

# **UK Industry – Verification Report**

# Cases TD0008 and TS0009 and: Certain Continuous Filament Glass Fibre Products originating in People's Republic of China

Date:	9 December 2021
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Company verified: Electric Glass Fiber UK Ltd. (EGF UK)

Verification meeting dates: 12-13 October 2021

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# **SECTION A: Background**

# A1. Background

On 29 January 2021, the Trade Remedies Investigation Directorate (TRID) of the United Kingdom's (UK) Department for International Trade initiated two transition reviews of measures in relation to certain continuous filament glass fibre products originating from the People's Republic of China ('goods subject to review').

TRID subsequently became the Trade Remedies Authority ("TRA") and is carrying out transition reviews of each trade remedy measure active under the European Union (EU) system that the UK transitioned after EU exit. More information about the case can be found on the public file for this investigation:

#### Case TD0008 Public File

#### Case TS0009 Public File

The Period of Investigation ("POI") lasted from 01 January 2020 to 31 December 2020.

Electric Glass Fiber UK Ltd. (EGF UK), a domestic producer of the like goods, responded with a completed domestic producer questionnaire and the TRA sought to verify the data submitted.

Verification activities took place in person at EGF UK's site in Wigan; information was supplied in hard copy and by email. A financial system walkthrough was conducted prior to the verification visit remotely.

# A2. Meeting details

#### 1) Financial Systems Walkthrough

The TRA and EGF UK completed a virtual financial systems walkthrough and the initial verification discussion on 16 September 2021. A note of meeting was recorded (annex A1).

#### 2) Verification Visit

Company name: Electric Glass Fiber UK Ltd. (EGF UK)			
Venue:	132 Leigh Road, Hindley Green, Wigan, WN2 4XG		
Meeting dates:	12-13 October 2021		

#### Attendees:

Organisation	Name – Title
EGF UK	Redacted – Personal data
TRA	Julie Roden – Lead Investigator
	Oliver Curl – Lead Investigator
	Alexandra Donaldson – Lead Verification Advisor
	Joshua De Leeuw Van Weenen – Investigator

# **SECTION B: UK industry**

# **B1. Like goods**

EGF UK claim the goods they produce have characteristics similar to those of the goods subject to review. The TRA considered this and reviewed the domestically produced goods to determine if they are indeed 'like goods' according to the criteria detailed in the subsequent sub-sections. The goods were also compared with the goods produced by the one cooperating Chinese exporter.

one cooperating Chinese exporter.
In the questionnaires, the TRA set out a Product Control Number (PCN) structure that allowed EGF UK to specify details of the products in terms of product form (e.g., assembled (multi-end) or direct (single-end) rovings), linear density (rovings only), fibre diameter (chopped strands only), and surface weight (mats only). EGF UK submitted both their domestic and export sales listings for the POI and provided the PCNs for each sale as requested.
. Redacted – commercially sensitive.
The TRA was satisfied that all sizes fit within the description of goods subject to review. <b>B1.1</b>
- Physical similarities
Both the UK-produced goods and the goods subject to review have similar appearance, chemical composition, grade/standards, size/dimensions, strength and weight.
Redacted - commercially sensitive. TRA is satisfied that the goods can be regarded as physically similar.
and the goods can be regarded as physically similar.

#### **B1.2 - Commercial similarities**

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Commercially sensitive. Therefore, the TRA is satisfied that they are commercially similar, and no adjustments are necessary. **B1.3 - Functional similarities** 

Both EGF UK's goods and the goods produced by the Chinese exporter are used in the same industries (predominantly automotive and wind-turbines). They both also require further manufacturing processes, as rovings require weaving and chopped strands and mats are used as components of end use products. The TRA is satisfied that the goods are functionally similar.

#### **B1.4 - Production similarities**

The production processes are dependent on the production of glass which is fed through filaments to produce the strands which is standard for this industry. The bushings are made of rhodium, and although there is high cost in the material, this is the only option able to withstand such high temperatures and so again is common throughout the industry worldwide.

Both EGF UK and the Chinese exporter carry out the entire manufacturing process of continuous glass fibre products so there is no need to adjust for different production processes. Both the domestic producer and the exporter produce primarily on demand which our research identified is common for the industry. Therefore, the TRA is satisfied that the goods produced by EGF UK and the Chinese exporter are produced in the same fashion.

# **B2. Conclusion on the UK industry**

The TRA is satisfied that the continuous glass fibre products produced by EGF UK are like goods to the goods subject to review, are produced in the UK and that there is an existing UK industry. The TRA is also satisfied that EGF UK has correctly assigned all the like goods it produces to the correct PCNs and has not made any omissions. Therefore, the TRA is satisfied that no adjustments are necessary regarding the assignment of PCNs. It should be noted that

Redacted – commercially sensitive - and this will be examined as part of the review.

