utilise RMB as its currency.

Rainbow's financial statements are consolidated into annual statements and financial reports which include results for its subsidiaries, which are audited annually. Rainbow advised that its accounting practices are in accordance to the generally accepted accounting principles in China.

As part of its exporter questionnaire response Rainbow provided its:

- chart of accounts (Confidential Attachment A-4.3.1 of the questionnaire refers);
- audited financial report for 2010 (Confidential Attachment A-4.3.2 of the questionnaire refers); and
- un-audited financial statements (including balance sheet and income (Profit and Loss (P&L)) statement) for 2011 (Confidential Attachment A-4.3.3 of the questionnaire refers).

At the visit, Rainbow provided the company's audited financial report (including income statement) for 2011 (Confidential Attachment COM 4 refers). These statements and accounts were audited by [REDACTED]. As several adjustments were made to the un-audited income statement, as provided in their exporter questionnaire response, Rainbow provided an income statement adjustment table to highlight the specific adjustments which were made by their auditors (Confidential Attachment COM 5 refers). Rainbow advised that the most significant adjustments related to sales returns. Rainbow also provided the relevant detailed general sub ledgers (for operating revenue) to support the P&L adjustments (Confidential Attachment COM 6 refers).

Rainbow advised that in conjunction with their annual audited reports, in order to comply with statutory reporting requirements the company prepares financial reports for taxation and banking purposes (which are submitted to Chinese government authorities).

Rainbow advised that for accounting purposes costs are not attributed to cost centres but the company utilises a production process costing system (where costs are attributed to three production stages).

Rainbow utilises [REDACTED] as its financial (general ledger) and management accounting system. During the verification we viewed Rainbow extract financial

information in respect of sales and costs from general / sub ledgers shown through this system.

### 3.3 Production process and product range

#### 3.3.1 Production process

As mentioned previously Rainbow operates three manufacturing and warehousing facilities in China, and formulated glyphosate is predominately produced at *Factory 1* in Weifang. Rainbow manufactures formulated glyphosate in designated workshops.

Rainbow commenced manufacturing formulated glyphosate (in liquid form) in 2005. They commenced manufacturing formulated glyphosate in dry form (water soluble granule - WDG) in 2010, following construction of a new workshop.

Rainbow advised that it manufactures formulated glyphosate by the glycine and Iminodiacetic acid (IDA) production processes, which reflect the key chemical component, utilised to manufacture glyphosate technical. Rainbow's production method is identified in their product codes. In the investigation period Rainbow predominantly utilised the glycine production method. We note that there are other various production methods in respect of glyphosate technical and formulated glyphosate production utilised by other Chinese manufacturers.

At the verification visit Rainbow provided a revised production process diagram (which formed Confidential Attachment G.1.1 to the exporter questionnaire response) (Confidential Attachment COST 2 refers). Rainbow explained that the initial diagram which was not translated accurately.

#### General production process

Rainbow is an integrated manufacturer of glyphosate technical and formulated glyphosate. Rainbow explained that the manufacture of formulated glyphosate was a fairly straight forward process.

Rainbow advised that the initial stage of the production process for formulated glyphosate in liquid forms involves the manufacture of glyphosate technical, which is then combined with mono- isopropylamine (MIPA) to produce the isopropylamine salt of the N-phosphonomethylglycine molecule (the active ingredient). The next process involves formulation, where the isopropylamine salt of glyphosate is blended with surfactants and other ingredients through a filtration and sedimentation process to produce formulated glyphosate as an aqueous solution. The final product is packaged for sale.

Rainbow advised that the production process for dry formulated glyphosate is different to liquid formulated glyphosate, however the key steps are similar as glyphosate technical is blended with surfactants and other ingredients, although goes through granulation and drying processes.

Dry glyphosate formulations have particular advantages over a liquid product, including:

- that it is easier to handle during manufacturing process (including clean up);
- it potentially is easier to handle by the end user (less chemical exposure);

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- its compatibility with residue-free packages and unit-dose packages; and
- many environmentally or toxicologically attractive surfactants are physically compatible with glyphosate salts in a dry formulation.

### Rainbow's production process (linked to workshops and cost allocations)

Rainbow explained that for formulated glyphosate it utilised three production processes:

- Process 1 – production of glyphosate technical;
- Process 2 – production of glyphosate IPA (or glyphosate isopropyl ammonia<sup>2</sup>) salt products; and
- Process 3 – production of glyphosate ammonium salt (WDG) products.

Rainbow provided an overview of each of these processes, raw material consumed; chemical reactions and the by-products, intermediary and final products produced. We also were able to obtain photographic evidence of these processes. The following is a brief summary for each production process.

#### Process 1

Rainbow explained that to manufacture glyphosate technical:

- phosphorus trichloride (comprise of yellow phosphorous and liquid chlorine) and methanol undergo an esterification process to produce dimethylphosphite (DMP) and other by products (high boiling materials);
- DMP, paraformaldehyde and methanol are synthesised with glycine and the chemical catalyst tri-ethylamine;
- the resultant solution is then combined with the reagent, hydrochloric acid, and water through a process of hydrolysis, splitting the molecule of the solution;
- a solvent strip process is then applied to the solution removing by-products (chloromethane and dimethoxymethane);
- the solution (a wet cake) undergoes a crystallisation process (by being processed through a centrifuge) to convert the solution to solid crystals of glyphosate technical.

#### Process 2

Rainbow explained that following the first process, the next production process required to produce formulated glyphosate with an IPA (or glyphosate isopropyl ammonia) salt base in liquid forms, are as follows:

- glyphosate technical<sup>3</sup>, water and MIPA are formulated and surfactants added;

<sup>2</sup>

<sup>3</sup> Rainbow advised that glyphosate technical wet cake is dried before it is utilised in the next stage of the production. After the glyphosate technical wet cake dried, it goes into the reactor for the formulation together with water, surfactant and isopropylamine.

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- the formulation undergoes mixture, filtration and sedimentation to produce the formulated glyphosate at specific concentrations as aqueous solutions; and
- the formulated glyphosate is packaged (ready for delivery to customer).

### Process 3

Rainbow explained that following the first process, the next production process required to produce formulated glyphosate ammonium salt (WDG) products in dry forms, are as follows:

- glyphosate technical, water and ammonium bicarbonate are formulated and surfactants and dyes are added / mixed;
- the formulation undergoes kneading and granulation processes (in a granulator machine), which is subsequently dried to produce formulated glyphosate at specific concentrations; and
- the formulated glyphosate is packaged (ready for delivery to customer).

Rainbow stated that the formulated glyphosate which is produced (regardless of whether the final product is produced through processes 2 or 3) is packaged on site and sent directly to the port for export or ready for pick up by the domestic customer or delivery direct to the customer.

### Production capacity

Rainbow's operating and maximum production capacity for formulated glyphosate in 2011 is tabulated below:

Production capacity (L)	██████████
Actual production in volume (L)	██████████
Production capacity (Kg)	██████████
Actual production in volume (Kg)	██████████

To calculate production capacity figures Rainbow assumed that the production processes:

- for liquid formulate glyphosate operates at 7 days a week for 24 hours (for 365 days); and
- for dry formulated glyphosate at 7 days a week for 24 hours (for 365 days).

Rainbow's production capacity utilisation for formulated glyphosate in liquid and dry forms in 2011 was █████ and █████ respectively.

### 3.3.2 Product range (formulated glyphosate)

Rainbow supplies a wide range of agrochemical products, including herbicides, fungicides and insecticides, predominately to export markets including Australia.

In 2011, of total sales volume of formulated glyphosate (in liquid forms), Rainbow supplied █████ to the Australian market, █████ to third country exports markets

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and [REDACTED] to the domestic market in China. In 2011, of total sales volume of formulated glyphosate (in dry forms)<sup>4</sup>, Rainbow supplied [REDACTED] to the Australian market and [REDACTED] to third country exports markets and made [REDACTED] sales to the domestic market in China.

**Salts and active ingredient levels**

Rainbow currently manufactures formulated glyphosate with varying active concentrations and a salt based of MIPA, ammonia or ammonium. Rainbow also supplies a range of formulated glyphosate which are distinguished by active glyphosate technical concentrations. Rainbow's products are described by the proportion of glyphosate technical contained in the formulations on a weight by volume basis for export sales (i.e. [REDACTED]) and on a weight for weight basis for domestic sales (i.e. [REDACTED]). Section 4.1 contains further details regarding description of formulated glyphosate sold by Rainbow, including packaging sizes, in the Australian and Chinese markets.

Rainbow's general<sup>5</sup> product range includes:

- IPA (and others) salt - glyphosate 62%<sup>6</sup>, formulated glyphosate 360 g/L and 450 g/L; and
- ammonium and ammonia salt (as relevant) - formulated glyphosate 75.7% and 88.8% and 360 g/L.

Rainbow stated that they currently do not manufacture formulated glyphosate with a potassium salt base (which is patented by Syngenta (a US company)). However we note that formulated glyphosate 555 g/L and 665 g/L products with a potassium salt base are included in their product brochure. However we confirmed that Rainbow did not export formulated glyphosate with a potassium salt base to Australia during the investigation period.

