**Verification report – Overseas Exporter**

**Case AD0012: Aluminium Extrusions from the People’s Republic of China**

|  |  |
| --- | --- |
| **Period of Investigation (POI):** | 1 June 2020 – 31 May 2021 |
|  |  |
| **Injury Period:** | 1 June 2017 – 31 May 2021 |
|  |  |
| **Date of report:** | 15 March 2022 |
|  |  |
| **Case team contact details:** | AD0012@traderemedies.gov.uk |
|  |  |
| **Company verified:** | Shandong Nanshan Aluminium Co. Ltd |

For further details, please see the [Notice of initiation](https://www.trade-remedies.service.gov.uk/public/case/AD0012/submission/58db49f3-2ec8-4b8d-9acc-82d85bb69037/) on the public file.

Contents

[Executive Summary 3](#_Toc98245676)

[Purpose of verification 4](#_Toc98245677)

[Confidential information 4](#_Toc98245678)

[Verification 5](#_Toc98245679)

[A-I. Company structure and associations 5](#_Toc98245680)

[A-II. Goods 8](#_Toc98245681)

[B. Sales 11](#_Toc98245682)

[C. Fair Comparison 15](#_Toc98245683)

[D. Costs 18](#_Toc98245684)

[Conclusion 22](#_Toc98245685)

[Annexes 23](#_Toc98245686)

[Annex 1: Meetings 23](#_Toc98245687)

[Annex 2: Updated D12.1 - CTM\_PRC 23](#_Toc98245688)

# Executive Summary

On 21 June 2021, the Trade Remedies Authority (TRA) initiated an investigation into alleged dumping of aluminium extrusions imported into the United Kingdom from the People’s Republic of China. Shandong Nanshan Aluminium Co. Ltd, a manufacturer and exporter of the goods concerned, responded with a completed questionnaire in support of the investigation. As part of the investigation, the TRA sought to verify these responses including the data annexed to the questionnaire. This report details the evidence provided, how it was verified and the key findings from the verification of the data.

During the verification process we:

* Verified the company information such as establishment, function, sites, and ownership using open sources, such as corporate websites, other external websites, reputable sources of economic data including Bloomberg and the Shanghai Stock Exchange website.
* Reviewed the PCN allocation for the goods concerned to ensure that only those relevant products had been included in the questionnaire data.
* Conducted a walkthrough of the accounting systems to understand how sales and costs are booked.

* Conducted both upwards and downwards verification using the audited accounts, income statements and trial balances (TBs) as well as source documents for selected transactions.
* Considered the integrated processes within the company, how costs were carried forward from one division to the next, and ultimately allocated to the goods concerned which were produced and sold during the POI.

Once the above adjustments had been completed the TRA had a reasonable level of assurance that the information could be treated as complete, relevant, and accurate and can therefore be used by the TRA for the injury assessment and margin calculation in this investigation and for any other purpose within the investigation.

# Purpose of verification

The purpose of the TRA’s verification activity is to provide the assurance considered necessary to make a decision as to whether the information (data) provided by the interested party is verifiable and can be used for the purposes of our investigation. We drew reasonable levels of assurance on the completeness, accuracy and relevance of information deemed verifiable. Such data may then be considered in our assessments and analysis to determine whether injury is caused or likely to be caused to the UK industry by dumped imports of aluminium extrusions, and used for other relevant calculations. This will form the basis for establishing appropriate measures where necessary, and to assess whether these are in the UK’s economic interest.

We carried out verification activities using desk analysis and remote verification. The activity undertaken did not seek to verify all information provided but to undertake the work considered appropriate and possible within the time constraints of the investigation to obtain assurance on which to base a decision.

This verification report documents the work we have completed, the checks the case team has carried out and conclusions we have reached about the reliability of information provided by the verified party.

# Confidential information

The verified party must indicate whether any information contained in the confidential version of the verification report is considered confidential. It must specify such information, provide reasons as to why the TRA should treat the particular information as confidential, and create a non-confidential version of it (see also [*public guidance*](https://www.gov.uk/government/publications/the-uk-trade-remedies-investigations-process/an-introduction-to-our-investigations-process#how-we-handle-confidential-information)). The non-confidential version of the verification report will be placed on the public file.

# Verification

Please find below a summary of work that has been completed and the checks that have been carried out by the case team to determine whether the information provided by the interested party in their questionnaire response is verifiable.