# **SECTION C: Verification of cost data**

# C1. Upwards verification

At the financial systems walkthrough, EGF UK provided an explanation of how their systems are integrated, data is input, and reporting produced. In addition, during the verification visit, they showed the TRA the purchase and sale levels of approval as well as the payment run. The TRA was therefore satisfied in the sufficiency of the systems in order to conduct verification. See Annex A1 for further details of the walkthrough.

EGF UK stated in their questionnaire that they only produce the like goods, and so there would be no overlap with products outside the scope of the investigation. Secondary research conducted during remote verification and the site visit confirmed this to be the case. Therefore, we have not needed to make reconciliation adjustments to company-wide financial reports and the data submitted.

The TRA reconciled the data submitted in the annex in the questionnaire response to both the 2019 and 2020

- audited financial accounts,
   management accounts and
- · trial balance.

Initially the 2020 financial accounts were not available, and the 2019 accounts were used as an initial reconciliation and reasonableness test.

Redacted – commercially sensitive- . The reasonable test looked at cost trends over the injury period reported in the audited accounts and assessed the movement in the 2020 figures to be in line with this trend and therefore provided a level of assurance.

The 2020 audited accounts were provided prior to the verification visit and these were reconciled. The differences identified between the financial statements and the trial balance were due to the fact that the questionnaire response was completed before the 2020 financial statements were finalised. However, the differences were minimal

Redacted – commercially sensitiveand considered immaterial. Therefore, this allows the TRA to be sufficiently assured of the accuracy of the data submitted by EGF UK when conducting our analysis.

#### C2. Downwards verification

The TRA reviewed the sample of purchase transactions for downwards verification from the raw materials annex provided in the questionnaire. The TRA asked EGF UK to provide the following documents for each selected transaction:

- Supplier Contracts
- Purchase Order
- Purchase Invoice
- Proof of Payment
- Proof of Delivery

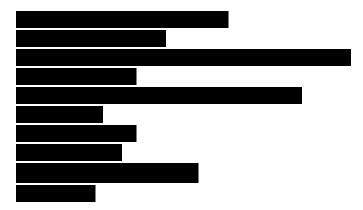
A few issues were identified after reviewing the source documentation which include:

Proof of payments did not agree for a number of transactions and so further

documentation was requested and provided which showed the total the invoices which were paid within that batch.	payments and
Two credits for electricity raised questions	
Two ordato for electricity falloca questions	
R	tedacted -
commercially sensitive These issues related to the	
.Redacted – commercially sensitive- As a result, this can	be seen as
standard practice and so the TRA was satisfied with the explanation.	
<ul> <li>Small electricity invoices were questioned as they were different to the</li> </ul>	ne main cost.
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commercially sensitive- Again, the TRA was satisfied with the verific issue.	ation of this
All source documents were consistent with the annex data provided and no	issues were
identified. Supplier contracts were only available for utilities and not raw mat	
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commercially sensitive.	
•	
C3. PCN Allocation	
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The TRA reviewed the allocation of costs against the PCNs. During the acco	
walkthrough, EGF UK confirmed that they do not allocate their costs by proc	luct because
	Redacted –
technically sensitive. They do not therefore differentiate between their cost	!
but instead use a standard cost allocation method. Sales in the POI howeve	•
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resulting in the standard cost being inaccurate. The data in the annex provide	•
allocated based on sales volume by PCN. As a result, the verification focuse	
allocation of total costs (which had been reconciled to the financial accounts	
upwards verification) to individual PCNs.	unough the
•	
The TRA requested and was provided with the sales volume breakdown by	-
UK and export markets. This data was used to confirm the percentage of tot	
allocated to the PCNs. Whilst there were some small differences	Redacted
- commercially sensitive, they were not considered to be material, relating	
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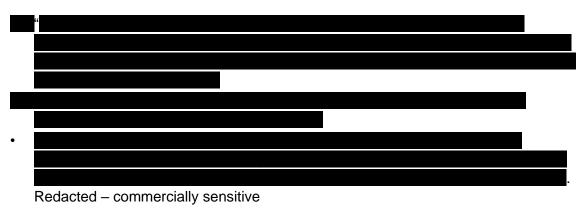
## C4. AS&G

The TRA reviewed the AS&G costs as listed below, in line with the expected allocation of PCNs:



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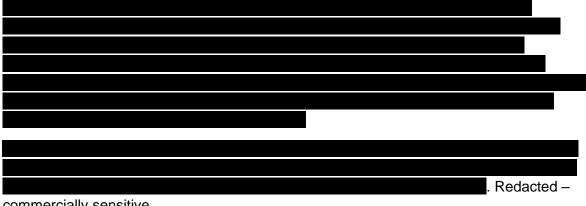
The following items were questioned as to their relevance in the UK cost of production and it was agreed that they should be excluded.



