

Research on the Accounting Issues in Anti-Dumping Lawsuits

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Abstract—Chinese companies frequently encounter anti-dumping investigations in their exports. However, anti-dumping suits mostly end in failure, and one of the important reasons is the problems in accounting cost. Based on the analysis of the importance of accounting in anti-dumping lawsuits, this paper takes citric acid and steel product as examples, to study accounting problems, lessons and experiences in corporate anti-dumping lawsuits, and provides improvement measures from the perspectives of cost accounting, accounting early warning and accounting information system, in order to give full play to the role of accounting in anti-dumping lawsuits, and increase the success rate in anti-dumping lawsuits.

Keywords—cost accounting; anti-dumping; accounting warning; citric acid; steel product

I. INTRODUCTION

Since 1996, China has continuously become the country with the most anti-dumping investigations in the world, with the largest amount in the anti-dumping, involving more than 4,000 kinds of products, including minerals, petrochemicals, machining, equipment, which caused more than thousands of billions losses. In the anti-dumping investigations, most of the Chinese companies were in passive positions, or either directly abandoned the response, or failed to respond to anti-dumping investigations for the lack of experience and abilities. The key to the success in anti-dumping lawsuits lies in accurate cost data. How to play the role of accounting in anti-dumping lawsuits, get final success and minimize trade losses, is an inevitable problem for Chinese companies in international trade. Based on this, this paper takes citric acid and steel as an example, to study the accounting problems in anti-dumping, and provides experience and reference to improve the success rate in anti-dumping lawsuits.

II. THE IMPORTANCE OF ACCOUNTING IN ANTI-DUMPING LAWSUITS

Accounting plays a vital role in anti-dumping response. On the one hand, the main focus of anti-dumping lawsuits lies in product prices and costs; on the other hand, the accounting problems involved in anti-dumping investigations often exist in many aspects of the investigation process. When export enterprises are sued for dumping, in the investigation stage, the company's chief financial officer and other accountants provide relevant materials, including responding documents, questionnaires, and accounting materials relating to the prosecution defense. In the "Anti-Dumping Agreement", the

reviewed materials should be accompanied by the economic data of the enterprise, including sales volume, tax payment, investment income, cash flow, inventory, etc. In materials preparing before the trial, collecting the similarities and differences between China's accounting standards and international accounting standards is necessary, so anti-dumping is closely related to accounting work. Thirdly, in WTO trade agreement, China was recognized by the United States as a "non-market economy country." The substitute country is very unfavorable to the Chinese anti-dumping lawsuit. The substitute country means that when "market economy" countries import from "non-market economy" countries, in order to measure the "normal price", the import price should be compared with similar product of substitute country, for the United States, "substitute country" here refers to developed countries. However, in the anti-dumping cases, the choice of the substitute country is after the prosecution, which means that the "non-market economy" countries cannot predict the subsequent litigation process, that is, when the Chinese enterprises are involved in anti-dumping litigation, the professional and rigorous accounting plays a crucial role for the victory of lawsuits.

Due to the important role of accounting in anti-dumping response, foreign and domestic scholars have conducted in-depth research on how to strengthen the ability of accounting to respond in anti-dumping investigations. The research mainly focuses on accounting evidence, accounting warning, and the impact of differences in accounting standards. Liu and Liu (2013) pointed out that the difference in accounting treatment between different countries was the main reason for the launching of anti-dumping investigations.^[1] Sun and Liu (2009) constructed a theoretical framework for the anti-dumping response of Chinese enterprises through systematic investigation and research on the anti-dumping case.^[2] Sun (2014) believed that the reason why Chinese companies are in a passive position in anti-dumping lawsuits was mainly due to the low quality accounting information and the imperfect cost information system.^[3] Chen(2014) believed that the improvement of Chinese anti-dumping accounting not only needed to its own early warning system and strategic management accounting, but also needed to consider the differences between Chinese accounting standards and international accounting standards.^[4] Robert et al. (2004) believed that improving performance in anti-dumping lawsuits needed to reform the financial accounting system and establish "anti-dumping" guided accounting system.^[5] Wan and Chi

(2013) believed that in order to avoid the risk of anti-dumping investigations, enterprises not only need to strengthen the awareness of anti-dumping crisis prevention, but also need to strengthen financial warning work.^[6]

