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Mr John Bracic
Director Operations 1
International Trade Remedies Branch
Australian Customs and Border Protection Service
Customs House
5 Constitution Avenue
CANBERRA ACT 2601

Dear Mr Bracic

Public File

Polyvinyl Chloride ("PVC") exported from Japan - Continuation of measures inquiry; PVC exported from Japan and USA – Review of measures inquiry – Proposed USP

I refer to Customs and Border Protection's recent verification visit at Australian Vinyls Corporation Pty Ltd ("AVC") for the Continuation of measures inquiry into PVC exported from Japan, and the review of measures inquiry on PVC exported from Japan and the USA.

AVC was requested to provide details of a proposed unsuppressed selling price ("USP") for the Australian industry manufacturing PVC.

Policy Advice 2004/1

Trade Measures Policy Advice No. 2004/1 details the preferred hierarchy that Customs and Border Protection considers in determining an appropriate USP for the Australian industry. The hierarchy involves consideration of:

1. Industry selling prices at a time unaffected by dumping;
2. Constructed industry prices – industry cost to make and sell plus profit;
3. Selling prices of non-dumped goods.

Current USP

The most recent review of measures completed in 2005¹. The measures that apply to PVC exported from Japan and the USA are referred to as "old scheme measures" and were applied prior to the introduction of interim duty arrangements with effect from 1 January 1993. Under the pre-1993 measures, a minimum price scheme operates whereby an increase in the export price of the goods under consideration from a dumped level to a non-dumped level would result in a nil liability for dumping duty.

Prior to the 2005, Customs and Border Protection had based the Australian industry's USP on AVC's cost-to-make-and-sell ("CTM&S") PVC plus an appropriate amount of profit. In the 2005

¹ Refer Trade Measures Report No. 100 – Review of Normal Values, Export prices and Non-injurious prices for certain PVC exported from Hungary, Israel, the Republic of Korea, Japan, Thailand and the USA.

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investigation. Customs and Border based the USP on AVC's average purchase price for the raw material vinyl chloride monomer ("VCM") across the investigation period, plus a margin between the cost of the VCM and the selling price as measured in the 1998/99 year. The reasons for the change are outlined in Report No. 100 and include concerns associated with the low Australian dollar (versus the US dollar as PVC contracts were at that time typically determined in US dollars), a change in 1998 of the relativities between Asian VCM prices and Asian PVC selling prices, the impact of the dumping measures on import prices in 1998/99, and the erosion of AVC's profit in the first quarter of 1999 (hence disqualifying the level of profit as unaffected by dumping).

The USP as determined in 2005 has remained in operation on PVC imports from Japan and the USA since 2005

Proposed USP

For the purposes of the current continuation inquiry on PVC exports from Japan, and the review of measures investigation into PVC exported from Japan and the USA AVC considers that a USP should be established upon the basis of AVC's CTM&S in the 2011 year, plus an appropriate amount of profit. AVC does not consider that a margin over VCM is reasonable in the present investigation as the significant volumes of PVC exported from the USA into Asia since the global financial crisis in 2008/09 has significantly eroded the operating margin for PVC producers in Asia.

Appropriate level of profit

As indicated, AVC's level of profit following the global financial crisis (including 2008/09) has been xxxxx. Prior to this, AVC achieved a level of profit on units selling prices in financial years 2006, 2007 and 2008 of xxx per cent, xxx per cent, and xxx per cent respectively.

The 2007 year was impacted by an impairment in the June 2007 quarter that was a once-off write-down associated with plant repairs. On the basis that the June quarter profit is excluded from the financial year 2007 result, the level of profit achieved was xxx per cent.

The 2008 result was impacted by a significant down-time in production due to repairs. Production in the 2008 year was down xxx per cent on 2007 levels (and xxx per cent on 2006 levels).

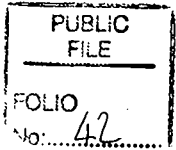
AVC therefore proposes that the level of profit unaffected by dumping to apply to its 2011 investigation period costs is an average level of profit achieved across AVC's 2006 and 2007 financial years. This level of profit is approximately Sxxx per metric tonne or xxx per cent profit on average selling price of the financial years 2006 and 2007 (excluding June 2007 quarter).

As a subsidiary of CSBP Limited, AVC has a benchmark return on assets of xxx per cent for capital investments. This level reflects the required re-investment return for capital investments in the CSBP Limited portfolio. AVC's PVC business is a capital-intensive heavy manufacturing investment, requiring significant outlays of capital on a regular basis for re-investment. AVC notes that the proposed USP level of profit is substantially below the required rate of return for investments in AVC's parent company's portfolio.

Recommendation

AVC considers that a USP based upon the methodology applied in 2005 using average VCM costs plus a margin between VCM and PVC selling prices would result in a USP that is injurious to AVC, due to the influence of dumped USA PVC in the region following the global financial crisis (i.e. post the 2008 financial year).

AVC recommends that a revised USP for the Australian PVC industry be determined upon AVC's CTM&S during the 2011 investigation period. AVC further proposes that a level of profit to be applied



to the USP be determined on AVC's performance across the 2006 and 2007 financial years (excluding the June 2007 quarter) of approximately xxx per cent return on selling price.

If you have any questions concerning this letter, please do not hesitate to contact me.

Yours sincerely

A handwritten signature in cursive script, appearing to read "John O'Connor".

John O'Connor

Cc **Peter Flinn**
Sales and Marketing Manager
Australian Vinyls Corporation Pty Ltd