## A-I. Company structure and associations

|  |  |  |
| --- | --- | --- |
| What information was considered | | |
| * Ownership and management * General set-up * Financial reporting * Associated parties * Accounting walkthrough | | |
| *Please indicate the confidentiality status of the information summarised above:* | | |
| non-confidential | confidential | |
| *If applicable, please specify what particular information you consider to be confidential, provide reasons as to why we should treat it as such, and create a non-confidential version of it (see also* *[public guidance](https://www.gov.uk/government/publications/the-uk-trade-remedies-investigations-process/an-introduction-to-our-investigations-process" \l "how-we-handle-confidential-information)):* | | |
|  | | |
| How the information was checked | | |
| The following three companies submitted questionnaire responses. These were:   * Shandong Nanshan Aluminium Co. Ltd (“SDNS”) * Yantai Jintai International Trading Co. Ltd (Jintai) – its export trading company * Longkou Donghai Alumina Co. Ltd (“LKDHA”) – its alumina powder producer   SDNS is the producer of the goods under investigation which are exported from China by Jintai including into the UK. LKDHA is an upstream associated party which produces alumina powder.  Verification focused on SDNS and Jintai since they are directly involved in the production and sale of the good concerned. Information provided by LKDHA was used where applicable to assist with the understanding of SDNS’ data but was not verified as a separate entity.  *Ownership and Management*  Information provided by the company about the corporate structure was verified using the 2020 audited financial statements as well as their corporate websites.  *General Set-Up*  Information regarding the general set-up of business operations, including year of establishment, location and ownership of facilities and main business were verified via their corporate websites, and other supporting documentation provided including the Articles of Association and the Business Licence.  *Financial Reporting*  We reviewed the 2020 financial statements for the three entities to ascertain whether they had been prepared under the relevant standards and whether any adverse opinions had been given by the auditors which may affect the reliability of the data.  We evidenced that the 2020 SDNS and LKDHA financial statements were prepared under Accounting Standards for Business Enterprises, and that there were no material concerns raised in the signed audit opinions provided. Therefore, we considered these documents to be reliable sources of information for further verification of other data.  No audit opinion, notes or footnotes were provided for Jintai’s 2020 financial statements, though we were informed that these were audited as part of the 2020 consolidated group accounts. We considered this information to be reliable for further verification and use in the investigation.  *Associated Parties*  Of the 118 separate associated parties to Nanshan identified, 109 were found disclosed in the notes to the SDNS 2020 financial statements, a further 5 were identified in the corporate structure chart, and 4 additional parties identified from the related domestic sales transactions listings provided under B.4. of the Exporter Questionnaire responses.  *Accounting Systems - Walkthrough*  During the remote verification, we conducted a walkthrough for each of the relevant business units of SDNS, Jintai and LKDHA including the nature of the accounting systems used, covering both domestic and export sales, the sales order process, production of ordered goods, generation of stock-out notes and invoices and other records, booking of transactions to accounting ledgers, cost calculation made by the cost department, and the purchases of raw materials.  This provided sufficient evidence to allow us to place reliance on their systems data. | | |
| *Please indicate the confidentiality status of the information summarised above:* | | |
| non-confidential | confidential | |
| *If applicable, please specify what particular information you consider to be confidential, provide reasons as to why we should treat it as such, and create a non-confidential version of it (see also* [*public guidance*](https://www.gov.uk/government/publications/the-uk-trade-remedies-investigations-process/an-introduction-to-our-investigations-process#how-we-handle-confidential-information)*):* | | |
|  | | |
| Exceptions/Findings/Adjustments | | |
| None | | |
| *Please indicate the confidentiality status of the information summarised above:* | | |
| non-confidential | | confidential |
| *If applicable, please specify what particular information you consider to be confidential, provide reasons as to why we should treat it as such, and create a non-confidential version of it (see also* [*public guidance*](https://www.gov.uk/government/publications/the-uk-trade-remedies-investigations-process/an-introduction-to-our-investigations-process#how-we-handle-confidential-information)*):* | | |
|  | | |
| Conclusions | | |
| The information relating to company structure and associations that we have been provided by the interested party is verifiable. Based on the work we have done, we have a reasonable level of assurance that the information can be treated as complete, relevant and accurate and can therefore be used by the TRA for the Dumping and Injury Margin calculations, and for any other purpose within the investigation. | | |
| *Please indicate the confidentiality status of the information summarised above:* | | |
| non-confidential | | confidential |
| *If applicable, please specify what particular information you consider to be confidential, provide reasons as to why we should treat it as such, and create a non-confidential version of it (see also* [*public guidance*](https://www.gov.uk/government/publications/the-uk-trade-remedies-investigations-process/an-introduction-to-our-investigations-process#how-we-handle-confidential-information)*):* | | |
|  | | |

