

## Research on the Function of Response to Lawsuits in Anti-Dumping Accounting

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**Abstract** It is a new issue worthy of discussion whether accounting has a function of response to lawsuits in the antidumping cases. In the practice of antidumping, accounting information is the prerequisite to determine whether there is dumping and whether it is necessary to take corresponding actions. The fact that traditional management tool mismatches the demand of antidumping accounting information which weakens the accounting functions, and impedes the antidumping actions to some degree. In the practice of antidumping, accounting should not only take the roles of accounting and supervision, but also have the function of response to lawsuits.

**Key words** Antidumping accounting; Accounting function; Response to lawsuits; Necessity analysis

### 1 Introduction

Accounting plays an indispensable role in the economic activities, and the role varies in different historical periods and economic development stages. Nowadays, under the trend of the economic globalization and marketization, new economic phenomena are constantly emerging and the accounting environment changes continuously. The role of Accounting has turned from the “passive accounting tool” to the “proactive management tool”. As the American accounting professor A.C.Littleton said, “Accounting is a direct medium to transfer all kinds of social relationships in many aspects...” That means accounting can also produce a kind of extensive information. From this aspect, as a particular source of information, the accounting’s service function has been extended or expanded to some degree.

In recent years, China is facing more and more serious threat of antidumping, which brings strong negative influence in the foreign trade, so as to affect the economic development continuously, healthily and rapidly in China. The article wants to study how to extend the accounting functions, especially the function of response to lawsuits in the antidumping cases.

### 2 Accounting Functions and Its Extension in Antidumping Accounting

Accounting aims to reflect, explain and evaluate the objective economic activities, which determines the accounting functions. There is no united opinion about the accounting functions so far. In the traditional accounting theory, the accounting functions have two major aspects: accounting and supervision, which can be seen in the accounting law. With the rapid economic development of and in-depth economic system reform, the accounting environment has been changed as well as the accounting functions. As can be seen, accounting functions varies from the perspective of the objective environment’s changes. Accounting has some extensive functions from the perspectives such as information system, technicism theory and management activities and so on.

#### 2.1 New thinking of accounting functions

As we all know, accounting acts an ever-changing social role. Therefore, we should not only consider the accounting function from the perspective of economic environment and technology development, but also consider it as an integrated management tool in certain historical period and economic development stage. Moreover, the accounting practice should be instructed by corresponding accounting theory or accounting method to exhibit highest capacity and take due responsibilities. Accounting standards and accounting systems reflect the public policy. In this way, certain accounting standards that adjust to changes in economic environment is formed, and accounting standards and laws do not integrated to a large degree. However, in the open society nowadays, the policy making and system arrangement must be based on the new technology, global market rules, and some other external institutional environments or constraint conditions. That is why accounting begins to be influenced by laws and economic thought of maximization. For example, accounting standard itself is used to standardize the economic activities of the entities, but now the legal problems relating to the accounting

standards are being considered, the generation and development of accounting with law theory means that accounting would be more and more implemented in the legal practice, the accounting standards therefore have more functions regarding to laws. In brief, we cannot deny that accounting is the combination of economic and legal attributes, unless we deny the underlying logical relationship among economy, legislation and accounting.

### **2.2 The extensive function of antidumping accounting**

Antidumping is not only a matter of legislation, but also a matter of interest in nature. From the aspect of accounting, the recognition and measurement of export products' prices and normal value is the focus of the contradiction concerning dumping and antidumping activities. The fact, in front of antidumping accounting, becomes necessary. Although the antidumping activities and accounting standards are two different systems, they have certain overlapping or similarities in the content to some degree. For instance, the primary commitment is to determine whether the dumping activities are reasonable, which needs accounting information as evidence; in the process of evaluating the damage resulting from dumping according to the antidumping laws, antidumping accounting plays a role to provide quantitative estimates; when the antidumping action is used to decide the punishment for dumping, the corresponding tax base is prepared by underlying accounting standards. In this way, it is necessary logically that antidumping accounting has the extensive function—response to lawsuits.

## **3 On the Necessity of the Research on the Function of Response to Lawsuits in Antidumping Accounting**

The response to lawsuits function is the new function for antidumping accounting. At first, any economic entities' activities must be instructed according to relevant law and regulations. In the globalization of economy, large numbers of economic facts and phenomena are diversified and complicated, economic disputes or business conflicts are becoming more and more serious. Antidumping accounting is used for solving financial disputes, objectively evaluating the economic loss, balancing each stakeholder's interests, and ensuring the market economy develops stably. Then, the response to lawsuits function of antidumping accounting is the extension from the two basic functions of accounting and supervising. Therefore, the above three functions are mutually related, constrained and motivated. Antidumping accounting is not only to use specific accounting method, stated mainly in monetary terms and according to the basic accounting procedures, to generate information so to satisfy the economic decision making, but also is to examine the validity and legality of the specific economic entities whereas undertaking accounting is to provide reliable and relevant evidence for certain economic cases using the valuable accounting information, so as to provide necessary services to the litigants and assist the Court of Judicature to make conclusive judgment.

Response to lawsuits in antidumping accounting is an emerging function. Although it has been used to some degree in the practice of economic judicature regarding to antidumping, the business area in respect to the function of response to lawsuits is limited, the relevant authorities is unfixed, the assignment of duties is ambiguous, the working procedure is not standardized, and the measurement criteria used to evaluate the function of accounting evidence is deficient. Especially when a clearly defined accounting entity is facing the threat of international antidumping actions, antidumping accounting theory is extremely insufficient to assist us to respond to the possible antidumping lawsuits.