III. ACCOUNTING ISSUES AND EXPERIENCE IN ANTI-DUMPING RESPONSE: THE CASE OF CITRIC ACID AND STEEL PRODUCTS

A. The Cases of Citric Acid Response to the United States

Citric acid is a product fermented from higher starch content such as cassava or sweet potato. This product is biochemical and has wide applications in food, medicine and bioengineering. China is a big exporter of citric acid and is highly dependent on the international market. The export volume has increased year by year. In 2016, 40.8% was exported to the United States, Germany, the Netherlands, India, Spain, Thailand etc. With the technology advancement, the average cost has gradually decreased, and the unit price has also dropped from 921 US dollars per ton to 719 US dollars, which led to larger difference between the export price and normal price in substitute country, and thus was recognized as dumping.

TABLE I. QUANTITY AND AMOUNT OF CITRIC ACID EXPORTS IN 2013-2016

Year	Export	
	Quantity (kg)	Amount (thousands of US dollars)
2013	762,050,238	702,375
2014	742,938,905	662,348
2015	827,471,045	641,178
2016	857,489,324	616,693

On April 14, 2008, the three major US materials companies, Archer Daniels Midland, Cargill and Tate & Lyle USA, submitted applications to the US Department of Commerce and the US International Trade Commission to conduct anti-dumping and countervailing investigations on citric acid and citrate which are produced in China. In May 2008, the US Department of Commerce preliminary ruled that the dumping of citric acid produced in China caused substantial damage to similar industries in the United States and determined to investigate according to law. In April 2009, the US Department of Commerce finalized the anti-dumping case. The result of the ruling was that the dumping margin was 94.61%-156.87%, and the subsidy rate was 3.6%-118.95%.

B. Steel Companies Anti-dumping Response and Experience

1) *The present anti-dumping position in US steel industry:* In 2008, the financial crisis broke out and spread rapidly to the whole world, which led that trade protectionism had become increasingly popular, and trade frictions between countries had also intensified. China's export has also been affected by the financial crisis, especially in steel products. Due to the sluggish of global economy, the international demand in the steel market has declined, and countries have taken measures to protect their related industries. As shown in Table 2, during the financial crisis, the United States launched intensive anti-dumping investigations against Chinese steel products.

It can be seen from Table 2 that in the anti-dumping case against the Chinese steel in the United States, many types of steel products were involved, and the amount involved was huge, and most of Chinese companies have ended up losing. The failure of Chinese steel companies in the anti-dumping case not only caused huge losses, but also further exacerbated the export dilemma of China's steel products.

TABLE II. OVERVIEW OF US ANTI-DUMPING CASES AGAINST CHINA'S STEEL

Object	Details
Petroleum steel pipe	On December 30, 2009, the US International Trade Commission adjudicated that the imports of petroleum steel pipes from China were harmful to the relevant industries in the United States. On April 9, 2010, the US Department of Commerce finalized the case and adjudicated that the dumping margin was 29.94% to 99.14%.
Steel grating	On December 29, 2009, according to the preliminary judgment of the US Department of Commerce, steel gratings that imported from China were subject to anti-dumping duties. In June 2010, the US Department of Commerce finally adjudicated that the United States would impose a 136.76%-145.18% anti-dumping duty and a 62.46% countervailing duty on steel gratings imported from China.
Steel strand	On June 10, 2010, the United States imposed countervailing sanctions and anti-dumping sanctions on steel strands imported from China. According to the US International Trade Commission's adjudicates, the United States imposed a total tariff of more than 200% on Chinese steel wire products. The result of this adjudicates caused the total value of the product to drop from the original 178 million US dollars to 13 million US dollars.
Seamless steel pipe	In October 2009, the US Department of Commerce initiated anti-dumping and countervailing investigations on seamless steel pipes imported from China, and made preliminary rulings on anti-dumping and countervailing duties in December of the same year and February of the following year. In October 2010, the US International Trade Commission made a final adjudicate on the damage caused by seamless steel pipes imported from China. Accordingly, the US Department of Commerce issued a double anti-dumping taxation order for the product.
Stainless steel welding pressure pipe	The US Department of Commerce and the US International Trade Commission respectively issued anti-dumping and counter-subsidy rulings on stainless steel welded pressure pipes imported from China in January and February 2009, respectively.