As mentioned previously, although outside the scope of the investigation we note that Rainbow manufacture glyphosate technical with concentrations at [REDACTED] and [REDACTED].

<sup>4</sup> This does not include glyphosate 62%. See foot note 6.

<sup>5</sup> Particular products listed may not be exported to Australia or sold on the domestic market in China.

<sup>6</sup> Rainbow does not consider glyphosate 62%<sup>6</sup> to be within the scope of the investigation, section 4.3 refers.

**4 GOODS UNDER CONSIDERATION AND LIKE GOODS**

**4.1 The goods**

General description

The goods the subject of the application (the goods) is formulated glyphosate. The application specifies that:

*"The imported product the subject of this application is formulated glyphosate, a non-selective herbicide, imported in varying strengths of the active glyphosate acid ingredient ("glyphosate technical"). A non selective herbicide is one that controls weeds in all situations"*<sup>7</sup>.

Formulated glyphosate products are used for the non-selective control of weeds and are absorbed by the leaves and green tissue of susceptible plants. Translocated throughout the plant, formulated glyphosate based herbicides inhibit a specific enzyme, EPSP synthase, which plants need in order to grow. Without that enzyme, plants are unable to produce other proteins essential to growth, so they yellow and die over the course of several days or weeks.

Glyphosate formulations

The application states that in the Australian market the different formulations (of glyphosate) are described according to grams of glyphosate technical per litre (g/L) or kilogram, whereas on the global market the formulations are commonly described by the percentage of glyphosate technical contained in the formulations on a weight for weight basis. The application contains the following indicative comparison of the glyphosate formulations described by grams per litre / kilogram or percentage basis of glyphosate technical.

Litre (L)	360	41.6%
L	450	50.6%
L	570	61.5%
Kilogram (Kg)	690	75.7%

This table is indicative only<sup>8</sup>.

<sup>7</sup> Application for the publication of a dumping duty notice for formulated glyphosate exported from China (Application), page 7.

<sup>8</sup> Application, page 8.

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The application specifies that:

*"This application is concerned with imported Glyphosate in all its fully formulated liquid forms including Glyphosate 360, Glyphosate 450 and Glyphosate 570 and the fully formulated dry form including Glyphosate 680<sup>9</sup>."*

The applicants claim that:

- the imported formulated glyphosate products (at varying strengths) have the same end use;
- all formulations strengths are substitutable;
- the imported dry formulation can be substituted for liquid forms; and
- all imported formulations are applied within the approved application rates indicated on the product label, expressed on a litre per hectare basis.

At the consideration stage of the investigation, Customs and Border Protection considered that the goods covered by the application and investigation, includes formulated glyphosate in any form (i.e. not limited to liquid forms) and at any concentration (whether described according to weight of glyphosate technical by volume or percentage of glyphosate technical).

### Exclusion of certain goods from investigation

The application specifies that it is important to distinguish between formulated glyphosate (i.e. the goods) and glyphosate acid, which is the primary ingredient in the manufacture of formulated glyphosate. Glyphosate acid is not the subject of the application.

Customs and Border Protection considered that the goods covered by the application, and that the investigation does not include glyphosate acid.

## 4.2 Tariff classification

Formulated glyphosate is classified under the tariff subheading 3808.93.00 (statistical code 48) of Schedule 3 to the *Customs Tariff Act 1995*. The current rate of duty applying to the goods imported to Australia from China is 5%.

There are currently no Tariff Concession Orders applicable to the relevant tariff subheadings.

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<sup>9</sup> Application, page 8.



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## 4.3 Like goods

### 4.3.1 2011 – Rainbow's like goods and GUC<sup>10</sup>

Rainbow provided a formulated glyphosate product concordance table identifying (in 2011) all products exported to Australia (reflecting the description of the GUC) and comparable products sold domestically in China. This chart form Confidential Attachment C.3 of the exporter questionnaire responses (**Non Confidential Attachment GOODS 1** refers). Rainbow claimed that excluding glyphosate 62% there was one formulated glyphosate product which was sold on the domestic market, which it considered was not a like good (this is discussed further below).

#### Exports to Australia

Rainbow advised that in 2011 it manufactured and exported to Australia the following formulated glyphosate products (shown by packaging type), which it considers are GUC:

Product Code	Product Name / Code	Packaging type
450	Glyphosate IPA 450G/L SL(SL0190)(by Acid) / [product code]	20 L, 110 L and 1000 L
	Glyphosate IPA 450G/L SL(SL0220)(by Acid) / [product code]	20 L, 110 L and 1000 L
	Glyphosate IPA 450G/L SL(SL0230)(by Acid) / [product code]	20 L, 110 L and 1000 L
470	Glyphosate IPA 470G/L SL(SL0230)(by Acid) / [product code]	1000 L
680	Glyphosate 680 WSG / [product code]	10 Kg
700	Glyphosate 700 WSG / [product code]	10 Kg

Rainbow advised that it holds a registration with the Australian Pesticides and Veterinary Medicines Authority (APVMA) to manufacture and supply glyphosate technical to the Australian market. They noted that while they also hold registrations for formulated glyphosate products (labelled and branded as Rainbow products), they only manufactured according to product formulations registered to their Australian customers. Rainbow advised that to supply formulated glyphosate into the Australian market, the Australian customer requesting product formulation is required to hold relevant registrations, rather than the formulator. Rainbow stated that the regulatory requirements in respect of agrochemical products supplied in Australia are significantly more stringent than compared to Chinese requirements.

Rainbow noted that Australian customers predominately demand formulated glyphosate in 1000 L Intermediate Bulk Container (IBCs), followed by 20 L containers. Rainbow source IBCs from Schutz (sourced domestically or imported from Australia) and they participate in the Schutz container recycle system. Rainbow

<sup>10</sup> Note this subsection does not include the *Glyphosate IPA 62% SL product*, which is discussed at the sub section titled "*Glyphosate products – outside scope of like goods*".

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advised it is the only Chinese manufacturer which exports formulated glyphosate in 110 L containers, as they invested in procuring a mould to manufacture this container type. It also noted that Australian demand for product in 110 L is increasing.

Rainbow advised that in 2011 they also exported another glyphosate product "Glyphosate IPA 62% SL" (glyphosate 62%) packaged in 1250Kg/IBC to Australia, however that they did not consider this product to be a GUC. This issue is discussed further at section 4.5.

Notwithstanding this claim, we requested that Rainbow provide an updated Australian export sales spreadsheet to include these sales (noting that further investigation regarding whether or not these products are GUC is required) (**Confidential Attachment GOODS 1** refers).

### Domestic sales

Rainbow advised that in 2011 it manufactured and supplied the following formulated glyphosate product (shown by packaging type) to the Chinese domestic market, which it considers is a like good:

360	Glyphosate	IPA	41%	SL	200 Kg / drums
			[product code]		

Rainbow advised that it did not export the product above to Australia. We also noted that the formulated glyphosate sold domestically by Rainbow was a liquid product with an ammonia salt base. The Australian industry has advised that this product formulation is not registered with the AVPMA and is therefore illegal to import to Australia.

Rainbow advised that in 2011 they also supplied *Glyphosate IPA 62% SL* to the Chinese domestic market (packaged in 250Kg per drum), however that they did not consider this product to be like goods. This issue is discussed further at section 4.5. Notwithstanding this claim, we requested that Rainbow provide an updated domestic sales spreadsheet to include these sales (noting that further investigation regarding whether or not these products are GUC is required) (**Confidential Attachment GOODS 3** refers).

We also sought Rainbow's confirmation that the formulated glyphosate which they supplied domestically in China was not produced utilising mother liquor, which is a by-product from the glyphosate technical production process. It is now illegal to manufacture and distribute mother liquor in China. Rainbow confirmed that they do not manufacture products based on mother liquor. As Rainbow's commercial focus is export market orientated, it advised that historically it had not manufactured mother liquor, which was only sold on the domestic market in China.

**PUBLIC RECORD****4.3.2 Key similarities and differences**General

Rainbow advised that the formulated glyphosate produced domestically in China are similar and like goods to the formulated glyphosate exported to Australia; however there were discernable difference between products.

Rainbow advised that the end use for formulated glyphosate in Australia and China is the same. Formulated glyphosate is used as an herbicide for broad-acre weed control, along with certain horticulture and home and garden applications (requiring weed control).

Rainbow advised that formulated glyphosate products manufactured in Australia or imported from China contain similar concentrations of glyphosate technical. It confirmed that formulated glyphosate sold on the domestic market in China was described on a weight to weight basis, where as the products exported to Australia were described on a weight to volume basis and active content is calculated by Glyphosate Acid, not IPA salt, as discussed previously.

Rainbow advised that formulated glyphosate 360 g/L and 450 g/L were the predominant products supplied (by Australian formulators or importers) to the Australian market.

Physical appearance - differences

Rainbow advised that formulated glyphosate 360 g/L and 450 g/L products exported to Australia were blue liquids (as a blue dye was applied during the manufacturing process). Where as formulated glyphosate 360 g/L sold domestically in China was a red liquid (reflecting the red dye applied during the manufacturing process). This claim is supported by certificates of analysis provided for Australian export sales and domestic sales. Rainbow advised that the colour of the product reflects consumer preferences and market branding and does not effect product application.