## 

## A-II. Goods

|  |  |
| --- | --- |
| What information was considered | |
| * Questionnaire Annex 7.1 Your products * D12 Cost to Make Worksheet * Corporate website * Technical drawings * Sales invoices | |
| *Please indicate the confidentiality status of the information summarised above:* | |
| non-confidential | confidential |
| *If applicable, please specify what particular information you consider to be confidential, provide reasons as to why we should treat it as such, and create a non-confidential version of it (see also* [*public guidance*](https://www.gov.uk/government/publications/the-uk-trade-remedies-investigations-process/an-introduction-to-our-investigations-process#how-we-handle-confidential-information)*):* | |
|  | |
| How the information was checked | |
| *Internal Coding System*  We were not able to verify the PCN allocation against the internal coding structure. Model numbers have a wide range of format options starting with 2,3, or 4 letters and followed by 4-6 numbers. Similar models may then have a letter as the final digit. This system does not denote the characteristics of the model in question and as a result, we could not correlate these model numbers to PCN characteristics.  *Commodity Codes / Tariff Codes*  SDNS provided details of the commodity codes under which they export the goods concerned into the UK. One commodity code, which had significant imports, related to aluminium plate which is not under investigation. SDNS explained that these imports were extruded bar and not the thinner aluminium plate they also manufacture. Technical drawings were reviewed to show that this was correct and we accepted the explanation that these products were still the goods concerned.  *Sales Invoices*  We reviewed the sales invoices provided as part of the questionnaire response. Whilst elements of the PCN structure could be verified, the invoices did not provide sufficient information to reach a conclusion on the allocation of goods to the PCN structure.  *D12 Cost to Make Worksheet*  As part of the Cost to Make (“CTM”) detailed information, SDNS provided a more detailed description of the relevant goods which could be used to match them to PCNs. We were able to confirm that the descriptions of the product matched the finish and fabrication coding for over [non-confidential range 90-99%] of the codes. Whilst there were a few discrepancies it was not considered to be material especially as products can have a combination of finishes. It did provide a further level of assurance in the allocation.  *Website Materials*  We were able to obtain information from SDNS websites that provided additional information on the technical specifications of the presses. This showed that the coding used were within the capability of the coding provided except for the smallest two weight/m categories “0” and “1”. Whilst the lowest weight/m provided in the brochure is within category “2”, SDNS has allocated PCNs against both “0” and “1”. However these were minimal in terms of the overall volume and since the brochure would not cover all products this was accepted.  *Technical Specifications*  We decided to select a sample of drawings to confirm whether the products were correctly assigned PCNs (and whether some of the products should be out of the scope of the investigation).  For a selection of 19 unique models, technical drawings were obtained from the company, which were then assessed against each element of the PCN assigned for consistency with the relevant product characteristic.  Issues were then followed up during the remote verification visit.  The characteristics of 14 of the 19 product models selected were found to be consistent with the PCNs assigned. The remaining 5 had been assigned PCNs which began “SO” indicating that it was of a “Standard Other” shape. During verification it was confirmed that SDNS had used this designation for all solid profiles which did not fall within the “SS” definition. Whilst this was a correct allocation, the TRA later decided that these should be redesignated to “SS” in line with other parties’ submissions for a proper comparison and updated the relevant questionnaire annexes as appropriate. The revised sales and CTM data can be seen in Annexes 2 attached with this report.  *Other Goods*  The total export sales of Jintai during the POI included other goods: mainly of can stock made from aluminium plate, and greenhouses made of aluminium extrusions (sold in finished goods kit), making up [non-confidential range 90-99%] in terms of value exported to UK. These have been excluded from the data set and verified via the upwards sales verification.  As a result of this research, we were able to have a reasonable assurance that the goods can be considered as the goods concerned and that products not under investigation have been excluded. | |
| *Please indicate the confidentiality status of the information summarised above:* | |
| non-confidential | confidential |
| *If applicable, please specify what particular information you consider to be confidential, provide reasons as to why we should treat it as such, and create a non-confidential version of it (see also* [*public guidance*](https://www.gov.uk/government/publications/the-uk-trade-remedies-investigations-process/an-introduction-to-our-investigations-process#how-we-handle-confidential-information)*):* | |
| **The non-confidential treatment is done to the data which would give a significant advantage to a competitor.**  *D12 Cost to Make Worksheet*  As part of the Cost to Make (“CTM”) detailed information, SDNS provided a more detailed description of the relevant goods which could be used to match them to PCNs. We were able to confirm that the descriptions of the product matched the finish and fabrication coding for over [non-confidential range 90-99%] of the codes. Whilst there were a few discrepancies it was not considered to be material especially as products can have a combination of finishes. It did provide a further level of assurance in the allocation.  *Other Goods*  The total export sales of Jintai during the POI included other goods: mainly of can stock made from aluminium plate, and greenhouses made of aluminium extrusions (sold in finished goods kit), making up [non-confidential range 90-99%] in terms of value exported to UK. These have been excluded from the data set and verified via the upwards sales verification. | |
| Exceptions/Findings/Adjustments | |
| When compared to the PCN allocations of other sampled Interested Parties (IPs), products which resembled what SDNS allocated “SO” classification were instead allocated the “SS” classification. Therefore, for consistency of PCN classification between IPs, it was decided by the case team that products given the “SO” classification would instead be allocated the “SS” classification. | |
| *Please indicate the confidentiality status of the information summarised above:* | |
| non-confidential | confidential |
| *If applicable, please specify what particular information you consider to be confidential, provide reasons as to why we should treat it as such, and create a non-confidential version of it (see also* [*public guidance*](https://www.gov.uk/government/publications/the-uk-trade-remedies-investigations-process/an-introduction-to-our-investigations-process#how-we-handle-confidential-information)*):* | |
|  | |
| Conclusions | |
| The information relating to the company’s goods that we have been provided by the interested party is verifiable. Based on the work we have done, we have a reasonable level of assurance that the information can be treated as complete, relevant and accurate and can therefore be used by the TRA for the Dumping and Injury Margin calculations, and for any other purpose within the investigation. | |
| *Please indicate the confidentiality status of the information summarised above:* | |
| non-confidential | confidential |
| *If applicable, please specify what particular information you consider to be confidential, provide reasons as to why we should treat it as such, and create a non-confidential version of it (see also* [*public guidance*](https://www.gov.uk/government/publications/the-uk-trade-remedies-investigations-process/an-introduction-to-our-investigations-process#how-we-handle-confidential-information)*):* | |
|  | |