2) *Baosteel's experience:* In the US anti-dumping case against China Steel, Baosteel Group's had excellent performance. In August 2010, the US Department of Commerce initially ruled that Baosteel Group's dumping margin was 7.64%. After only one week, the dumping margin was reduced to 2.66%, the Baosteel won in the anti-dumping lawsuit, and the experience is also worth learning by peer companies. In 1996, Baosteel Group officially used the standard cost method in complex cost accounting. In order to continuously optimize the cost management system, Baosteel Group analyzed the reasons for the cost difference. By promoting the standard cost method, the cost accounting of Baosteel was more scientific and reasonable, and the pricing of its products was more accurate, which further reduced the risk of anti-dumping investigations. Because the standard costing is the scientific and effective, it is highly internationally accepted, and the accounting information such as the cost information is also highly usable. Based on the above, Baosteel Group

conducted comprehensive and effective accounting evidence in filling out the questionnaire and responded to the questions and requirements raised by the investigator with ease. In addition, Baosteel Group's also consciously cultivated a professional anti-dumping team, which not only included professional legal and other related talents, but also gathered a group of professional anti-dumping accounting talents, which played important role in coping with the accounting issues in anti-dumping investigation against Baosteel.

C. Accounting Issues in Anti-dumping Response

First, the quality cost accounting information of anti-dumping is low. Taking citric acid products as an example, the judgment that whether the export is anti-dumping needs to calculate the export price and normal price. The calculation of export price is relatively easy. However, the calculation of normal price is more complicated and plays a key role. Therefore, the determination of normal price becomes a focus of the anti-dumping litigation debate. In addition, any method to determine normal price requires specific import accounting methods. The accounting of cost and expenses was not detailed enough in Chinese citric acid products, and the anti-dumping investigation only targeted the products related to citric acid products, and only paid attention to the expenses and costs of such products. There are large differences between China and international accounting standards. The biggest reason for anti-dumping investigation agencies not to recognize cost allocation was the irrationality in the choice of expense allocation, reflecting the lack of advanced cost management concepts in most SMEs.

In the allocation of manufacturing costs, for material cost, the allocation standard is often used material quotas; for direct labor, the allocation standards is often used production hours; for fixed indirect costs, production hours, machine hours, etc. are often used. The above allocation criteria are closely linked to the production quantity. However, under contemporary production conditions, the correlation between manufacturing expense and related production quantity is becoming weaker and weaker. The allocation standard should base on a series of operations or factors that drives costs, also known as cost drivers. This cannot be reasonably reflected in the methods of cost allocation of Chinese enterprises, especially SMEs, and directly leads to inefficiency in providing direct materials, direct labor, and manufacturing costs for the products, and ultimately results in low quality cost information.

Second, the lack of accounting early warning system in anti-dumping. As China joins the WTO and expands into the international trade field, Chinese company actively responds to the country's strategy of going global, expanding sales, increasing market share and international influence. However, the degree of internationalization of some export enterprises is relatively low, and the weak anti-dumping awareness has caused that enterprises ignore the continuous attention to the quality and market share of export product, and blindly seek low-price competition which has led to anti-dumping investigations. The anti-dumping accounting early warning system should remind enterprises to avoid low-cost exports or adjust the export volume in time to avoid anti-dumping investigations. However, at present, China lacks the necessary

reaction mechanisms and countermeasures, cannot analyze the anti-dumping related data, predict the abnormal situation in advance, lack of accounting early warning, and even some enterprises do not know the anti-dumping accounting early warning mechanism, which makes Chinese enterprises are in a passive position when they are responded to anti-dumping investigations.

Third, lack of anti-dumping accounting information platform. In dealing with US anti-dumping investigations, the biggest obstacle is usually the lack of responding materials, and the cost of data collection is high, and it needs the support of accounting information platform. This new information platform should include relevant raw data, including general ledger system for financial statements, and the daily production and operation process of citric acid enterprises. However, most exporting companies lack attention and input into anti-dumping accounting, when companies face US anti-dumping investigations, they often fail to provide effective accounting information timely, and in passive situation in anti-dumping.