Rainbow advised that it considers formulated glyphosate in liquid and dry forms to be like goods to the GUC. Rainbow advised that these products have the same end use and both are further diluted with water before application.

As mentioned previously, Rainbow stated that formulated glyphosate with different salt bases are supplied to the Australian and domestic market in China. Rainbow advised that there are different efficacies associated with the salts of glyphosate, however they all form part of a final product (i.e. formulated glyphosate) which have the same end use. Rainbow made no claims in respect of like goods and the salts of glyphosate and like goods.

Rainbow also advised that another variant between the formulated glyphosate which is exported to Australia and supplied on the domestic markets is packaging. Formulated glyphosate is packed and exported to Australia in containers ranging in size from 20 L to 1000 L. However formulated glyphosate sold on the domestic market by Rainbow is packed and supplied in 200 L and 250 Kg drums.

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### Surfactant – imported and sourced domestically

Rainbow advised that the most significant variation between all formulated glyphosate products is the surfactant utilised, which represents a cost differential. Different surfactants are utilised in the different product formulations with varying glyphosate technical concentrations. A product with a higher glyphosate technical concentrations requires a different surfactant on a per L or Kg basis compared to a product formulation with lower glyphosate technical concentration. Rainbow advised that the surfactant utilised for products exported to Australia or sold on the domestic market in China differed. Rainbow stated that formulated glyphosate manufactured with an inferior and less expensive surfactant was supplied to the Chinese market. The surfactant is sourced from Chinese manufactures at approximately USD \$ [REDACTED] per Kg.

Rainbow advised that in the Australian market, every product formulation comprised of varying surfactants must be registered with the APVMA. It noted that in the Australian market, formulated glyphosate products containing a tallowamine surfactant were the most prevalent (in both the domestically produced and imported goods). Rainbow advised that Australian manufacturers source a tallowamine surfactant (Terwet 3780) from a local manufacturer, Huntsman at approximately \$USD [REDACTED] per Kg. This surfactant is applied at 120 g/L for formulated glyphosate products.

Rainbow advised that it manufactures and exports formulated glyphosate to Australia with three surfactants, which vary in price, as tabulated below:

Terwet 3780	[REDACTED]	Imported from Australia, the US or [REDACTED]	[REDACTED]
Terwet 3781	[REDACTED]	Sourced from [REDACTED]	[REDACTED]
Geronol CF AS 30 HL	[REDACTED]	Sourced from [REDACTED]	[REDACTED]

Rainbow stated that the surfactant utilised to manufacture formulated glyphosate exported to Australia is sometimes identified by the product name as shown on the commercial invoice. Rainbow provided a materials code list (discussed later in this report), which identified surfactant codes which can be linked to export product codes. We also noted that the surfactant utilised and application rate (i.e. 120 g/L) could sometimes be identified on related export sales documentation (including sales contract, packing list or commercial invoice). It noted that the surfactant utilised is dependant on customer preferences.

Price

The company also stated that the price of formulated glyphosate varies by product formulation (reflecting various active ingredient concentrations), however price usually varies month by month reflective of global glyphosate technical price trends.

**4.4 Glyphosate products – outside scope of like goods**

As discussed at section 3.3.2 Rainbow manufactured and supplied *Glyphosate IPA 62%* to the Australian and Chinese markets, however it does not consider this product to be the GUC or like goods.

Rainbow advised in their exporter questionnaire response and at the visit that this product is an intermediary product, which has not been fully formulated (i.e. the intermediary product has been produced via the chemical reaction of adding glyphosate technical with isopropylamine, however surfactants, anti-foaming materials, water and dyes etc have not been added). It noted that the intermediate product cannot directly be applied for broad acre weed control or garden end use, as it needs further manufacturing. If applied directly to weeds it will have no effect as it is an active ingredient and contains no binding agent. Rainbow considers that the 62% glyphosate product is more comparable to glyphosate technical, which is excluded from the investigation scope. To support this claim Rainbow provided source documentation in respect of export and domestic sales of this product, including certificate of analysis to identify different chemical compositions and properties of the goods.

We noted that in March 2012, Nufarm (an applicant) lodged a submission which claimed that glyphosate 62% is a like good to the formulated glyphosate under investigation. At this stage, we asked and Rainbow provided sales and cost information in respect of glyphosate 62% (which we have analysed). The case team will further consider this issue and make a finding at a later date. We note that Rainbow's export sales of this product were in small volumes. We also note that while Rainbow supplied more glyphosate 62% domestically, that as a proportion of overall sales, total domestic sales (including glyphosate 62%) were minimal and insufficient when compared to export sales.

**5 SALES TO AUSTRALIA****5.1 General**

As part of the exporter questionnaire response, Rainbow provided a list of all formulated glyphosate products exported to Australia in 2011 (Rainbow's Australian export sales spreadsheet refers). As discussed previously, Rainbow provided an updated Australian export sales spreadsheet to incorporate details for exports of glyphosate 62% (**Confidential Attachment EXP 1** refers).

During the investigation period, Rainbow exported a total volume of formulated glyphosate (excluding glyphosate 62%), of:

[redacted] In 2011, Rainbow exported [redacted] consignments of glyphosate 62% to [redacted], representing a total volume of [redacted] Kg. Rainbow exported glyphosate to [redacted] other Australian customers during the investigation period, including [redacted]

[redacted] Rainbow advised that their Australian customers (excluding [redacted]) operate at the wholesaler level. It advised that [redacted] at the distributor level [blacked out text described export sales to Australia, including product formulations].

As tabulated in section 4.3.1, in 2011, Rainbow exported formulated [redacted] to Australia. Of the total volume for liquid formulated glyphosate products, the largest volumes were imported by [redacted] representing [redacted]. Of the total volume for dry formulated glyphosate products [redacted], the largest volumes were imported by [redacted] representing [redacted] [blacked out text described export sales to Australia, including product formulations]. We also noted that formulated glyphosate at specific concentrations ([redacted]) were supplied to particular customers.

**5.2 Export sales process**

Rainbow advised that it does not operate ongoing sales contracts with their customers due to the difficulty in forecasting volumes required and volatile nature of the price of glyphosate. Rainbow noted that one customer, [redacted], provides forecasts for their expected demand, although these forecasts vary due to the volatile product demand from their customers (end users for glyphosate).

<sup>11</sup> This total volume excludes glyphosate 62%.

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Rainbow described its generic export sales process during the investigation period as follows:

## *Product inquiry and price negotiation*

- For new customers - Rainbow's sales department contacts potential Australian clients, who subsequently may place orders with the company.
- For ongoing customers - the customers usually forward a purchase order request (including product specification details) for formulated glyphosate to Rainbow via email, at which time customers enquire about price of the goods.
- The price is based on the current price of raw materials, conversion costs, credit terms and estimated delivery expenses. As such the company does not keep a price list for exported goods; rather, prices are set order by order. Prices to customers do not vary in accordance with distribution channels. Rainbow stated [REDACTED] of their customers accept the price offered.

## *Sales contract and purchase order*

- Rainbow emails sales department to apply for Certificate for the Import and Export of Pesticides.
- A sales contract is drafted and provided to the customer for confirmation of volumes and price (including terms of sale).

## *Arranging production*

- Once the terms are set and agreed by the customer, Rainbow begins to manufacture the goods for export.

## *Arranging exportation of the goods*

- Rainbow prepares all relevant documentation for goods to be exported to Australia prior to delivery.
- Rainbow arranges inland transportation, logistics and handling and ocean freight.
- Rainbow prepares value added tax (VAT) documentation and submit a Customs export declaration and online VAT application (in relation to VAT paid on inputs and an export VAT rebate for formulated glyphosate).
- Rainbow manufactures and packages the goods ready for export. The goods are delivered to the port (predominantly at Qingdao) for packing / uploading.
- Goods are exported to Australia.

## *Arranging commercial and banking documentation*

- During the investigation period all goods sold by Rainbow to Australia were made under [REDACTED] terms.
- Rainbow stated it does not offer promotional subsidies, rebates or commissions to their customers in Australia. Rainbow also stated it is not related to any of their customers in Australia.

## *Payment by the customer*

- Payment is made by the customer to Rainbow based on the terms specified on the commercial invoice.

At the visit Rainbow provided an updated export sales distribution channel diagram (which forms **Confidential Attachment EXP 2**) and reflects the export sales process description above. Rainbow also advised that it has an export sales department which specifically handles exports sales.

**5.3 Pricing**

**5.3.1 Pricing and terms**

As mentioned at section 5.2, price is negotiated for each order on an order basis and reflects current price of raw materials (in particular glyphosate technical), conversion costs, credit terms and estimated delivery expenses. Rainbow stated that the company does not offer different prices based on level of trade. Rainbow explained that prices will be higher if longer credit terms apply. Rainbow advised that prices also varied for each formulated glyphosate product depending on levels of glyphosate technical. It noted that the primary factor driving price was the price for glyphosate technical, which has historically resulted in significant fluctuations in price for formulated glyphosate.

Rainbow advised that all their sales of the goods were sold to Australia on [redacted] terms. Prices were in US dollars (USD). Payment terms included either Documents against Acceptance (D/A) or Telegraphic Transfer (T/T) with credit terms ranging between [redacted] days (see section 5.5.4). Any late payments attracted a [redacted] surcharge on the overdue amount per month, in addition to any other losses incurred by Rainbow. This amount is specified on Rainbow's sales contract (which we verified).