## B. Sales

|  |  |
| --- | --- |
| What information was considered | |
| **Upwards Verification**  Through the upwards verification, we confirmed the accuracy of the data submitted by an IP against the audited financial accounts and management accounts. This was conducted separately for Jintai and SDNS.   * Turnover figures provided for in the questionnaire annex (section B1 for SDNS and Section 1 for Jintai) * Profit centre level trial balances covering 1 January 2020 to 31 December 2020 and 1 January to 31 May 2021 for SDNS * Financial statements covering the POI for Jintai * Main Business Income worksheet for Jintai * Consolidated Group audited accounts for 2020. * Consolidated P&L 2020 (internal document for SDNS)   **Downwards Verification**  In the downwards verification, we confirmed the accuracy of the data submitted by the interested party against the source documents.   * Source documents provided by SDNS * General Ledger screenshots of the selected transactions booked in the accounts | |
| *Please indicate the confidentiality status of the information summarised above:* | |
| non-confidential | confidential |
| *If applicable, please specify what particular information you consider to be confidential, provide reasons as to why we should treat it as such, and create a non-confidential version of it (see also* [*public guidance*](https://www.gov.uk/government/publications/the-uk-trade-remedies-investigations-process/an-introduction-to-our-investigations-process#how-we-handle-confidential-information)*):* | |
|  | |
| How the information was checked | |
| **Upwards Verification**  *Jintai*  Jintai’s POI sales were calculated using the financial statements for June – December 2020 and January - May 2021 along with the Main Business Income worksheet which provided the monthly sales breakdown. This was matched with the turnover figure provided in the questionnaire annex S1.4.2.  Since they do not produce audited financial statements, we could not reconcile the 2020 figures provided in the questionnaire responses. However, we were able to show that the questionnaire annex S.1.4.2 Turnover figure for total sales was within 2% of the overseas sales reported within the notes to the group audited accounts for SDNS. Since it was mentioned in the questionnaire that all export sales are made through Jintai, this did provide some level of assurance in the data.  We reviewed the allocation of total export sales by value between goods under investigation and those which were not to provide assurance that the UK sales of the goods concerned provided in the questionnaire response seemed reasonable. Those not subject to the investigation made up approximately 99% of POI total export sales by value – this mainly relates to aluminium plate. An analysis of the consolidated P&L 2020 provided by SDNS confirmed that this was an accurate split between product sales.  *SDNS*  This entity is made up of several profit centres – some of which relate to the goods subject to the investigation and some of which do not. The profit centres’ figures provided in the questionnaire responses which related to the goods under investigation were compared to the TBs for the POI.  The figures were then reviewed against the 2020 TB and the 2020 internal consolidated financial statements provided which showed each profit centre individually. Finally, the consolidated 2020 statement was matched to the 2020 audited Group financial statements. A reasonableness test was conducted on the growth between Jan – May 2020 and the corresponding period for 2021. Whilst there were some high growth rates between the periods, this was not considered to be of concern due to the impact of the COVID-19 pandemic and the rising aluminium prices which could have affected them.  No other issues were identified.  **Downwards Verification**  We requested and received the following source documentation for 22 selected sales transactions: 7 UK export sales, and 15 domestic unrelated sales covering all extrusion divisions within SDNS:   * Contract / General Agreement * Sales order * Commercial Invoice * Sales and Delivery Note (SDNS) * Proof of payment * Bill of Lading (Jintai) * Stock out notes (SDNS)   *Jintai*  The questionnaire annex B3 UK Sales transaction listing details, for each invoice selected, were agreed to the commercial invoice and packing list issued by Jintai, including invoice date, quantity, and gross invoice value in USD.  The total quantity purchased and total value of goods in USD for each shipment under each invoice was further agreed to the relevant detailed packing list.  