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The Director
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Public File

Dear Sir/Madam

Investigation No. 442 - Aluminium extrusions exported from P R China and Thailand – Exporter Briefing Guangdong Zhongya Aluminium Company Limited

I. Background

Guangdong Zhongya Aluminium Company Limited ("Guandong Zhongya") is a Chinese exporter of aluminium extrusions) to Australia currently not the subject of anti-dumping measures. Guangdong Zhongya's exports to Australia are, however, the subject of interim countervailing measures.

Capral Limited ("Capral") provides this exporter briefing submission to the Anti-Dumping Commission ("the Commission") to assist with its verification visit to Guangdong Zhongya.

II. Guangdong Zhongya Exporter Questionnaire Response

Capral understands from Guangdong Zhongya's exporter questionnaire response ("EQR") that the manufacturer sells to Australia through its Hong Kong affiliated sales company then onto Australian importers.

For domestic sales, Guangdong Zhongya sells directly to end-users and distributors, via the same distribution channel. Guangdong Zhongya states that there are no distinct price differences between wholesalers and end-use customers. Guangdong Zhongya's sales to Australia are via its affiliated Hong Kong exporting agent. The exporter's domestic sales require an uplift for the absence of an agent's margin as performed for the goods exported to Australia.

Guangdong Zhongya states in its EQR that there is no cost difference for packing between domestic and export sales. As per Investigation No. 362, the Commission established that there are cost differences between domestic and export sales, with export sales often higher due to the cost of stillages and additional packing materials. Capral anticipates that the Commission will examine the use of stillages and additional packing costs for export with Guangdong Zhongya.

III. Particular market situation

Guangdong Zhongya considers it has purchased aluminium ingot purchases throughout the investigation period were from private, non-SOE suppliers at market prices. Capral highlights with the Commission that the absence of any aluminium ingot purchases from SOEs during the investigation period does not automatically equate to Guangdong Zhongya from not having received (or in receipt of) benefits of aluminium ingots at less than adequate remuneration. Capral notes the findings of the Commission in its "Analysis of Steel and Aluminium Markets – Report to the Commissioner of the Anti-Dumping Commission (August 2016)" as follows:

> "*The Commission has found evidence that the Chinese Government continues to play a significant role in the Chinese aluminium industry. The Commission considers that this intervention has significantly contributed to overcapacity and large stockpiles in the Chinese and global aluminium markets*[1]."

The Commission further observed that:

> "*primary and alloyed aluminium is a major cost component in fabricated aluminium……The Commission considers that lower prices for these inputs would either reduce the price of manufactured aluminium products (to the extent these lower costs are passed on) or increase the profitability of these products (which would provide an incentive for increased production*.
>
> *As in the steel industry, the Commission found evidence of subsidies provided to the aluminium and extrusions sectors that would likely reduce the costs of inputs to their production, such as electricity. There was also evidence that the Chinese Government imposes export taxes on primary aluminium in order to increase its supply to the to the domestic market and encourage aluminium manufacturing, in particular of value-added products*."

The goods the subject of Investigation 442 as exported by Guangdong Zhongya are value-added products that have been influenced by the Government of China's ("GOC's") policies and regulations. It is evident that the Government of China ("GOC") artificially creates (via export taxes on primary aluminium and higher VAT refunds for value-added goods) low domestic prices for primary aluminium.

The purchase of aluminium ingots from non-SOE suppliers in China is equally depressed (and suppressed) by GOC policies as prices from SOEs. Whether the aluminium ingot supplier in China is a non-SOE or otherwise does not exclude the purchaser from receiving a benefit in its primary aluminium purchases at less than adequate remuneration.

Benchmark

The Commission has previously determined (refer Report 287) that a market situation applies in China for aluminium extrusions. As a result, normal values were determined on the basis of a constructed methodology in accordance with subsection 269TAC(2)(c) of the *Customs Act*, and sections 43, 44 and 45 of *the Regulations*. The Commission continues to be of the view that a market situation for aluminium extrusions applies in China. This approach was accepted by the Parliamentary Secretary in review investigation No. 392 applying to all exporters of aluminium extrusions the subject of measures in China.

Subsection 43(2) of the Regulations requires that if:

- An exporter or producer keeps records relating to like goods that are in accordance with generally accepted accounting principles (GAAP) in the country of export; and
- Those records reasonably reflect competitive market costs associated with the production or manufacture of like goods;

the Parliamentary Secretary must work out the cost of production or manufacture using information set out in the exporter or producer's records.

[1] Analysis of Steel and Aluminium Markets – Report to the Commissioner of the Anti-Dumping Commission, August 2016, P.54.

In Report No. 248, the Commission concluded that primary aluminium costs in China were distorted and this was considered to have a significant impact on the selling price of aluminium extrusions (and a market situation in respect of aluminium extrusions thus applied).

Capral submits that a particular market situation for the goods has continued during the investigation period of Investigation No. 442 and that it is necessary to surrogate a benchmark primary aluminium price in the exporter Guangdong Zhongya's verified costs.

The Commission will therefore use Guangdong Zhongya's production costs as per verified accounts and apply a replacement cost for primary aluminium. The appropriate benchmark for a primary aluminium selling price is that derived from LME prices, that includes the addition of regional premiums and other costs.

Capral refers the Commission to the make-up of an appropriate replacement cost for purchased aluminium that must reflect the sum of:

- Aluminium at the prevailing London Metal Exchange ("LME") cash rate for the period; plus
- Billet premiums; plus
- Major Japanese Port ("MJP") premium that is applicable to all aluminium purchases in South East Asia, including Chinese manufacturers.

The aluminium purchase price for Guangdong Zhongya should, as a minimum, reflect the sum of these costs.

Capral further highlights with the Commission that the exporter's costs should confirm that packaging costs for export are higher than domestic packaging costs, including for steel trolleys, wooden crates and inter-leave paper.

IV. Upwards adjustment for VAT

Guangdong Zhongya receives a 13 per cent VAT rebate on exports of the goods. Guangdong Zhongya's normal value therefore requires a 4 per cent uplift for the differential between domestic VAT (i.e. 17 per cent) versus the amount rebated at 13 per cent.

V. Conclusions

Capral requests the Commission to examine Guangdong Zhongya's records to establish:

- An upward adjustment to Guangdong Zhongya's normal value to account for the agent's margin that is included in export sales (but not in domestic sales of like goods);
- The suitability of Guangdong Zhongya's cost data to surrogate the benchmark cost for primary aluminium used in the manufacture and sale of the goods exported to Australia;
- Guangdong Zhongya's packing costs (including the cost of stillages) for the goods exported to Australia (when contrasted with goods sold domestically); and
- An upwards adjustment of 4 per cent for the VAT differential between domestic and export sales.

If you have any questions concerning this briefing, please do not hesitate to contact me on (02) 8222 0113 or Capral's representative Mr John O'Connor on (07) 3342 1921.

Yours sincerely

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