IV. IMPROVEMENT MEASURES

A. Improve the cost accounting method

Cost information is the most important information in anti-dumping information (Liu and Du, 2013).^[7] Therefore, responding companies should follow the requirements of reliability, comprehensibility, substance and consistency under the premise of providing traceable data, and ultimately guarantee the quality of cost information. For citric acid product, in addition to the production cost, it is also necessary to calculate the research and development costs, freight charges, advertising fees, etc. contained in each batch of citric acid products. In the cost accounting daily operation, it is necessary to: first, standardize the basic work, systematically establish cost accounting book, classify and refine the cost accounting, establish and improve the cost accounting management information platform for anti-dumping, that is, in the cost calculation of daily operation, it should separately collect and distribute the expense, including sales expenses, administration expenses, and financial expenses, and set up separate books, to facilitate cost traceability when involved in anti-dumping investigations.

B. Improve the accounting warning mechanism

Improve the accounting warning mechanism, investigate and analyze the export market, production and sales, price and other factors of export products, and timely grasp the competition in the industry and the influence of importers.(Liu and Yu, 2013).^[8] Through the database of the network, know the sales module in details, to develop a targeted market development strategy for the enterprise ; therefore, through the trend analysis of sales and the share in domestic and international market, to provide information for anti-dumping investigations.

C. Strengthening the construction of accounting information platform under ERP environment

With the support of ERP system, the output of accounting data will be more efficient. In process management, ERP is

dominated by business processes, and most of them can realize system management (Matschke and A.Schottne, 2009).^[9] Enterprise information is highly integrated and shared, and can also serve multiple subjects. The EER system contains the database and model library, the database can provide and trace anti-dumping accounting information, increase storage capacity, and facilitate investigation and integration; the model library includes processing methods such as market forecasting model, risk analysis model, and predictive analysis etc.

For example, in the case of citric acid products, the ERP information platform has the functions of collecting internal and external information, including the entire traceability system for citric acid processing, accounting information from raw material procurement to final sales, and even political and economic trends in China, and the political and economic developments of the importing countries. In the platform with anti-dumping system, the first is to sort out the existing measurement system, to ensure that the process between units can be reliably measured, to reliably record all kinds of data, to track and monitor in real time, and to implement the filing system for export commodity information. No matter which country the company exports, the sales expenses of the products are all available, and in the end, a network-shaped organizational structure pattern can be formed.

D. Train or introduce anti-dumping accounting talents

Anti-dumping lawsuit is not only related to legal issues, but the accounting issues are also very complicated, so it needs professional accounting talents necessarily. Anti-dumping accounting often covers accounting expertise, international forensic accounting, international trade, and international anti-dumping laws (Bruce, 2006).^[10] In addition, as an international lawsuit, English is also indispensable for communication and problem solving. The reason why Baosteel Group won such a big victory in anti-dumping case is that it has a professional anti-dumping team. However, at present, the accounting personnel in Chinese enterprises do not fully understand the relevant laws and coping strategies in international anti-dumping, which led to the fact that China's enterprises are often in a passive position in responding to anti-dumping investigations and cannot effectively maintain their own legitimate rights and interests.

E. Actively explore new markets

Taking steel products as an example, China's steel enterprises can also expand export market as much as possible in emerging markets other than the countries which frequent launched the anti-dumping investigations. With the implementation of the "One Belt, One Road" strategy, China's trade with countries along the route has become increasingly frequent, and the trade amount has continued to rise. Most of the countries along the "Belt and Road" are developing countries, which have rich resources for development and

utilization, great development potential and broad market. By strengthening cooperation with countries in the region, China actively promotes infrastructure construction in the region and opens up new markets for China's steel industry.

V. SUMMARY

China has been the country which was involved most in anti-dumping lawsuits in the world for more than ten years, and anti-dumping lawsuits caused huge losses to Chinese companies. This paper takes citric acid and steel products as examples to find lessons and successful experiences in anti-dumping failure. The study finds that one of the most important reasons for the failure in anti-dumping litigation lies in the low quality cost accounting information and the lack of early warning system. Based on this, the paper proposes countermeasures from the perspectives of improving cost accounting methods, improving early warning system, strengthening the construction of accounting information platform, talent cultivation and exploring new markets, to reduce the possibility and loss when Chinese enterprises encounters anti-dumping lawsuits and increase the chances of successful anti-dumping lawsuits.

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