



Trade Remedies
Authority

Exporter – Verification Report TD0011: Certain cold rolled flat steel products originating in the People’s Republic of China and the Russian Federation

Date:	1 December 2021
Company verified:	PAO Severstal
Verification meeting dates:	21 September 2021 19 October 2021 20 October 2021 22 October 2021

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1. Introduction

On 29 April 2021, the Trade Remedies Authority (TRA) initiated a transition review of anti-dumping duties on certain cold rolled flat steel products originating in the People’s Republic of China and the Russian Federation. More information about the case can be found on the public file for this investigation:

[Case TD0011 Public File](#)

The Period of Investigation (POI) lasted from 1 April 2020 to 31 March 2021. PAO Severstal, a Russian producer and exporter of the like goods, responded with a completed exporter questionnaire and the TRA sought to verify the data submitted.

We conducted verification remotely, through office-based assessments and remote verification meetings between the case team and PAO Severstal.

1.1 Meeting details

Company name:	PAO Severstal
Venue:	Microsoft Teams
Meeting dates:	21 September 2021 (systems walkthrough) 19 October 2021 (verification meeting 1 of 3) 20 October 2021 (verification meeting 2 of 3) 22 October 2021 (verification meeting 3 of 3)

The following attended from PAO Severstal and the TRA:

Organisation	Name – Title
PAO Severstal	[person] – [Job title]
	[person] – [Job title]
	[person] – [Job title]
	[person] – [Job title]
	[person] – [Job title]
	[person] – [Job title]
	[person] – [Job title]
	[person] – [Job title]
The TRA	[person] – Lead Investigator
	[person] – Investigator
	[person] – Verification Adviser
	[person] – Verification Adviser
	[person] – Verification Adviser
	[person] – Investigator
	[person] – Investigator
	[person] – Assistant Economist

2. Verification

2.1 Company information and associations

We verified information about the company's general set-up, ownership, associated parties, function and products by comparing statements in its questionnaire response against publicly available information, which included annual reports, the company website and secondary sources.

Next, we assessed the reliability of the financial data provided by the company. We considered the independent auditor's assessments of PAO Severstal's financial statements and checked the accounting policies for any inconsistencies. We concluded that the information did not reveal additional areas of risk in the company's financial data.

To help us establish whether we could treat the data in the submission as complete, relevant and accurate for the purposes of this transition review, we held four remote verification meetings with the company, with a designated systems-walkthrough meeting on 21 September 2021 and three further verification meetings on 19, 20 and 22 October 2021. These meetings included:

- Overall reconciliations of the sales and costs data,
- Demonstrations of the company's methodology for extracting data from its systems and subsequent calculations to prepare the data for the purposes required by this transition review,
- Individual checks of the data in the submission against data in the accounting systems, and
- Additional questions regarding areas we considered to be of higher risk.

We have a reasonable level of assurance that the information relating to organisational structure that we have been provided by the interested party is verifiable and verified. It can therefore be treated as is complete, relevant and accurate and can be used for the purposes of this transition review. Our verification of the company's accounting systems did not suggest any additional areas of risk.

2.2 Product knowledge

We found that the product control numbers (PCNs) reported by the company were all valid according to the PCN structure of this transition review.

Then, we considered the company's description of its internal coding system and compared its company control numbers (CCNs) to the description to determine whether they were consistent. On the basis of the description, we used Excel functions to split the CCNs into their constituent parts, and also split the company's PCNs into their separate fields according to the PCN structure, checking which PCN fields had been assigned to the different parts of the CCNs.

We used this method on all CCNs to verify the product type and product quality of the PCNs. To verify the PCN steel grades, we checked a sample of CCNs that covered a broad range of grades. For verifying thicknesses, widths and finishes, the company provided us with additional information to demonstrate its methodology for selecting the appropriate encodings for these PCN fields. We compared the company's Excel formulas to standards set out in the EN10130 Standard and checked which edge types had been assigned to which products.

We assessed the internal consistency of the PCNs in the company's submission by comparing the PCNs reported in Annex A7.1, the transaction-by-transaction sales listings and Annex D12.1. We then checked whether the goods were in scope and whether there were any relevant goods that the company had not reported, achieving this by examining the company's product brochure and considering explanations in its questionnaire response regarding which products had been included and excluded.

We have a reasonable level of assurance that the information relating to products that we have been provided by the interested party is verifiable and verified. It can therefore be treated as is complete, relevant and accurate and can be used for the purposes of this transition review.

2.3 Associated-party transactions

We considered the list of associated parties reported by PAO Severstal in its questionnaire response and compared this to the suppliers and customers listed in the company's transaction-by-transaction listings. In addition, we used publicly available information to check whether any of the suppliers or customers described as independent may in fact be associated with PAO Severstal.