**5.3.2 Discounts, rebates and allowances**

Rainbow stated that it does not provide any of its Australian customers with discounts, rebates or allowances and that the price on the invoice is the price paid. We did not find any evidence of rebates or discounts when examining the various accounts and ledgers of Rainbow. We are satisfied that there are no rebates or discounts paid.

**5.3.3 Date of sale**

Rainbow advised that the invoice date should be used as the date of sale. Customs and Border Protection usually regards the invoice date as the date of sale (that is, the date that best represents when the material terms of the sale have been established) unless there is clear evidence to indicate that another date is appropriate. For all sales on the export sales report, the same date was listed as the commercial invoice date and date of sale.



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### 5.4 Export (and domestic<sup>12</sup>) sales verification - reconciliation to financial statements (completeness)

To check the completeness and relevance of export sales to Australia, we sought to verify the information contained in the exporter spreadsheets upwards through management reports to audited financial statements.

Rainbow provided a 2011 audited income statement, income statements from the management accounts for 2011 (which covers the investigation period) and a turnover spreadsheet reconciling sales in the domestic and export sales spreadsheets to the income statement.

Prior to the visit we identified minor discrepancies with value and volume figures for formulated glyphosate in liquid form (██████ L) contained the sales turnover and Australian export sales spreadsheet. Rainbow clarified that these goods were removed from the warehouse in 2010 and booked in the sales ledger (based on inventory status), however the invoices were not issued to the customer until 2011. As the Australian export sales spreadsheet listed all sales based on invoice date these products were included. However these sales were recorded in the 2010 sales ledgers and therefore were not included in the sales turnover spreadsheet.

At the visit Rainbow provided reconciliation packages to verify the figures provided in Confidential Attachment A6 (sales turnover) and A5 (incomes statement). **Confidential Attachment EXP 3 refers.** These packages included (by product type in liquid and dry form):

- worksheets for sales revenue in 2011;
- worksheets for major operating costs;
- calculations for cost of goods ratios (including raw materials, energy, labour, production overheads);
- sales expense general and sub ledgers (showing glyphosate as product ██████);
- general ledger accounts for administrative, selling and financial expenses;
- general ledger accounts for non operating expenses; and
- general ledger accounts for non operating income.

We viewed Rainbow interrogate its accounting system to extract data for operating income (which includes main operating and other operating income accounts). Using the A5 package we were able to reconcile the figures in the income statement provided in the exporter questionnaire response to audited income statements.

Rainbow advised that it used source data for all sales to prepare their export and domestic sales spreadsheets. This data was extracted from their financial system (which they complete regularly to submit to the Chinese government in respect of export sales VAT claims / rebates). Using customer codes Rainbow manually identified the destination of the goods (i.e. goods exported to Australia are identified

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<sup>12</sup> Note the description of the verification process and supporting documentation for domestic sales has been included in section 5.4. We consider this approach to be reasonable given the low volume (and insufficient) level of domestic sales.

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with AU). Using this source sales data we were able to identify all sales in respect of formulated glyphosate (for code [REDACTED]).

We viewed Rainbow interrogate its accounting system to extract data for all sales from relevant ledgers and accounts ([REDACTED]) to verify volumes and values of goods exported to Australia, exported to third countries and sold domestically. There were difficulties in extracting information for goods exported to Australia, as this information is entered manually.

To satisfy that the data provided in Rainbow's exporter questionnaire response was complete, we sought to verify values and volumes using the following:

- general ledgers for main operating income (showing for export and domestic sales revenue);
- general ledgers for other operating income;
- matching Rainbow's source sales data to general ledger account information extracted from their accounting system (by removing other operating income);
- using sales coding for each ledger account to identify exports to third countries;
- using internal sales ledgers and to identify customer codes; and
- checking and verifying sales values for customers (identified by customer code) to export sales and domestic sales spreadsheets.

We are satisfied that the export sales spreadsheet provided by Rainbow is a complete listing of exports of the GUC during the investigation period. We verified total export sales for all glyphosate to Australia and the GUC. We also verified the total quantity and values for transactions for specific customers between the sales ledger and the export sales spreadsheet.

We verified total domestic sales for all glyphosate sold in China. We also verified the total quantity and values between the sales ledger and the domestic sales spreadsheet.

We are satisfied that export and domestic sales spreadsheets provided by Rainbow are complete listings of exports of the GUC and domestic sales of like goods for the investigation period. We are also satisfied that no other irrelevant sales are included in the spreadsheets.

Supporting documentation for upwards verification, including reports extracted from Rainbow's financial accounting system (identifying product codes, value and volumes) are at **Confidential Attachment EXP 4**

## **5.5 Export sales verification – verification to source documents (accuracy)**

### **5.5.1 Australian export sales spreadsheet**

As discussed previously Rainbow provided an Australian export sales spreadsheet which listed all Australian export sale transactions of formulated glyphosate in 2011 (Confidential Attachment EXP 1 refers). As discussed at section 5.4, this export

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sales spreadsheet has been linked to audited financial statements and accounts, to verify its completeness.

## 5.5.2 Source documentation

Prior to the visit, we requested that Rainbow provide supporting documents for 10 selected consignments of formulated glyphosate exported to Australia.

Product code	Commercial invoice number*	Commercial invoice date
[REDACTED]	10RW1089	11 Jan 11
[REDACTED]	10RW1089	11 Jan 11
[REDACTED]	10RW1110	23 Feb 11
[REDACTED]	10RW1110	23 Feb 11
[REDACTED]	10RW1110	23 Feb 11
[REDACTED]	10RW1110	23 Feb 11
[REDACTED]	10RW1110	23 Feb 11
[REDACTED]	10RW1110	23 Feb 11
[REDACTED]	10RW1110	02 Mar 11
[REDACTED]	10RW1110	02 Mar 11
[REDACTED]	10RW1110	02 Mar 11
[REDACTED]	10RW1110	02 Mar 11
[REDACTED]	11RW199	08 Mar 11
[REDACTED]	11RW199	08 Mar 11
[REDACTED]	11RW199	08 Mar 11
[REDACTED]	10RW1110	20 Apr 11
[REDACTED]	11RW729-1	26 Jul 11
[REDACTED]	11RW806	17 Aug 11
[REDACTED]	11RW903-1	29 Sep 11
[REDACTED]	11RW920	05 Oct 11
[REDACTED]	11RW994-3	29 Oct 11
[REDACTED]	11RW1039	09 Nov 11
[REDACTED]	11RW1158-1	20 Dec 11
[REDACTED]	11RW1158-1	20 Dec 11

\* Each product code shown on commercial invoices are listed above (therefore the commercial invoice numbers have been duplicated).

At the visit we also selected an invoice (10RW1105-2) related to export sale of glyphosate 62% for verification.

Rainbow provided the following documents for each of the selected consignments (including the invoice relating to glyphosate 62%) during the verification visit:

- sales contract;
- purchase order;
- commercial invoice;
- packing list;
- certificate of analysis
- bill of lading;
- evidence of ocean freight and insurance (if applicable) (and evidence of payment);

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- evidence of port charges (and evidence of payment);
- evidence of inland transport fees and packing fees (and evidence of payment); and
- evidence of payment to Rainbow by their Australian customers.

This documentation is at **Confidential Attachment EXP 5**.

### 5.5.3 Sales volume and value

We were able to reconcile sales volume and values using the commercial invoices and packing lists provided during the verification visit to the Australian export sales spreadsheets. There were no discrepancies identified in the sample documentation in relation to export sales volume or value.

### 5.5.4 Payment terms

The payment terms for exports sales over the investigation period were as follows:

Terms	Value
D/A	
T/T	

Certain customers ask for extended terms of credit for payment. However, customers prone to making overdue payments are charged higher prices to cover the extra risk incurred by Rainbow.

At the visit Rainbow provided sufficient supporting documentation of proof-of-payment in relation to all selected consignments using bank vouchers and receipts and transfer confirmations. In relation to most of the consignments, the payment made by the importer covered multiple invoices. We requested further invoices to confirm that the total payment matched all commercial invoices, including for the selected consignments. Rainbow provided the additional commercial invoices and we were able to verify that the totals for these invoices and the selected consignments matched the total amount paid by the Australian customer. The additional invoices are at Confidential Attachment EXP 5.

We noted that for invoice 10RW1110-3 payment for the goods was made to [redacted], Rainbow's shareholding company. Rainbow advised that in order to satisfy Chinese legal requirements for accounts to balance at end of relevant accounting periods that their shareholder, acting as a trading company, covered payment on behalf of the importer (they advised that the goods were subsequently paid by the importer, which we verified through relevant bank slips). We also noted that for invoice 11RW920 that the evidence of payment showed that the customer ([redacted]) paid an additional USD [redacted]. Rainbow explained that this amount included the invoiced amount plus interest for over due

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payment (and additional banking fees). We checked and confirmed that the payment was made approximately 30 days late. Rainbow also provided two commercial invoices for the overdue charges (which when added to the invoiced total matched the amount paid), which also showed calculations for the additional charges.