Each invoice selected related to multiple purchase orders, all of which were provided by SDNS. Due to time constraints it was not possible to review all the POs and so a sample of 2 purchase orders per invoice was reviewed for product details such as model no. and product description were matched to details in the relevant detailed packing list and the transaction listing.  Payment was checked for each invoice, in the form of a credit advice from Jintai’s bank, received between 4-5 months after the date of the invoice, and the amount paid was agreed to the invoice amount.  Delivery of the goods was confirmed by agreeing the invoice details to the relevant bill of lading for each shipment.  *SDNS*  For over 90% of the transactions, we were able to agree that a contract existed with the relevant customer with an effective period covering the invoice date, and able to agree the details for the following documents to the transaction listing:   * *Stock out Notes*: customer name, invoice and shipping dates, quantity sold and gross invoice value * *Sale and Delivery Notes:* customer name, sale & delivery note number, purchase order, quantity sold, and shipping date * *Payment Advices*: customer name, that the payment amount covered the gross invoice value, and the payment date was within a reasonable period (of the invoice and shipping dates); and * *VAT Invoices*: customer name, that the date on the VAT invoices were within a month of the invoice date on the transaction listing.   The VAT invoices were raised at a later date than the Sale and Delivery Notes on which the questionnaire response was based. This was due to SDNS revenue recognition policy based on delivery and not invoice. Invoices often reflected multiple shipments including those outside the POI and so were significantly greater in value than the transactional information provided in the questionnaire response. It was not possible to match the invoices back in instances where some shipments were outside the POI and so excluded. Since the Sale and Delivery Notes were matched back to the transactional data, it was not considered to be an issue in assessing the reliability of the data.  As with UK sales, there were multiple purchase orders for each invoice selected as well as multiple invoices to fulfil one purchase order. The volume details by model were agreed back to the transaction listing for only a third of the sample selected as a result of this: multiple transactions could be identified for the same purchase order but in many instances the purchase order covered periods outside the POI and so these volumes had been excluded. However, given that all other details on the purchase order were agreed back to the transaction listing and other source documents, we conclude that we have gained a reasonable assurance level over the unrelated domestic sales transaction data. | |
| *Please indicate the confidentiality status of the information summarised above:* | |
| non-confidential | confidential |
| *If applicable, please specify what particular information you consider to be confidential, provide reasons as to why we should treat it as such, and create a non-confidential version of it (see also* [*public guidance*](https://www.gov.uk/government/publications/the-uk-trade-remedies-investigations-process/an-introduction-to-our-investigations-process#how-we-handle-confidential-information)*):* | |
|  | |
| Exceptions/Findings/Adjustments | |
|  | |
| *Please indicate the confidentiality status of the information summarised above:* | |
| non-confidential | confidential |
| *If applicable, please specify what particular information you consider to be confidential, provide reasons as to why we should treat it as such, and create a non-confidential version of it (see also* [*public guidance*](https://www.gov.uk/government/publications/the-uk-trade-remedies-investigations-process/an-introduction-to-our-investigations-process#how-we-handle-confidential-information)*):* | |
|  | |
| Conclusions | |
| The information relating to sales that we have been provided by the interested party is verifiable. Based on the work we have done, we have a reasonable level of assurance that the information can be treated as complete, relevant and accurate and can therefore be used by the TRA for the Dumping and Injury Margin calculations, and for any other purpose within the investigation. | |
| *lease indicate the confidentiality status of the information summarised above:* | |
| non-confidential | confidential |
| *If applicable, please specify what particular information you consider to be confidential, provide reasons as to why we should treat it as such, and create a non-confidential version of it (see also* [*public guidance*](https://www.gov.uk/government/publications/the-uk-trade-remedies-investigations-process/an-introduction-to-our-investigations-process#how-we-handle-confidential-information)*):* | |
|  | |