We read statements in the company's questionnaire response to understand whether we should expect the company's purchase prices from its suppliers and/or sales prices to its customers to be affected by associations. To check whether the data was consistent with these statements, we calculated the weighted-average unit prices for each supplier and customer in the transaction listings and considered whether there was sufficient evidence to demonstrate that prices differed between independent or associated parties.

For both sales and purchases, we did not find positive evidence of price differences between independent and associated parties that would lead us to exclude any transactions. We have a reasonable level of assurance that the information relating to trading relationships with associated parties that we have been provided by the interested party is verifiable and verified. It can therefore be treated as is complete, relevant and accurate and can be used for the purposes of this transition review.

2.4 Verification of sales data

2.4.1 Upwards sales verification

We performed upwards verification of the sales data to check whether the sales reported in the company's submission were consistent with figures in the published accounts and general ledger.

First, we aligned the total revenue in PAO Severstal's 2020 audited financial statements with the POI. Using the trial balances, we subtracted the revenue for Q1 of 2020 and added the revenue for Q1 of 2021. Our calculation was exactly consistent with the figure provided in the company's upwards-sales reconciliation (Annex B1.1).

To assess the reasonableness of the significant growth (38%) in Q1 revenue from 2020 to 2021, we:

- Considered the broader economic climate, with specific attention to the effects of COVID-19 on the steel industry,
- Compared it to the revenue trends in Annex D2.1 for all goods and for the like goods,
- Compared it to the revenue trends we identified in the consolidated financial statements, and
- Examined explanations in the press release accompanying the group's Q1 financial statements.

Having aligned the total revenue from the audited financial statements to the POI, we compared the annex data in PAO Severstal's submission against these aligned figures. We checked that:

- The sum of the net sales value for all transactions in the transaction-by-transaction listings reconciled with the equivalent figures in the upwards-sales annex, and
- The revenue from all goods could be reconciled with the company's total revenue (aligned to the POI).

In the deficiency response, the company updated its domestic-sales listing but did not update the corresponding domestic-sales totals in Annex B1.1. Though the domestic-sales data in the original submission reconciled exactly, the deficiency response introduced discrepancies of less than 5%. During a remote systems walkthrough on the 21 September 2021, the company demonstrated how it extracted the sales data relevant to this transition review. We also discussed the changes with the company during a remote verification meeting on 22 October 2021. The company then provided us with a working version of the domestic-sales listing that allowed us to exactly reconcile the differences.

As an additional check, we compared the revenue figures for the company's different product categories reported in Annex B1 with the revenue breakdown in the 2020 consolidated financial statements. This allowed us to assess whether the POI sales figures reported for the relevant goods represented a significantly different proportion from that revealed in publicly available information.

We calculated profit figures from PAO Severstal's questionnaire annexes and compared them with the profits stated in the audited financial statements. From the annexes, we found the gross profit relating to all goods during the POI and calculated the gross profitability. Then, we calculated gross profitability using the figures in the 2020 audited financial statements and also using the figures we had aligned to the POI. We compared these profitability figures to identify any significant inconsistencies but determined there were none.

We have a reasonable level of assurance that the information relating to sales that we have been provided by the interested party is consistent with figures in the published accounts and general ledger.

2.4.2 Downward sales verification

We performed downwards verification on the sales data to check whether the transaction-level data in the company's submission was consistent with source documentation for a sample of transactions.

In advance of three remote verification meetings, we requested source documentation for 16 selected sales transactions, and during the first meeting on the 19 October 2021, requested similar supporting evidence for five more.

We requested, and received, the following documents for each transaction:

- Contract,
- Order specification,
- Invoice,
- Bill of lading, and
- Payment request.

The company provided the supporting documentation we requested for all the selected transactions. For all 21 transactions, we verified the data in the sales listings against the source documentation.

Where multiple transactions were included in the same invoice, we reconciled the totals using the transaction-by-transaction data and checked any allocations within that invoice.

For some transactions, we could not exactly match the transport costs reported in the relevant sales listing with the corresponding bill of lading because the bills of lading only recorded part of the delivery cost and did not include loading or other logistical charges. However, the company provided "delivery cost analysis" screenshots from its accounting systems as further supporting evidence. We also considered the company's methodology for calculating its transport costs and determined they were reasonable and consistent with the data submitted.

Finally, we identified four transactions where the payment was significantly larger than the invoice total. After a remote verification meeting on 22 October 2021, the

company provided screenshots of the relevant entries in its accounting software to demonstrate that each of these payments had paid off multiple invoices, including the relevant invoice for our selected transaction. We were satisfied with this evidence.