Rainbow also identified additional export insurance / credit premiums incurred for two customers. These costs were included in the export sale spreadsheet and related to one of the selected consignments.

We are satisfied that the invoice price shown in the Australian sales spreadsheet was the price paid by the relevant Australian customer.

### 5.5.5 Ocean freight and insurance

#### Ocean freight

We observed that the Australian export sales spreadsheet identified that all export sales were [REDACTED]. The commercial invoices for the selected shipments showed [REDACTED] terms. Invoice number 11RW199 identified a discrepancy between the invoice and exports sales spreadsheet. The invoice stated the sale was agreed to with [REDACTED] shipping terms; however the spreadsheet stated [REDACTED] terms, which we subsequently revised.

Using the source documentation (freight invoices and bank slips) provided we sought to verify the ocean freight amounts recorded in the Australian export sales spreadsheet. Initially we were not able to reconcile the amounts shown in the spreadsheet. Rainbow advised that where multiple products were related to a particular consignment that it had allocated total ocean freight based on the value (USD) of the exported product. Slight discrepancies in the calculations were observed, which we corrected. We noted that for majority of the selected consignments the bank slips provided showed payment for multiple ocean freight invoices. In order to reconcile and verify this total amount we requested that Rainbow provide all individual freight invoices which were included in the total. Rainbow provided these additional freight invoices and we were able to verify that the sum of the individual freight invoices (including those for the selected consignments) matched the total paid. The additional freight documentation is at Confidential Attachment EXP 5.

#### Insurance

Rainbow advised that they arrange and pay for insurance for all goods exported to Australia (including those sales identified with CFR terms). Rainbow included insurance amounts for each of the consignments exported to Australia in 2011. To verify the amounts recorded in the Australian export sales spreadsheet, for the selected consignments Rainbow provided a Cargo Transportation Insurance Policy which was obtained from China Life Property and Casualty Insurance Company Limited. Rainbow advised that its marine insurance usually equated up to 10% of the USD value of the goods. Rainbow calculated an insurance ratio, which it converted to RMB (taking into account packaging size), which is shown at Confidential Attachment EXP 5. Rainbow also apportioned the total insurance value to different products within a particular consignment based on sales value (in USD) of the

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goods. Using the Insurance Policies for the selected consignments we confirmed that amounts listed in export sales spreadsheet had been calculated by Rainbow's insurance ratio and apportioned across particular products accurately.

### 5.5.6 Inland transportation, handling and port charges

Rainbow advised that it utilises a large number of companies for freight forwarding services (to deliver the goods to the port for export). In the Australian export sales spreadsheet, for each consignment Rainbow recorded inland transportation and handling and other charges.

#### Inland transportation

To verify the inland transportation amounts shown in the spreadsheet for each of the selected consignments, Rainbow provided a tax invoice, a container receipt and evidence of payment (including bank slips). As the tax invoice (which are provided to Rainbow's freight forwarders) included several consignments for a range of products (including the selected consignments), Rainbow provided a reconciliation table showing inland transportation charges for individual products which were included in the total invoiced amount. For some consignments we were unable to match the source documentation to the Australian export sales spreadsheet. For these consignments Rainbow provided additional documentation to show additional transportation charges. Rainbow apportioned the total inland transportation value to different products within a particular consignment based on sales value (in USD) of the goods. We were able to identify and match the relevant charges for formulated glyphosate for the selected consignments.

Inland transportation supporting documentation is at Confidential Attachment EXP 5.

#### Handling and other charges (port charges)

To verify the amounts shown in the spreadsheet for each of the selected consignments, Rainbow provided a tax invoice (issued by the Qingdao Municipal Local Taxation Bureau), a container receipt and evidence of payment (including bank slips). We noted that on the commercial documentation Rainbow had translated these charges as port charges. As the tax invoice (which are provided to Rainbow's freight forwarders) included several consignments for a range of products (including the selected consignments), Rainbow provided a reconciliation table showing handling and other charges (port charges) for individual products which were included in the total invoiced amount. Rainbow also apportioned the total value to different products within a particular consignment based on sales value (in USD) of the goods. We were able to identify and match the relevant charges for formulated glyphosate for the selected consignments.

Handling and other charges (port charges) supporting documentation is at Confidential Attachment EXP 5.

### 5.5.7 Packing

Rainbow advised that formulated glyphosate is packed on their factory premises, using plastic packaging containers and cartons that they produced, imported or sourced from local suppliers.

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Rainbow advised that packaging / packing costs were incorporated into cost to make for the goods. Rainbow also included these costs in their Australian export sales spreadsheet. Rainbow calculated packaging costs by multiplying (a) product total weight divided by packaging type by (b) the price of the container. This amount was then added to packing costs which were calculated by multiplying (a) product total weight divided by packaging type by (b) unit labour costs (per MT).

To support these costs Rainbow provided:

- account sub ledgers showing average costs for packing materials to verify the container costs applied; and
- a table for packing labour expenses (which they identified as salaries) showing an RMB amount per MT or kilo-litre incurred to pack particular products in various packaging sizes.

Packing supporting documentation is at Confidential Attachment EXP 5.

## 5.6 The exporter

For all exports of formulated glyphosate to Australia, we consider Rainbow was the exporter. Rainbow:

- manufactured the goods to the specific order of the Australian customer;
- is listed as the supplier on the Bill of Lading;
- invoices the Australian customer for the goods;
- arranges and pays the inland freight;
- arranges ocean freight and insurance;
- is the 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 freight forwarder for delivery to Australia;
- sent the goods for export to Australia and was aware of the identity of the purchaser of the goods; and
- received payment for the goods from the Australian importer.

## 5.7 The importer

We noted that Rainbow's Australian customers:

- negotiate directly with Rainbow for the purchase of glyphosate;
- are named as the consignee on the Bills of Lading; and
- arrange customs clearance, logistics, and storage of the goods after they have been delivered to the Australian port.

We consider that the Australian customers are the importers of glyphosate exported by Rainbow and these customers to be the beneficial owner of the glyphosate at the time of importation.

**5.8 Arms length**

In respect of Rainbow's sales of glyphosate to its Australian customers during the investigation period, we found no evidence that:

- there is any consideration payable for or in respect of the goods other than their price;
- the price is 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, will directly or indirectly, be reimbursed, compensated or otherwise receive a benefit for, or in respect of, whole or any part of the price.

We therefore consider all of the Rainbow export sales to Australia during the investigation period were arms length transactions.

**5.9 Export price – preliminary assessment**

For all exports of formulated glyphosate to Australia by Rainbow, we consider:

- that the goods have been exported to Australia otherwise than by the importer;
- that the goods have been purchased by the importer from the exporter; and
- the purchases of the goods were arms length transactions.

Therefore, we are satisfied that export prices for direct export sales can be established under s. 269TAB(1)(a) of the *Customs Act 1901*<sup>13</sup>, being the price paid or payable by the importer less any part of the price that represents a charge in respect of transport of the goods or in respect of any other matter arising after exportation.

A summary of export prices is at **Confidential Appendix 1**.

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<sup>13</sup> A reference to a section or subsection in this report is a reference to a provision of the Act, unless otherwise specified.



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## 6 COST TO MAKE & SELL

### 6.1 Introduction

Rainbow provided a cost to a make and sell (CTMS) spreadsheet for each product covering each month of the investigation period for products exported to Australia and sold in the domestic market in China. The spreadsheet identified each formulation by concentration, salt and type of packaging. For liquid products it also identified the surfactant, while for solid products it identified the colour.

Rainbow did not provide costs for glyphosate 62% because it does not consider this product falls within the definition of the goods. Prior to the visit we requested and Rainbow provided costing information for glyphosate 62%, which was exported to Australia and sold in the domestic market in China.

The CTMS spreadsheet identifies the following costs:

- the cost to make:
  - ⇒ glyphosate technical;
  - ⇒ isopropyl amine and ammonium;
  - ⇒ additives;
  - ⇒ other raw materials;
  - ⇒ direct labour;
  - ⇒ energy;
  - ⇒ manufacturing overheads;
- packing:
  - ⇒ packing materials;
  - ⇒ packing labour;
- selling, general and administration expenses:
  - ⇒ selling expenses;
  - ⇒ administration expenses; and
  - ⇒ financial expenses.

### 6.2 Production volumes

Rainbow prepares cost calculation sheets for each product code monthly as part of its normal accounting procedures. Liquid products are identified by concentration and surfactant, while solid products are identified by concentration and colour. The cost calculation sheets capture monthly production volumes for each product. We verified production volumes from the cost calculation sheets to the CTMS spreadsheet for selected products in February and December.

We were also able to verify production volumes as part of the reconciliation of costs to the financial statements.

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### 6.3 Reconciliation to financial statements

As mentioned at section 3.2, Rainbow provided its audited 2011 income statement at the visit (Confidential Attachment COM 4 refers), as they had provided its un-audited statement in its exporter questionnaire response. It provided the following documents to enable us to verify the cost to make from the CTMS spreadsheet to the financial statements.