The following items were identified as relevant in the UK cost of production and it was agreed that they should remain.



C5.			
			<u> </u>



commercially sensitive.

# C6. Adjustments to make and sell

In summary, the following adjustments have been made to the cost to make and sell and the revised figures can be seen in Appendix 1.

To be removed:



Adjustment to existing figures:

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Quantity is to be based on sales and not production as the cost of sales was provided in the annex and not the cost of production. Whilst the materiality of this was low Redacted – commercially sensitive. The TRA felt it was more prudent to compare cost of sales with sales volume and not production volume.

## C7. Conclusions

The TRA reviewed the costs documents submitted by EGF UK. This process has given the TRA a reasonable level of assurance that the information relating to sales is verifiable and verified. It can therefore be treated as complete, relevant and accurate, and can be used in this transition review.

The table in Appendix 2 outlines TRA's calculations of the cost to sell per unit based on EGF UK's costs data.

# **SECTION D: Verification of sales data**

# D1. Sales policies

EGF UK provided the TRA with a complete sales listing (annex 9 and 10 of the EGF UK questionnaire submission) of their domestic and export sales of the like goods for the POI. The TRA discussed sales processes with EGF UK to get a better understanding for verification. Major policy points which were considered during the verification process include:

•	Order negotiation: "	
		."
•	Revenue recognition: "	
•	Delivery terms: "	
	<u> </u>	
•	Rebate policy:	
	Redacted – commercially sensitive	

# D2. Price reductions

The TRA reviewed price reductions by understanding EGF UK's price reduction policies and procedures, identifying and verifying any price reductions reported or not reported which may exist.

n EGF UK's questionnaire response, they stated that "	
" They may also grant "	
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The TRA is satisfied that no sales transactions need to be excluded.

D3. Level of trade and related customers

#### D4. Verification of sales data to financial documents

Before selecting transactions to fully verify, the TRA performed a basic upwards verification to confirm the completeness of the total data set. This included:

- calculating sales for the POI as per the trial balances compared to the same figure reported by EGF UK;
- confirming that the transaction by transaction figures for domestic and export sales matched the equivalent figures reported in the upwards sales reconciliation;
- comparing the financial statement figures provided in the upwards sales reconciliation to the audited accounts for 2020;
- comparing the management accounts for the POI, managements accounts for the financial period and the audited accounts for 2020 (income statement). D4.1 Findings

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commercially sensitive	The TRA is satisfied that the data set reflects the POI managemen	١ŧ

commercially sensitive. The TRA is satisfied that the data set reflects the POI management account figures and can be used for verification.

The TRA was able to reconcile the annex figures and the management accounts to the trial balance.

The transaction by transaction sales amounts were also found to match the totals provided in the relevant sections in the upwards sales reconciliation. During the verification visit, the TRA asked EGF UK to provide documentation to show how they differentiate between domestic and export sales. They provided the sales ledger from their Redacted – commercially sensitive, which includes a field showing the country of the customer. Thereby providing assurance that they were able to allocate between domestic and export correctly. The TRA used this documentation to verify the figures.

Based on the findings above, the TRA is assured that it is reasonable to treat the data provided as complete, relevant and accurate.

#### D5. Verification of sales data to source documents

In order to check that the data submitted by EGF UK was a true reflection of sales for the POI, a sample of 8 transactions were selected. A list of these transactions can be found in annex A3. The TRA requested EGF UK to provide the following documents for each selected transaction:

- contracts or general customer agreements (that include general T&Cs, rebate conditions, payment/credit terms etc);
- order acknowledgements;
- purchase orders;
- · proof of receipt of payment;
- · sales invoices;
- dispatch notes (proof of shipping);
- · rebates;
- cash discounts for early payment;
- · delivery charges.

EGF UK provided the TRA with contracts/customer agreements where available, where contracts did not exist, the TRA established that the purchase order and order acknowledgement, coupled with EGF UK's general terms and conditions form the contract and agreement of sale with customers.

The accuracy of the sales data was assessed by verifying the information submitted against the source documents while taking into account the policies mentioned above. **D5.1** -

#### **Findings**

The TRA sought to check that sales information in EGF UK's questionnaire (and corresponding annex) submissions corresponded with the source documentation.