We did identify some duplicated transactions in the domestic-sales listing, but the company explained that this was the result of a clerical error and sent us a corrected version of the listing. After reviewing this version, we were satisfied that the duplicates had been removed.

We have a reasonable level of assurance that the information relating to sales that we have been provided by the interested party is verifiable and verified. It can therefore be treated as is complete, relevant and accurate and can be used for the purposes of this transition review.

2.5 Verification of cost data

2.5.1 Upwards costs verification

We performed upwards verification of the cost data to check whether the costs reported in the company's submission were consistent with figures in the published accounts and general ledger.

First, we aligned the total cost of sales in PAO Severstal's 2020 audited financial statements with the POI. Using the trial balances, we subtracted the cost of sales for Q1 of 2020 and added the cost of sales for Q1 of 2021. Our calculation was exactly consistent with the figure provided in the company's upwards-costs reconciliation (Annex D4).

To assess the reliability of the accounts, we:

- Examined the auditor's opinion of the financial statements,
- Compared the figures in the trial balances for the whole of 2020 with corresponding figures in 2020's audited financial statements, and
- Considered the reasonableness of the change in the Q1 cost of sales between 2020 and 2021.

To assess the reasonableness of the change in Q1 cost of sales, we:

- Considered the broader economic climate, with specific attention to the effects of COVID-19 on the steel industry,
- Compared the change in Q1 cost of sales to the cost-of-sales trends that we identified from the consolidated financial statements, and
- Analysed the supporting evidence submitted by PAO Severstal regarding costs.

Having aligned the total cost of sales from the audited financial statements to the POI, we verified the cost-to-make (CTM) totals in PAO Severstal's upwards-costs reconciliation against these aligned figures. We exactly reconciled the costs of production and change in inventories to the aligned cost of sales.

We further verified the CTM totals by recalculating the total CTM from raw-material costs, production overheads and the change in finished-goods inventories. Since PAO Severstal does not maintain specific accounts for the goods subject to review and/or like goods, we made multiple estimates for the total CTM. The discrepancy between each estimate and the total CTM reported by the company was below 10%, which for this comparison, we did not consider material.

Finally, we assessed the evidence provided by the company in support of its costs. During a remote systems-walkthrough meeting on 21 September 2021, we verified that the company had accurately extracted this data from its systems, checking it related to sales of the goods subject to review and/or like goods. We then summed the total manufacturing costs over all the relevant products to check it was consistent with the CTM totals in other annexes.

We have a reasonable level of assurance that the information relating to costs that we have been provided by the interested party is consistent with figures in the published accounts and general ledger.

2.5.2 Costs by PCN

We checked that costs to make had been reported for all PCNs, and asked the company for clarification where costs to make:

- Had been reported for PCNs that did not appear in any of its sales listings, and
- Had not been reported for certain PCNs.

To assess whether the types of raw-material input reported by the company were reasonable, we:

- Compared them to the raw materials used by other Russian and UK producers of the like goods,
- Examined publicly available information about Severstal's production process, and
- Considered the internal consistency of the full submission.

Our analysis of costs by PCN did not identify material anomalies that would suggest the cost data was incomplete or unreliable.

2.5.3 Downwards costs verification

We performed downwards verification on the cost data to check whether the transaction-level data and product-level data in the company's submission was consistent with source documentation for a sample of transactions and products.

Having compared the inventory-valuation method described in the company's questionnaire response with the company's full set of policies for accounting under Russian Accounting Standards (RAS) and against information from secondary

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sources about RAS, we concluded that the information was consistent and in conformance with accepted accounting practices.

During a remote verification meeting on 19 October 2021, we asked the company to trace the costs for a product code we selected back to its raw-material inputs and thereby learned how such information could be obtained from the accounting systems. After the meeting, we reviewed the screenshots that the company emailed to us as additional supporting evidence.

We were satisfied that the costs for the example product could be traced back to the raw-material inputs and that the cost-allocation methodology for raw-material inputs was reasonable. Having verified an example product and having seen how this information is recorded in the company's accounting systems, we concluded that the raw-material costs of other products would be verifiable using the same method.

We verified the unit costs for selected PCNs by asking the company to show us the costs in its systems for corresponding internal product codes.

To check the costs arising from the most significant inputs to the production of the like goods, we performed downwards verification on 14 selected purchase transactions.

We requested and received the following documents for each transaction:

- Contract,
- Invoice, and
- Screenshots of relevant entries in the accounting system.

Depending on the type of cost in the selected transaction, we also requested and received where appropriate:

- Supplementary agreements to contracts,
- Purchase orders,
- Proof of delivery and receipt of goods, and
- Proof of payment.