- A trial balance for the cost of goods sold (COGS) identifying COGS for major and other operations. The total reconciles to the income statement.
- A trial balance for COGS for major operations by product. The total value reconciles to COGS for major operations; this document also identifies volumes. We selected formulated glyphosate 450 g/L for further verification.
- Details of volumes and COGS for formulated glyphosate 450 g/L by month. The total production volume and value reconciles to the trial balance at point 2.
- For formulated glyphosate 450 g/L in February 2011, a document identifying four accounting items - the finished goods inventory (code 1405010201), major operating income - export sales revenue (code 60010101), the cost of exported goods - (code 6401010101) and the differences between the VAT payable and refundable (code 6401010201). The volume and value of COGS for February reconciles to the monthly summary (COGS includes the differences between VAT payable and refundable). The inventory account identifies the volume and value of inventory transferred from semi-finished goods and packing costs.
- For formulated glyphosate 450 g/L in February 2011, a document identifying five accounting items - the semi-finished goods inventory (code 1405010101), the cost of raw materials (code 5001010101), the cost of fuels and energy (code 5001010102), the cost of labour (code 5001010103) and the cost of manufacturing overhead (code 5001010104). The semi-finished goods inventory identifies the volume and cost of production for formulated glyphosate 450 g/L with various surfactants and the volume and value of transfers to finished goods. The volume and value of production for each product reconcile to the CTMS spreadsheet.

Supporting documents are at **Confidential Attachment COSTS 1**. We are satisfied that data in the CTMS spreadsheet can be reconciled to the financial statements.

### 6.4 Cost to make

As mentioned previously, in the exporter questionnaire response Rainbow provided a production process flow chart. It advised that there were some translation errors in this document and provided a revised flowchart at the visit. This document is at **Confidential Attachment COSTS 2**. This process identifies the raw materials and production processes involved in the manufacture of dimethyl phosphate, glyphosate technical, fully formulated glyphosate and glyphosate ammonium salt. A list of material codes is at **Confidential Attachment COSTS 3**.

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### 6.4.1 Fully formulated glyphosate

Prior to the visit we advised Rainbow that we wanted to verify costs for February and December 2011. Rainbow provided cost calculation sheets and supporting documents for formulated glyphosate 450 g/L (geronol surfactant) in February 2011 and yellow 75% glyphosate ammonium salt in December 2011. These documents are at **Confidential Attachments COSTS 4 and 5**.

The cost calculation sheets identify production volumes, the volume and value of raw materials consumed (glyphosate technical and other chemicals), labour, energy and production overheads. The total production cost reconciles to the CTMS spreadsheets. All costs are exclusive of VAT. Prior to our departure from Australia the Australian industry provided its estimates of formulation costs in China. We did not identify any significant variances between these estimates and Rainbow's raw material costs and the cost of these raw materials in the finished fully formulated product. Rainbow provided the following supporting documents.

- The inventory ledgers for semi-finished goods. These documents identify the volume and value of production and manufactured product transferred to inventory (before packing) and manufacturing costs from the cost calculation sheets. The February inventory is supported by a detailed warehouse receipts listing for the selected product.
- Glyphosate technical allocation tables showing the total quantity allocated to formulated products. For example, in February 2011 [redacted] [volume] of glyphosate technical was allocated to formulated products, of which [redacted] was allocated to formulated glyphosate 450 g/L ([redacted]).
- Allocation tables for other raw materials. The December allocation tables are supported by inventory records identifying the total allocated to production.
- Energy allocations for water, electricity and steam. The unit values allocated to each product are based on actual costs for the input consumed (which were constant).
- Allocations for auxiliary materials and production overheads, which were appropriately allocated.
- For February, inventory records identifying the cost of the various packing types.

We asked Rainbow to provide supporting documents for the allocation of MIPA and surfactant in February 2011, ammonium bicarbonate in December 2011 and the unit rates for water, electricity and steam in December 2011.

#### MIPA

Rainbow provided an inventory summary for [redacted] MIPA, warehouse receipts and an inventory sub-ledger for [redacted] MIPA, tax invoices from an unrelated supplier and evidence of payment. The total consumption matched total allocation of MIPA at **Confidential Attachment COSTS 4**. We noted a small difference between invoice and inventory values, which was due to inwards freight. The unit value of [redacted] MIPA issued to production differed from the unit value in the cost calculation

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sheet by about [REDACTED] [variance]. Rainbow explained that the value in the cost calculation sheet is the weighted average of [REDACTED] MIPA. We have verified and accepted the figures used by Rainbow. Supporting documents are at **Confidential Attachment COSTS 6**.

### Geronol surfactant

Rainbow provided an inventory ledger for geronol, warehouse receipts, tax invoices from an unrelated supplier and evidence of payment. The total consumption matched consumption in the cost calculation sheet. There was a difference between invoice values and values in the warehouse and inventory records. Rainbow explained that the goods were received before the invoices and the previous months prices were used. The difference is adjusted in the next month and the actual and accrued prices for the year match. The unit value of geranol issued to production differed from the unit value in the cost calculation sheet by about [REDACTED] [variance]. Rainbow explained that the value in the cost calculation sheet is the weighted average of various pack sizes. The accounts payable ledger reflects the invoice and payment values. We have verified and accepted the figures used by Rainbow. Supporting documents are at **Confidential Attachment COSTS 7**.

### Ammonium bicarbonate

Rainbow provided an inventory ledger for ammonium bicarbonate, warehouse receipts, tax invoices from an unrelated supplier and the accounts payable ledger. The total consumption matched consumption in the sodium bicarbonate allocation table at **Confidential Attachment COSTS 5**. We have accepted the figures used by Rainbow. Supporting documents are at **Confidential Attachment COSTS 8**.

### Energy

Rainbow provided tax invoices from independent suppliers supporting the cost of water, steam and electricity. There was a small difference in the unit cost of electricity. Rainbow explained that electricity was invoiced at the end of the month and the previous months price was used. The difference is adjusted in the next month and the actual and accrued prices for the year match. We have accepted the figures used by Rainbow. Supporting documents are at **Confidential Attachment COSTS 9**.

### **6.4.2 Glyphosate technical**

We asked Rainbow to support the cost of glyphosate technical used in February and December 2011. Rainbow provided cost calculation sheets and supporting documents for glyphosate technical. These documents are at **Confidential Attachment COSTS 10 and 11**.

As for the formulated products, the cost calculation sheets identify production volumes, the volume and value of raw materials consumed, recovery from bi-products sold, labour, energy and production overheads. All costs are exclusive of VAT. The Australian industry provided its estimates of production costs for glyphosate technical in China. With the exception of dimethyl phosphite, we did not identify any significant variances between these estimates and Rainbow's production costs and the cost of these raw materials in glyphosate technical. The Australian

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industry over estimated the cost of dimethyl phosphite (Rainbow manufactures dimethyl phosphate). Rainbow provided the following supporting documents.

- Inventory ledgers for glyphosate technical. These documents identify the volume and value of production and of product transferred for further processing. The February cost of glyphosate technical at Confidential Attachment COSTS 4 is the weighted average of manufactured and purchased glyphosate technical. For February, the volume of manufactured glyphosate technical matched the volume of glyphosate technical allocated to formulated products in the glyphosate technical allocation table at Confidential Attachment COSTS 4 and the weighted average unit value matched the figure in the cost calculation sheet. For December the unit value matched the figure in the cost calculation sheet (the glyphosate technical allocation table at Confidential Attachment COSTS 5 is only for dry products).
- Raw material usage tables and raw material inventories supporting the unit values of consumption
- Allocation tables for energy, labour, auxiliary materials and production overheads.
- Cost calculation sheets showing production volumes of chloromethane and the sale prices achieved for the bi-products chloromethane and dimethoxymethane.

We asked Rainbow to provide supporting documents for the allocation of glycine and sodium hydroxide in February 2011 and paraformaldehyde in December 2011.

**Glycine**

Rainbow provided an inventory ledger for glycine, warehouse receipts, tax invoices from an unrelated supplier and evidence of payment. The total quantity and value issued to production in the inventory ledger matched the figures in the cost calculation sheet. Supporting documents are at **Confidential Attachment COSTS 12**.

**Sodium hydroxide**

Rainbow provided an inventory ledger for sodium hydroxide for fully formulated glyphosate, a document identifying allocations of sodium hydroxide to warehouses for various products, warehouse receipts for the fully formulated glyphosate warehouse, tax invoices from an unrelated supplier for all purchase and evidence of payment. We matched the total invoiced quantity and unit invoice value to the allocation sheet for [REDACTED] sodium hydroxide. There was a small difference in the invoiced quantity and total quantity in the allocation sheet for [REDACTED] sodium hydroxide. This difference was [REDACTED] of the invoiced quantity and we did not investigate further. The allocation to the fully formulated glyphosate warehouse matched the inventory ledger and the unit value of [REDACTED] sodium hydroxide issued to production matched the value in the cost calculation sheet. Supporting documents are at **Confidential Attachment COSTS 13**.

Paraformaldehyde

Rainbow provided an inventory ledger for paraformaldehyde, warehouse receipts, tax invoices from unrelated suppliers and evidence of payment. The total quantity and value issued to production in the inventory ledger matched the figures in the cost calculation sheet. Supporting documents are at **Confidential Attachment COSTS 14**.