#### The TRA received:

- contracts
- · order acknowledgements;
- purchase orders;
- · sales invoices;
- remittance advice (proof of payment);
- dispatch notes;

Using this source documentation, we carried out checks to verify the information provided in the questionnaire response which included:

- comparing sales invoices with corresponding order acknowledgements;
- checking the source documents matched the details given in the questionnaire transaction by transaction sales listing in terms of:
  - o price; o date; o customer
     name and number; o purchase
     order number;

product specification –
 matching to PCN and model;
 quantities (weights and lengths);
 delivery terms.

For each transaction, the TRA was able to:

- Verify that the invoice price and date matched the figures provided in the questionnaire sales listing.;
- Reconcile the figures quoted in the questionnaire sales listing with the necessary proof of payment;
- · Check customer information was correctly recorded;
- Check delivery notes were consistent with invoices and other documents.

EGF UK had provided delivery amounts for each domestic sale within their questionnaire

response as well as documentation showing invoice, transport quotes and cost of individual deliveries in comparison to quotes.

Redacted – commercially sensitive. The TRA is therefore assured that it is reasonable to treat the delivery charges provided as complete, relevant and accurate.

#### D6. Conclusion on verification of sales data

The TRA reviewed the sales documents submitted by EGF UK. This process has given the TRA a reasonable level of assurance that the information relating to sales data is verifiable and verified. It can therefore be treated as complete, relevant and accurate, and can be used in this transition review.

Appendix 3 outlines TRA's calculations of prices per PCN that will be used as an indicative UK market price for underselling/undercutting based on EGF UK's sales data. This is calculated at the Ex works (EXW) level and is the price inclusive of discounts and rebates.

# **SECTION E: Injury and market trends**

# E1. The current state of the UK industry

The data used in this section of the report comes from the questionnaire response and corresponding injury annex submitted by EGF UK. In order to understand the state of the UK industry and likelihood of injury occurring if the measures were no longer applied, we sought to verify the data submitted and met with EGF UK to discuss the injury factors and future trends associated with them.

The data was matched where possible back to the financial statements covering the injury period since only the like good is produced.

**E1.1 - Sales** 

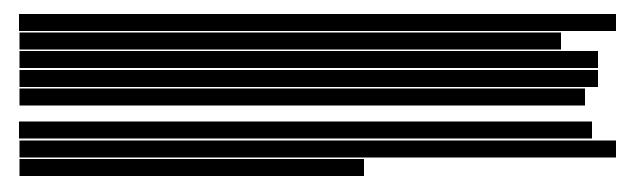


Table 1: EGF UK domestic sales of the like goods, 2017-2020

	2017	2018	2019	POI	2021-25 (average)
Index (2017 = 100)	100	90	44	61	68
Index (2017 = 100)	100	88	42	54	59

Redacted - commercially sensitive

During the verification visit, EGF UK explained that they based their forecasts on discussion with customers but did not have official forward forecasts.

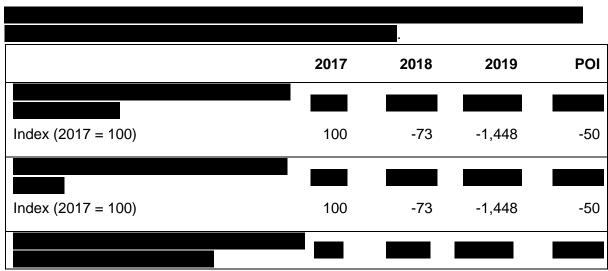
Table 2: EGF UK export sales of the like goods, 2017-2020

	2017	2018	2019	POI
	2017	2010	2013	1 01
Index (2017 = 100)	100	102	102	96
Index (2017 = 100)	100	97	94	86

Redacted - commercially sensitive

#### E1.2 - Profits

Table 3: EGF UK profits, 2017-2020



Redacted - commercially sensitive

EGF UK stated that "GFR production is highly capital intensive and producers (that have to operate without heavy government support) need to obtain a certain level of profit to be able to finance recurring investment requirements and stay in the market."

The TRA discussed a reasonable profit level with EGF UK, and it was agreed that the target profit for the overall company of should be used as reasonable profit as this is in line with NEG's expectations. EGF UK provided a link to NEG's financial outlook to verify this Redacted – commercially sensitive.

E1.3 - Productivity

Table 4: EGF UK productivity, 2017-2020

, , , , ,	2017	2018	2019	POI
Index (2017 = 100)	100	91	74	80

Redacted – commercially sensitive.