## C. Fair Comparison

|  |  |
| --- | --- |
| What information was considered | |
| * Discounts and Rebates. * Domestic and Export transport costs * Packing Costs * Credit terms | |
| *Please indicate the confidentiality status of the information summarised above:* | |
| non-confidential | confidential |
| *If applicable, please specify what particular information you consider to be confidential, provide reasons as to why we should treat it as such, and create a non-confidential version of it (see also* [*public guidance*](https://www.gov.uk/government/publications/the-uk-trade-remedies-investigations-process/an-introduction-to-our-investigations-process#how-we-handle-confidential-information)*):* | |
|  | |
| How the information was checked | |
| *Discounts and rebates*  Jintai did not report any discounts or rebates for UK export sales in questionnaire annex S\_2\_3 Sales to Independent Parties, nor did any of the relevant business divisions of SDNS for domestic sales. This was verified by the Purchase Orders, commercial invoices, and stock-out notes evidenced during Sales Downward Verification.  Review of the charts of accounts for the relevant SDNS business divisions and audited accounts indicated that this was correct.  *Transportation, insurance, handling, loading and ancillary costs*  Sales to the UK were made on a FOB basis. Adjustments to inland transport and handling costs were reviewed and confirmed to be reasonable. An estimated CIF value was provided. Insurance rates were verified against the insurer’s contract and the freight costs were based on an average cost per container. Whilst this average cost was not verified back to source documents, it was reflective of similar verified costs provided by other interested parties taking into account the rising prices across the POI. The allocation methodology was also reviewed for accuracy and consistency. No issues were found.  Domestic transport costs were based on the actual cost of shipment in relation to the delivery terms agreed and the distance travelled. The range of costs allocated were reviewed to be reasonable and accounted for no more than 5% of total net invoice value.  *Packing Costs*  Packing costs were recalculated and found to be a fixed unit cost based on the quantity and total packing cost shown in questionnaire annex B4 domestic unrelated sales listings. Each division had its own rate applied and this was consistent with that shown for UK sales.  *Credit*  A credit adjustment was made for both domestic sales and for UK sales in the questionnaire annexes. For the former, a rate slightly above the Bank of China rate for the POI was used. However this was not considered material since adjusting to the lowest rate during the POI would have made less than 0.01% difference to the credit percentage against sales. In addition, the rate used was the prevailing rate just prior to the POI and so it is entirely feasible that this rate had been agreed between Jintai and their bank.  UK Sales were adjusted based on a lower rate relating to the letter of credit. The figures were also adjusted to reflect bank charges incurred as a result of foreign payments. This was verified against the bank remittance advice provided for payments. | |
| *Please indicate the confidentiality status of the information summarised above:* | |
| non-confidential | confidential |
| *If applicable, please specify what particular information you consider to be confidential, provide reasons as to why we should treat it as such, and create a non-confidential version of it (see also* [*public guidance*](https://www.gov.uk/government/publications/the-uk-trade-remedies-investigations-process/an-introduction-to-our-investigations-process#how-we-handle-confidential-information)*):* | |
|  | |
| Exceptions/Findings/Adjustments | |
| None | |
| *Please indicate the confidentiality status of the information summarised above:* | |
| non-confidential | confidential |
| *If applicable, please specify what particular information you consider to be confidential, provide reasons as to why we should treat it as such, and create a non-confidential version of it (see also* [*public guidance*](https://www.gov.uk/government/publications/the-uk-trade-remedies-investigations-process/an-introduction-to-our-investigations-process#how-we-handle-confidential-information)*):* | |
|  | |
| Conclusions | |
| The information relating to fair comparison that we have been provided by the interested party is verifiable. Based on the work we have done, we have a reasonable level of assurance that the information can be treated as complete, relevant and accurate and can therefore be used by the TRA for the Dumping and Injury Margin calculations, and for any other purpose within the investigation. | |
| *Please indicate the confidentiality status of the information summarised above:* | |
| non-confidential | confidential |
| *If applicable, please specify what particular information you consider to be confidential, provide reasons as to why we should treat it as such, and create a non-confidential version of it (see also* [*public guidance*](https://www.gov.uk/government/publications/the-uk-trade-remedies-investigations-process/an-introduction-to-our-investigations-process#how-we-handle-confidential-information)*):* | |
|  | |
|  | |