We were satisfied that the transactions details in the purchase listings matched the source documentation. Where we did find some discrepancies, we either received a sufficient explanation from the company or determined they were not material. For the selected electricity purchases, the company explained the differences in the unit prices during a remote verification meeting on 20 October 2021, showing us that the invoice quantity represented capacity rather than actual usage. We accepted that unit prices calculated from these invoice quantities would not match the figures in the purchase listing, and therefore concluded that the invoices were consistent with the listing.

During remote verification meetings on 19 and 20 October 2021, we asked the company to show us how it used its systems and source documentation to allocate costs to cost centres (if applicable) and then to individual products. We thereby assessed the allocation methodologies for:

- Raw materials,

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- Labour,
- Energy, and
- Administrative, selling and general (AS&G) costs.

The remote verification meetings gave us a reasonable level of assurance that the company allocated these costs using a reasonable method and that there would have been sufficient evidence to verify the costs in more detail had it been necessary.

To check that the company's own adjustments for the purposes of International Financial Reporting Standards (IFRS) and tax accounting were not affecting the costs reported to this transition review, we tested that the columns in the detailed cost sheets relating to these adjustments summed to zero for each row. We confirmed that they did sum to zero for each row and therefore were not affecting the costs.

Finally, we considered the company's treatment of waste within its production figures for the like goods to determine whether the manufacturing overheads might have been reported incorrectly for the purposes of this transition review. To do this, we reallocated the overheads using the following method with the information available, which we considered reasonable. For each product, we:

- Used data from the company's detailed cost sheets to estimate the amount of production that we would consider to be waste rather than production of like goods,
- Removed the relevant amounts from the reported production quantity,
- Considered the percentage change in the overheads allocated to the product that would arise from altering the product's relative share of the total production quantity of like goods, and
- Adjusted the reported manufacturing overheads by this percentage.

Having performed these steps using the company's internal product codes, we then recalculated the unit CTM for each PCN using our adjusted manufacturing overheads. By comparing these with the figures reported by the company, we assessed the materiality of including waste in the production figures for the like goods. We determined that it was not material for the purposes of this transition review and therefore decided to accept the original cost data reported by the company without adjustment.

We have a reasonable level of assurance that the information relating to costs that we have been provided by the interested party is verifiable and verified. It can therefore be treated as is complete, relevant and accurate and can be used for the purposes of this transition review.

2.6 Dumping-likelihood factors

We verified the company's claim that it had not made any exports of the goods subject to review during the POI by:

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- Examining how it extracted the POI sales data for the goods subject to review and like goods from its accounting systems, and
- Considering UK-import data from HMRC.

This gave us a reasonable level of assurance that the company had not exported goods subject to review to the UK during the POI.

During a remote verification meeting on 22 October 2021, the company demonstrated how it calculated its production capacity for the goods subject to review and/or like goods by using standard processing times for different products (based on actuals from previous periods) to reach a theoretical maximum production volume for each facility, then subtracting provisions for downtime (also based on actuals from previous periods).

The company also demonstrated how it had calculated the inventory figures for this transition review using data from its accounting systems. We asked why some of the figures for “other” changes in stocks were negative, and the company explained that a clerical error had caused some of the stock figures to be overstated, thereby distorting the “other” changes, which had been calculated by a formula. They submitted to us a corrected version of “Annex D6”.

To assess dumping to third countries, we verified the company’s exports to third countries during our verification of the sales data, including sales through its subsidiary, Severstal Export GmbH. We considered sales made by Severstal Export GmbH during our verification activities, including in our transaction selection for downwards verification. We verified normal values and production levels during our verification of sales and costs. In addition, we decided that the company’s statements regarding conditions in the domestic market and attractiveness of the UK market were reasonable and could be considered alongside other information during our assessments.

We have a reasonable level of assurance that the information relating to dumping-likelihood factors that we have been provided by the interested party is verifiable and verified. It can therefore be treated as is complete, relevant and accurate and can be used for the purposes of this transition review.

3. Summary

We completed our verification of PAO Severstal's submission. Where it was not feasible to verify the information in detail, we obtained a sufficient understanding of the company's systems and its methodology for preparing the data in its submission, as well as a sufficient sample of supporting evidence, to conclude that the data was verifiable.

As explained in this report, we did identify some clerical errors in the submission, but the company cooperated with us to explain and resolve the issues. Once we had received updated versions of the data, we were satisfied that the errors had been corrected. For all the areas that we did not verify, we were satisfied that any possible inaccuracies would not be material for the purposes of this transition review.

We have a reasonable level of assurance that the information that we have been provided by the interested party is verifiable and verified. It can therefore be treated as is complete, relevant and accurate and can be used for the purposes of this transition review.