**6.4.3 Packing / packing expenses**

As mentioned at section 5.5.7, Rainbow advised that packaging / packing costs were incorporated into cost to make for the goods. For domestic and export sales Rainbow calculated packaging costs by multiplying (a) product total weight divided by packaging type by (b) the price of the container. This amount was then added to packing costs which were calculated by multiplying (a) product total weight divided by packaging type by (b) unit labour costs (per MT).

Supporting packing / packaging cost documentation for export sales to Australia is at Confidential Attachment EXP 5.

To support these costs in respect of domestic sales Rainbow provided:

- account sub ledgers showing average costs for packing materials to verify the container costs applied; and
- a table for packing labour expenses (which they identified as salaries) showing an RMB amount per MT or kilo-litre incurred to pack particular products in various packaging sizes.

Supporting packing / packaging cost documentation for domestic sales is at **Confidential Attachment COSTS 15**.

**6.4.4 SG&A expenses**

Customs and Border Protection generally obtains SG&A expenses from P&L statements for the most recent financial year covering the goods and preferably in relation to domestic sales only. Export related expenses are irrelevant when establishing SG&A expenses associated with domestic sales.

Rainbow calculated SG&A expenses from Appendix A5, less direct export expenses, and expressed them as a percentage of COGS. It then applied these percentages to the cost to make to calculate the CTMS.

We noted that SG&A expenses in Rainbow's profit and loss statement differed from Appendix A5. Rainbow explained that it reformatted the profit and loss statement to present it in the form of Appendix A5. We also noted that Rainbow's auditors made some adjustments to the profit and loss statement prepared by Rainbow. Rainbow provided a document identifying the amounts in the original profit and loss statement and the audit adjustments.

Supporting documents are at **Confidential Attachment COSTS 16**.

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## Selling expenses

Rainbow excluded compensation paid to customers and included it in non-operating expenses. We have used the figure from the audited P&L statement less direct export expenses.

## Administrative expenses

The P&L statement includes a small refund from the health insurance agency. The auditors made an adjustment for accrued bonuses posted back to the P&L statement. We have used the figure from the audited P&L statement.

## Financial and non operating expenses

Appendix A5 includes non-operating expenses but does not include interest income and expense. Rainbow's P&L statement does not include non-operating expenses but does include interest income and expense. Financial expenses include exchange losses. Most of these losses relate to export sales. Some relate to imported raw materials, but all these are used in the production of goods for export. We have used the figure from the audited P&L statement less foreign exchange losses.

Customs and Border Protection will examine the extent to which each non-operating income/expense item is associated with the production and sale of the goods for the investigation period. Where applicable, Customs and Border Protection will:

- allow netting of the relevant income/expense items;
- allocate net interest and finance income/expenses to the goods on a reasonable basis;
- allocate the net transaction foreign exchange gains/losses to the goods on a reasonable basis;
- generally allocate the net translation foreign exchange gains/losses to the goods on a reasonable basis;
- allocate any other net non-operating income/expense items to the goods on a reasonable basis;
- generally not allocate any amount in respect of realised or unrealised foreign exchange income/expense items specific to accounts receivable, as these will often relate only to exports.

Non operating expenses relate to asset devaluations. We have included this item in SG&A expenses and have used the figure from the audited P&L statement.

## SG&A expenses in CTMS

Rainbow calculated percentages for SG&A expenses using COGS. It then applied them to the cost to make to arrive at the CTMS. However, we found COGS was the cost to make plus an amount for non-refundable VAT (refer section 6.3). We consider that SG&A expenses should be calculated by applying the relevant percentage to uplift the cost to make to account for non-refundable VAT. We found that non-refundable VAT was [REDACTED] of the cost to make for formulated glyphosate 450 g/L. We have used this figure to calculate the CTMS.

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### 6.5 Cost to make and sell – summary

We are satisfied that sufficient information was available and verified to substantiate the CTMS fully formulated glyphosate by Rainbow. We consider these CTMS are suitable for:

- determining a constructed normal value; and
- assessing whether domestic sales were sold in the ordinary course of trade.

The CTMS is summarised at **Confidential Appendix 2**.



**7 DOMESTIC SALES****7.1 General**

As previously discussed (section 3.1 and 3.3.2 refers), Rainbow is an export orientated company, with the significant proportion of sales of all products and formulated glyphosate supplied to export markets. Rainbow advised upon commencement of its commercial operations that its export focus was a result of:

- limited capital available to extend operations;
- financial risk associated with credit terms applicable to domestic sales of agrochemicals; and
- corporate history of the company's management.

**7.1.1 Domestic sales spreadsheet**

In their exporter questionnaire response Rainbow provided a domestic sales spreadsheet listing all domestic sales of formulated glyphosate (excluding glyphosate 62%) in 2011. As discussed at section 5.4, this domestic sales spreadsheet has been linked to audited financial statements and accounts, to verify its completeness.

**7.1.2 Volume and suitability of sales**Volume

During the investigation period Rainbow manufactured and supplied [REDACTED] L of Glyphosate 41% SL, with [REDACTED] base in liquid form to one distributor, [REDACTED]. This volume was supplied in four sales transactions. Rainbow noted that glyphosate IPA 41% SL is different from the goods that Rainbow exported to Australia, as they have different chemical and physical properties.

As mention previously notwithstanding Rainbow's claims that glyphosate 62% should not be included in the scope of the investigation, Rainbow provided an updated domestic sales spreadsheet which incorporated sales of glyphosate 62% (**Confidential Attachment DOM 1** refers).

Rainbow manufactured and supplied [REDACTED] Kgs of 62% to the following distributors:

[REDACTED]

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## Suitability

Domestic sales cannot be used to establish normal values if the volume of domestic ordinary course of trade sales of like goods is less than 5% of the volume of comparable like goods exported to Australia.

In their exporter questionnaire response Rainbow noted that the formulated glyphosate which was exported to Australia in the investigation period was not either identical or like goods to domestic product, noting differences with respect to packing and chemical concentration. We also note that based on advice from the Australian industry that the liquid formulated glyphosate with an ammonia salt base is not registered in Australia (and excluding glyphosate 62% this was the only product Rainbow sold domestically).

Notwithstanding these claims we calculated the sufficiency of domestic sales volume when compared to exported goods. Rainbow's volume of domestic sales were insufficient as they were less than 5% of the volume exported to Australia, regardless of whether or not glyphosate 62% volumes were included.

As specified under s.269TAC(2)(a)(i), as the volume of domestic sales was low (and) insufficient they are not suitable for the purposes of establishing normal values.

The sufficiency test calculations are at **Confidential Attachment DOM 2**.

### **7.1.3 Domestic sales – pricing and sales conditions (summary)**

As the volume of Rainbow's domestic sales were insufficient, this report contains a summary only of their domestic sales process.

Rainbow advised that all domestic sales of formulated glyphosate are to independent customers who are resellers of the goods for domestic use. In their exporter questionnaire response Rainbow provided a distribution channel diagram for the domestic market in China (**Confidential Attachment DOM 3** refers).

Rainbow advised that price for the domestic goods reflects current raw material price, sales terms, product specification and delivery conditions. Rainbow noted that similar to prices for the exported goods, that the primary driver impacting price was the price for glyphosate technical. Domestic prices for formulated glyphosate fluctuated according to changes in world prices for glyphosate technical.

Rainbow advised that it does not keep price list for providing customers. The delivery and payment terms vary for different customers. For all domestic sales except one Rainbow organised for the goods to be delivered to the customer (with the one sale at ex works). The payment terms for domestic sales were either prepayment or T/T.

Rainbow advised that they have a designated domestic sales department to handle all domestic sales. This report does not details the domestic sales process, although information in respect of this process is detailed in Rainbow's exporter questionnaire response.

## 7.2 Domestic sales verification

### 7.2.1 Verification approach

Despite the insufficient sales volume to be satisfied of the completeness and accuracy of the domestic sale data, we sought to verify the data provided in Rainbow's the domestic spreadsheet.

Section 5.4 contains details regarding the upwards verification of domestic sales provided in Rainbow's sales turnover spreadsheet and their domestic sales spreadsheet to management / audited accounts. As discussed we are satisfied that Rainbow's domestic sales spreadsheet is a complete listing of domestic sales of like goods for the investigation period.

### 7.2.2 Source documents

As part of their exporter questionnaire response Rainbow provided commercial documentation in respect of two domestic sales of formulated glyphosate (**Confidential Attachment DOM 4** refers). At the verification visit we requested that Rainbow commercial documentation for one sale to [redacted] [customer] (confirmation order [redacted] refers).

For selected sale (and for the two sales nominated in the exporter questionnaire response) Rainbow provided:

- commercial invoices;
- VAT invoices;
- the sales general ledger for customers (showing [redacted]) – this was only provided for the sale selected on site;
- sales agreement – referred to as *Agreement on Cargo Payment Offset*;
- evidence of inland transportation fees;
- evidence of packing / packaging expenses; and
- evidence of payment for the goods (and other fees).

The domestic sales documentation is at **Confidential Attachment DOM 5**.

### 7.2.3 Downwards verification - summary

As Rainbow's domestic sales of formulated glyphosate were not in sufficient volumes and as normal values for formulated glyphosate have been constructed using costs to make and sell, this report does not examine in detail the downwards domestic sales verification.