## **4 The Effect on the Antidumping Activities about the Function of Response to Lawsuits**

The function of response to lawsuits in antidumping accounting includes two stages: 1) new case registration investigation for the antidumping lawsuits; 2) implementation in response to lawsuits investigation; specifically, the effect of the function of response to lawsuits is showed in complaint, pre-warning, and termination of the antidumping lawsuits investigation, attestation, and minimization of the loss and so on.

### **4.1 In the stage of new case registration investigation for the antidumping lawsuits**

There are two important functions in the stage of new case registration investigation for the antidumping lawsuits: complaint and pre-warning

#### **4.1.1 Complaint**

The function of complaint is that the importer initiates an antidumping investigation against the exporter according to the antidumping act and relevant necessary accounting information. The importer cannot lodge a complaint unless sufficient evidence is available to testify that the exporter "has sold the

products at the price lower than the cost of the importer's products" and this dumping activity has directly damaged the importer's relevant industry. That is to give qualitative definition of the dumping activities. When those conditions are satisfied, then the price of the export products is compared to the normal value. When the export price is lower than the normal value, the transaction can be defined as dumping activity, which is the quantitative definition of dumping. It should be noticed that the exporter price and the normal value must conform to generally accepted accounting principles and the convention of international trade. The next step is to check and approve the dumping profit of the exporter. According to "WTO Antidumping Agreement", if the export price is lower than the normal value and the difference is no more than 2% of the normal value, the relevant transaction should not be identified as dumping activity, whereas corresponding countervailing tariff must be calculated and collected based on the amount of dumping margin so as to determine the amount of dumping. So, when undertaking antidumping investigation, the function of complaint is indispensable.

#### 4.1.2 Pre-warning

The function of pre-warning is to use the accounting method to trace, analyze, anticipate with respect to major international or domestic economic ratio (such as the amount of export products, product mix, product cost, export price and overall supply & demand), and provide relevant information timely to the export enterprises to assist them to take preventative measurement against dumping. Antidumping, resulting from the importer's operational strategy-making, is an appropriate trade protection tool. From the perspective of exporter, it is significant to keep on track about the changing market structure of the "like products" produced by the importer, and based on the cost, price, production, profit, market demand and the probability that the import country will take antidumping measurement, to make comprehensive judgment about the entity in the market structure that gets damaged and may file an antidumping lawsuit. On the other hand, some factors with respect to antidumping pre-warning are inevitably difficult to be identified in the accounting information.

#### 4.2 Implementation in response to lawsuits investigation

After the application of registration of antidumping, the antidumping investigation against the exporter begins, at which time the work of accounting is one of the key points to determine whether the lawsuits can be won. As a matter of fact, the responding to antidumping charges can be seen as an argument regarding to accounting information instructed by the laws and regulations. Once the agency in charge of antidumping investigation identifies some problems existing in the basic accounting system according to which the accounting evidence is provided by the enterprise involved, it is difficult to ensure the validity and reliability of the enterprise's accounting information, which may probably lead to high antidumping tariff to be collected. Although without the antidumping accounting system so far, it is possible for the accounting to exploit the function of response to lawsuits in the antidumping lawsuit, if the enterprise's accounting work is valid and the accounting procedures and methods are reliable.

#### 4.3 The main effect of the function of response to lawsuits

The effect on the antidumping activities about the function of response to lawsuits can be classified into three categories: termination of the antidumping lawsuits investigation, counterplea, and minimization of the loss.

##### 4.3.1 Termination of the antidumping lawsuits investigation

The primary form of antidumping investigation is to require the enterprise involved in the lawsuit to fill the antidumping questionnaire including the information about the materials supply, process of production, cost allocation, labor costs, selling price and amount, and the accounting procedures and methods. The purpose of the antidumping questionnaire is to collect accounting evidence. If the evidence is insufficient and is not in accordance with the complaint's accusation, the investigation can be terminated immediately. The termination of the antidumping lawsuits investigation can make the enterprise involved in the antidumping lawsuit decrease or avoid protracted loss resulting from responding to the antidumping charges.

##### 4.3.2 Counterplea

Counterplea is a fixed procedure in the International Dumping Code, which means that all litigants have opportunities to argue for their own interests. The function of counterplea is a particular accounting function granted by the International Dumping Code, and also a core accounting function in the antidumping lawsuits. Because many enterprises in China lack the experience of response to antidumping lawsuits, they don't dare or are unwilling to accept the antidumping charges, and even though they accept, they fail to use accounting information as evidence to counter-argue effectively, resulting in unfavorable adjudication and low rate of recovering. Statistics shows that, more than half of the export enterprises in China have encountered the accusation of antidumping, less than 70% accepted

the antidumping investigation, and argued for their interests, and only about 30% won the lawsuits ultimately, which is far lower than the world average level. The results indicates it is a long-term and arduous task in both practice and theory of antidumping accounting to increase the ability of the enterprise's counter-argument using valuable accounting evidence to respond to the antidumping accusation.

#### 4.3.3 Minimization of the loss

The end of response to lawsuits is the integration of the functions discussed above, whose purpose is to minimize the loss of antidumping. The success of counter-argument would certainly give "universal satisfaction".

## 5 Conclusions

In the practice of antidumping, accounting should not only take the roles of accounting and supervision, but also have the function of response to lawsuits. The function is showed in complaint, pre-warning, and termination of the antidumping lawsuits investigation, attestation, and minimization of the loss and so on. In order to ensure its effect of the function of response to lawsuits be played fully in antidumping activities, it is necessary for China to strengthen the theoretic research on the antidumping accounting. This article only touches upon the surface of the topic.

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