## 

## D. Costs

|  |  |
| --- | --- |
| What information was considered | |
| **Upwards Verification**  Through the upwards verification, we confirmed the accuracy of the data submitted by an interested party against the audited financial accounts and management accounts. This was conducted for SDNS.   * Profit centre level TBs covering 1 January 2020 to 31 December 2020, 1 June 2020 to 31 December 2020, and 1 January to 31 May 2021 for SDNS * Nanshan Group 2020 audited accounts * Consolidated P&L 2020 (internal document for SDNS parent co) * D12 Cost to Make questionnaire annexes for goods relating to domestic and UK related sales. * Cost reconciliation worksheets   **Downwards Verification**  In the downwards verification, we confirmed the accuracy of the data submitted by the interested party against the source documents.   * Source documents provided by SDNS and LKDHA * General Ledger screenshots of the selected transactions booked in the accounts   **Cost Allocation**   * D12 Cost Reconciliation Worksheet | |
| *Please indicate the confidentiality status of the information summarised above:* | |
| non-confidential | confidential |
| *If applicable, please specify what particular information you consider to be confidential, provide reasons as to why we should treat it as such, and create a non-confidential version of it (see also* [*public guidance*](https://www.gov.uk/government/publications/the-uk-trade-remedies-investigations-process/an-introduction-to-our-investigations-process#how-we-handle-confidential-information)*):* | |
|  | |
| How the information was checked | |
| **Upwards Verification**  Upwards CTM Verification was only conducted for SDNS since Jintai acts as an intermediary and so has no cost of production.  SDNS is made up of several profit centres – some of which relate to the goods under investigation and some which do not. The profit centres figures provided in the questionnaire responses which related to the goods under investigation were calculated and compared to the TBs for the POI.  The figures were then reviewed against the 2020 TB and the 2020 internal consolidated financial statements provided which showed each profit centre individually. The total consolidated 2020 statement was matched to the 2020 audited Group financial statements. Whilst differences were found, they were not considered material enough for further investigation.  Finally, the POI figures calculated were compared to the D12 CTM annexes to ensure that the latter reflected the correct allocation. A [non-confidential range 15-25%] difference between the individual TBs and the consolidated D12 annex provided was identified. This is explained further under cost allocation below but in summary the individual TBs include a transfer markup whilst this had been removed from the consolidated version to show the actual cost of production. This methodology was accepted as reasonable.  No other issues were identified.  **Downwards Verification**  *Raw Materials*  We requested and received the following source documentation for 25 selected raw material purchases.   * Contract * VAT invoices * Stock-in note as proof of delivery * Bank payment advice as proof of payment   The source documentation provided for each of the raw material transactions selected above was checked against the information provided in the transaction listing, including the name of the supplier, date of purchase, quantity purchased in metric tons, purchase amounts and VAT, for accuracy and consistency.  We identified within the Aluminium Liquid and Ingot Division, a petroleum coke purchase transaction which appeared to show a [non-confidential range 10-20%] higher amount in the transaction listing than in the invoices provided. However, we did not deem this to be an issue given that potential overstatement was only [non-confidential range 1-5%] of the total invoiced amounts of the selected sample. Coke is predominantly used in the production of electricity and aluminium. Both these outputs are also used for goods not under investigation, which account for approximately [non-confidential range 70-90%] of products made, and so would absorb a greater impact from any inaccuracies than for the extrusions.  Payments were often made on a rolling basis to cover multiple transactions either in advance or in arrears. These were evidenced on the accounting system during the verification visit.  We identified two suppliers within the raw materials transactions which were associated parties of LKDHA and SDNS respectively: one a supplier of bauxite, and the other a company for a Chinese port receiving port charges for the transportation of steam coal. We performed further work to establish that transactions with the above associated suppliers were each on an arm’s length basis, and not material, and therefore did not need to be excluded.  This downwards verification of raw material purchases provided us with reasonable assurance over most of the POI costs incurred, since raw material purchases made up [non-confidential range 60-80%] of total POI costs.    *Direct Labour*  We were able to review labour cost information from the accounting systems of the Industrial Profile Division and the Electricity Division, which provided us with limited assurance on direct labour costs as labour incurred in other production divisions was not verified due to time constraints. However, we have deemed this to be sufficient since labour costs only constituted [non-confidential range 5-10%] of total POI costs incurred and this review provided evidence that all related costs had been included i.e. benefits etc.  **Cost Allocation**  SDNS provided a ’carry forward worksheet’ for the PCN allocation methodology which provided details on the cost reconciliation. This showed the cost incurred by each division including a unit cost to produce the product related to that division i.e., electricity, alumina powder and aluminium ingot. These costs were reconciled to their respective TBs for the POI.  Then the methodology for the carrying forward of costs from one production division to the next was verified to be reasonable: this was based on the average unit cost incurred for the output of the previous division during the POI. The costs brought forward from each production division were traced to each successive division up to the four relevant extrusion divisions.  It was noted, that whilst it was normal practice to revalue aluminium liquid and aluminium ingot to the spot market value as indicated by the “Changjiang spot price of aluminum ingot” and thereby introducing an internal profit margin in the transfer of these inputs to the billet casting division, this had been excluded from the CTM calculation. This exclusion of the profit element was the difference identified in the Upwards Verification mentioned above. Therefore, the CTM figures were based on the actual unit cost of production.  Costs carried forward to the Casting Division were first allocated to individual aluminium alloy series. This was done both in terms of the cost of the main intermediate products input from the previous stage – electricity, aluminium liquid and ingots – and the underlying costs incurred, e.g., coal, bauxite, gas, labour, overheads, etc. A unit cost for each alloy series was calculated.  The same analysis was performed for costs carried forward to the Extrusion divisions.  We checked that the extrusion costs of production agreed to those further analysed between individual products for export or domestic sale, as either finished or fabricated products. We then traced these costs to those carried forward and allocated between PCNs by quantity produced/sold within product types.  The total manufacturing cost-to-make, with their constituent costs, allocated to each PCN, and production quantities, were then agreed to the questionnaire annexes D12.1 (domestic CTM). | |