We note however, that based on the source documentation provided for Rainbow's domestic sales, we were able to reconcile and verify that the following figures had been record in the domestic sales spreadsheet accurately:

- sales volumes and values (shown in RMB);

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- payment terms and payment of the goods (by the customer to Rainbow);
- inland transport fees; and
- packing / packaging.

### 7.2.4 Other issues in respect of domestic sales

As the volume of domestic sales is insufficient when compared to export sales and not suitable for normal values purposes, this report does not cover; whether these sales were made in the ordinary course of trade or the arms length nature of the sales.

A summary of domestic sales is at **Confidential Appendix 3**.

**8 THIRD COUNTRY SALES**

As part of their exporter questionnaire response Rainbow provided a spreadsheet summary of formulated glyphosate exported to third countries in 2011 (**Confidential Attachment THR 1** refers).

During the investigation period Rainbow's export sales to third country markets (other than Australia) accounted for approximately [REDACTED] of the total volume of turnover of liquid and dry formulated glyphosate (excluding sales of glyphosate 62%) respectively.

We have further identified that this total volume of third county sales comprises sales to a total of [REDACTED] third country markets, with the most significant volumes exported to [REDACTED].

We are satisfied that there is sufficient verified cost to make and sell information for the purposes of calculating normal values, therefore third country sales do not need to be considered (and further verification was not required).

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**9 ADJUSTMENTS**

We made positive adjustments to the constructed normal values for the following items.

**9.1 Non-refundable VAT**

In constructing normal values we excluded all VAT paid on inputs. For fully formulated glyphosate there is a non-refundable VAT component of 8% of the FOB export price (which reflects the difference between the 13% VAT applicable to inputs utilised to manufacture formulated glyphosate and the 5% VAT export rebate applicable to exports of fully formulated glyphosate).

Rainbow provided a screen print of an online VAT application form for a shipment confirming that the non-refundable VAT component was 8% (**Confidential Attachment ADJ 1** refers). Rainbow advised that they are required under Chinese law to lodge a VAT application form for every consignment exported.

Rainbow suggested that we make an 8% adjustment to the constructed CTMS, as they advised that the non-refundable VAT was 8%. However, the non-refundable VAT component is calculated by reference to the FOB export price. We found that non-refundable VAT was [REDACTED] of the cost to make for formulated glyphosate 450 g/L (refer **Confidential Attachment COSTS 1**). We have made a positive adjustment of [REDACTED] for non-refundable VAT.

**9.2 Inland freight and other export charges**

In calculating SG&A expenses we excluded all direct export expenses (including freight, insurance, inspection, Custom Declaration charges, other express selling, packing fees, delivery fees, loading fees, port fees, handling, loading and auxiliary costs and Premium paid for export credit insurance). In its Australian export sales spreadsheet Rainbow identified packing expenses, inland freight, handling, loading and auxiliary costs and premiums for export credit insurance for each transaction. We have made positive adjustments for these charges, excluding packing expenses as these are incorporated in COGs.

**9.3 Foreign exchange rate losses**

The constructed normal value includes SG&A costs which have been calculated based on figures from Rainbow's audited P&L statement less foreign exchange losses. As these foreign exchange rate losses relate export sales, we have made a ([REDACTED]) positive adjustment to finance expenses (a component of SG&A) to reflect these losses.

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## 9.4 Other adjustments

### 9.4.1 Credit terms

The constructed normal value includes financial costs and therefore includes the cost of providing credit. We have not made an adjustment to normal values for credit terms. Rainbow provided a copy of May 2011 credit advice from its bank advising that the short term interest rate was [REDACTED] (**Confidential Attachment ADJ 2 refers**).

### 9.4.2 Packing costs

The constructed normal value includes packing costs and therefore we have not made an adjustment.

**10 NORMAL VALUE****10.1 Profit for constructed normal values**

In constructing a normal value, an amount for profit may be included. In accordance with Regulation 181A, where profit is unable to be determined on domestic sales of the goods by the exporter the regulation sets out other methods for profit determination. These are:

- by identifying the actual amounts realised by the exporter or producer from the sale of the same general category of goods in the domestic market or the country of export; or
- by identifying the weighted average of the actual amount realised by other exporters or producer from the sale of like goods in the domestic market of the country of export; or
- by using any other reasonable method and having regard to all relevant information.

Rainbow is an exported orientated company and in 2011 only about [REDACTED] of its sales revenue was from domestic sales. However, for the sector including the goods under consideration this figure was less than [REDACTED].

We have insufficient information to determine the profitability of domestic sales. The volume of domestic sales of like goods is too small to establish normal values and the profit on these sales is not suitable to construct normal values. Rainbow's overall profitability, expressed as a percentage of COGS, was [REDACTED]. Its profitability for the sector including the goods under consideration was [REDACTED]. We have constructed normal values using Rainbow's profitability for the sector including the goods under consideration.

**10.2 Conclusion**

We consider that information gathered from all sources and detailed in this report and its attachments, can be relied upon to establish normal values under s. 269TAC(2)(c). We have made positive adjustments to the normal values under s. 269TAC(9) for non-refundable VAT, inland freight, handling, loading and auxiliary costs and premiums for export credit insurance. In constructing normal values we added a margin for profit of [REDACTED]. Normal value calculations are at **Confidential Appendix 4.**



**11 DUMPING MARGINS**

We calculated a weight average product dumping margin, excluding glyphosate 62%, of minus 0.8%. We note that the inclusion of glyphosate 62% makes no substantial difference to the dumping margin, with a negative dumping margin calculated (due to low export volumes). Calculation of dumping margins is at **Confidential Appendix 5**.

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## 12 LIST OF APPENDICES AND ATTACHMENTS

Confidential Appendix or Attachment No	Description
Confidential Appendix 1	Export price summary
Confidential Appendix 2	CTMS summary
Confidential Appendix 3	Domestic sales summary
Confidential Appendix 4	Normal values summary
Confidential Appendix 5	Dumping margin summary
Non - Confidential Attachment GOODS 1	Like goods and GUC concordance table
Confidential Attachment GEN 1	Verification visit agenda
Confidential Attachment GEN 2	Customs and Border Protection's correspondence detailing exporter questionnaire deficiencies
Confidential Attachment GEN 3	Rainbow's response to address deficiencies, including letter and revised exporter questionnaire attachments
Confidential Attachment COM 1	Rainbow's shareholding company structure
Confidential Attachment COM 2	Rainbow's internal corporate structure
Confidential Attachment COM 3	Rainbow's suppliers for raw materials
Confidential Attachment COM 4	Rainbow's 2011 audited financial report, including income statement
Confidential Attachment COM 5	Income statement adjustment table
Confidential Attachment COM 6	General ledgers and sub-ledgers to support P&L adjustments
Confidential Attachment GOODS 1	Export sales of glyphosate 62%
Confidential Attachment GOODS 1	Domestic sales of glyphosate 62%
Confidential Attachment EXP 1	Updated export sales spreadsheet
Confidential Attachment EXP 2	Updated export sales distribution channel diagram
Confidential Attachment EXP 3	Reconciliation package for sales turnover and income statement
Confidential Attachment EXP 4	Supporting documentation for upwards verification to audited financial statements
Confidential Attachment EXP 5	Supporting source documentation for selected export sales
Confidential Attachment COST 1	Supporting documentation for upwards cost verification to audited financial statements
Confidential Attachment COST 2	Revised production processes diagram
Confidential Attachment COST 3	Rainbow's material costs
Confidential Attachment COST 4	Cost calculation worksheets and supporting documentation for formulated glyphosate 450 g/L (for February 2011)
Confidential Attachment COST 5	Cost calculation worksheets and supporting documentation for yellow 75% glyphosate ammonium salt (for December 2011)

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Confidential Appendix or Attachment No	Description
Confidential Attachment COST 6	MIPA supporting documentation
Confidential Attachment COST 7	Geranol surfactant supporting documentation
Confidential Attachment COST 8	Ammonium bicarbonate supporting documentation
Confidential Attachment COST 9	Energy supporting documentation
Confidential Attachment COST 10	Glyphosate technical cost calculation worksheets
Confidential Attachment COST 11	Glyphosate technical supporting documentation
Confidential Attachment COST 12	Glycine supporting documentation
Confidential Attachment COST 13	Sodium hydroxide supporting documentation
Confidential Attachment COST 14	Paraformaldehyde supporting documentation
Confidential Attachment COST 15	Supporting source documentation for packing / packaging for domestic sales
Confidential Attachment COST 16	SG&A supporting documentation
Confidential Attachment DOM 1	Updated domestic sales spreadsheet
Confidential Attachment DOM 2	Sufficiency test calculations
Confidential Attachment DOM 3	Domestic sales distribution channel diagram
Confidential Attachment DOM 4	Supporting source documentation for domestic sales of glyphosate 62%
Confidential Attachment DOM 5	Supporting source documentation for selected domestic sales
Confidential Attachment THIRD 1	Summary of Rainbow's third country export sales of formulated glyphosate
Confidential Attachment ADJ 1	Screen print of VAT on line application for an exported consignment of formulated glyphosate
Confidential Attachment ADJ 2	Credit advice for May 2011, showing rainbow's short term interest rate