EGF UK did not provide any information about productivity in their questionnaire response in addition to these numbers. The verification of these figures is based on the accuracy of the employment and production figures provided and discussed in subsequent sections.

# E1.4 - Employment

Table 5: EGF UK employment, 2017-2020

	2017	2018	2019	POI
Total number of employees (FTE)				
Index (2017 = 100)	100	105	115	106

Number of employees for like goods (FTE)				
Index (2017 = 100)	100	105	115	106

Redacted – commercially sensitive

The figures were verified against their financial statements.

EGF UK stated that for "Total number of employees:

redacted - commercially sensitive.

# E1.5 - Wages

Table 6: EGF UK wages, 2017-2020

	2017	2018	2019	POI
Median wage for FTE engaged in activities related to the like goods (£)				
Index (2017 = 100)	100	107	102	105

Redacted – commercially sensitive

EGF UK provided payroll information and employee contracts to verify the data. Due to confidentiality (GDPR), the TRA did not retain these documents but was satisfied with the information shown.

#### E1.6 - Inventories

Table 7: EGF UK inventories, 2017-2020

	2017	2018	2019	POI
Stocks at year end, total volume (MT)				
Index (2017 = 100)		112	82	65
Stocks at year end, total value £)				
Index (2017 = 100)	100	107	97	81

Redacted – commercially sensitive

Stock levels were verified against their financial statements.

Redacted – commercially sensitive.

#### E1.7 - Utilisation of capacity

Table 8: EGF UK utilisation of capacity, 2017-2020

	2017	2018	2019	POI
Production capacity for like goods (MT)				
Index (2017 = 100)	100	97	96	96
Production capacity utilisation for like goods (%)				
Index (2017 = 100)	100	99	89	89

Redacted – commercially sensitive

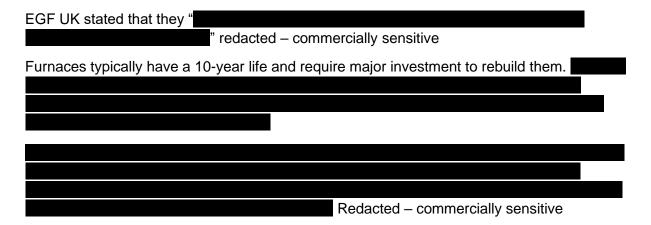
Due to the continuous nature of production in the glass furnace (the furnace product level needs to be maintained within a tolerance of Redacted – technically sensitive. at all times to provide maximum efficiency), capacity varies with the specification of the product being manufactured. During the verification visit, EGF UK clarified that the variation in output and therefore capacity utilisation year-on-year is related to the product mix and the number of bushings in use at any one time which in turn is dependent on the demand for particular grade of products.

#### E1.8 - Investments

Table 9: EGF UK investments, 2017-2010 and 2021-25 projection

	2017	2018	2019	POI	2021-25 (average)
Total investments – whole company (£)					
Index (2017 = 100)	100	1036	82	104	505
Total investments - in relation to like goods (£m)					
Index (2017 = 100)	100	1036	82	104	505

Redacted – commercially sensitive.



# E2. Other causes of injury

In their questionnaire response, EGF UK did not highlight any other factors that might have caused injury.

# E3. Conclusion on injury and market trends

EGF UK has provided the TRA with supporting documentation for factors including sales, profit, production and capacity utilisation. We were able to verify this information and discuss other factors in meetings with EGF UK in order to consider their explanations.

Redacted – commercially sensitive. the TRA has a reasonable level of assurance that the information relating to injury factors and market trends is verifiable and verified. It can therefore be treated as complete, relevant and accurate, and can be used in this transition review.

# **SECTION F: Annexes**

Annex A1	EGF UK Financial Systems Minutes (16-09-2021)
Annex A2	EGF UK Complete Domestic Sales Listing
Annex A3	Selected Domestic Sales Transactions for Downwards Verification

	1				
Unadjusted depreciation cost (£)					
Depreciation allocation					
Allocated adjustment (£)					
Adjusted depreciation cost (£)					

Redacted - commercially sensitive

Appendix 2: xxxxx xxxxx xx xxxxxxxxxx xxxxxxxx xxx xxx

PCN	Before (origina	l)	After (adjusted)		
	<b>Total Cost to</b>	Cost to make	Total Cost to	Cost to make	
	make and	and sell per	make and Sell	and sell per	
	Sell (£)	unit (£/MT)	(£)	unit (£/MT)	

Appendix 3:

PCN	UK Target Price (£/MT)

Redacted - commercially sensitive