| *Please indicate the confidentiality status of the information summarised above:* | |
| non-confidential | confidential |
| *If applicable, please specify what particular information you consider to be confidential, provide reasons as to why we should treat it as such, and create a non-confidential version of it (see also* [*public guidance*](https://www.gov.uk/government/publications/the-uk-trade-remedies-investigations-process/an-introduction-to-our-investigations-process#how-we-handle-confidential-information)*):* | |
| **Upwards Verification**  Upwards CTM Verification was only conducted for SDNS since Jintai acts as an intermediary and so has no cost of production.  SDNS is made up of several profit centres – some of which relate to the goods under investigation and some which do not. The profit centres figures provided in the questionnaire responses which related to the goods under investigation were calculated and compared to the TBs for the POI.  The figures were then reviewed against the 2020 TB and the 2020 internal consolidated financial statements provided which showed each profit centre individually. The total consolidated 2020 statement was matched to the 2020 audited Group financial statements. Whilst differences were found, they were not considered material enough for further investigation.  Finally, the POI figures calculated were compared to the D12 CTM annexes to ensure that the latter reflected the correct allocation. A [non-confidential range 15-25%] difference between the individual TBs and the consolidated D12 annex provided was identified. This is explained further under cost allocation below but in summary the individual TBs include a transfer markup whilst this had been removed from the consolidated version to show the actual cost of production. This methodology was accepted as reasonable.  No other issues were identified.  **Downwards Verification**  *Raw Materials*  We requested and received the following source documentation for 25 selected raw material purchases.   * Contract * VAT invoices * Stock-in note as proof of delivery * Bank payment advice as proof of payment   The source documentation provided for each of the raw material transactions selected above was checked against the information provided in the transaction listing, including the name of the supplier, date of purchase, quantity purchased in metric tons, purchase amounts and VAT, for accuracy and consistency.  We identified within the Aluminium Liquid and Ingot Division, a petroleum coke purchase transaction which appeared to show a [non-confidential range 10-20%] higher amount in the transaction listing than in the invoices provided. However, we did not deem this to be an issue given that potential overstatement was only [non-confidential range 1-5%] of the total invoiced amounts of the selected sample. Coke is predominantly used in the production of electricity and aluminium. Both these outputs are also used for goods not under investigation, which account for approximately [non-confidential range 70-90%] of products made, and so would absorb a greater impact from any inaccuracies than for the extrusions.  Payments were often made on a rolling basis to cover multiple transactions either in advance or in arrears. These were evidenced on the accounting system during the verification visit.  We identified two suppliers within the raw materials transactions which were associated parties of LKDHA and SDNS respectively: one a supplier of bauxite, and the other a company for a Chinese port receiving port charges for the transportation of steam coal. We performed further work to establish that transactions with the above associated suppliers were each on an arm’s length basis, and not material, and therefore did not need to be excluded.  This downwards verification of raw material purchases provided us with reasonable assurance over most of the POI costs incurred, since raw material purchases made up [non-confidential range 60-80%] of total POI costs.  *Direct Labour*  We were able to review labour cost information from the accounting systems of the Industrial Profile Division and the Electricity Division, which provided us with limited assurance on direct labour costs as labour incurred in other production divisions was not verified due to time constraints. However, we have deemed this to be sufficient since labour costs only constituted [non-confidential range 5-10%] of total POI costs incurred and this review provided evidence that all related costs had been included i.e. benefits etc. | |
| Exceptions/Findings/Adjustments | |
| To allow comparison across entities we updated the format of the D12.1 CTM\_PRC in order to show the total billet and electricity costs rather than the input materials separately. The revised version is shown as annex 2 of this report. | |
| *Please indicate the confidentiality status of the information summarised above:* | |
| non-confidential | confidential |
| *If applicable, please specify what particular information you consider to be confidential, provide reasons as to why we should treat it as such, and create a non-confidential version of it (see also* [*public guidance*](https://www.gov.uk/government/publications/the-uk-trade-remedies-investigations-process/an-introduction-to-our-investigations-process#how-we-handle-confidential-information)*):* | |
|  | |
| Conclusions | |
| The information relating to costs that we have been provided by the interested party is verifiable. Based on the work we have done, we have a reasonable level of assurance that the information can be treated as complete, relevant and accurate and can therefore be used by the TRA for the Dumping and Injury Margin calculations, and for any other purpose within the investigation. | |
| *Please indicate the confidentiality status of the information summarised above:* | |
| non-confidential | confidential |

# 

# Conclusion

We have obtained sufficient and appropriate evidence in order to conclude that the information provided by the company under all of the sections above is verifiable. Therefore, we have a reasonable level of assurance that the information is complete, relevant and accurate for the purpose of this investigation.

# Annexes

## Annex 1: Meetings

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date and duration | Type of verification | Company representatives | TRA representatives | Summary of items discussed |
| Mon 6 Dec 2021  07:30 – c. 10:30 GMT | remote  on-site | Allbright Law (legal representatives of SDNS):  [Confidential for privacy] | [Confidential for privacy] | Accounting system walkthrough  PCN allocation to models  Upwards verification of sales |
| Wed 8 Dec 2021  07:30 – c. 10:30 GMT | remote  on-site | As above | As above | Transaction selection testing - costs  Carry forward of costs and allocation into products  Upwards verification of cost |
| Fri 10 Dec 2021  07:30 – c. 10:30 GMT | remote  on-site | As above | As above | Transaction selection testing – sales  AS&G costs |

## Annex 2: Updated D12.1 - CTM\_PRC

*The entire file is confidential as it’s not suitable for a non-confidential summary due to its nature.*