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8 January 2018

The Director
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For Public File

Dear Sir/Madam

Investigation No. 442 - Aluminium extrusions exported from P R China and Thailand – Exporter Briefing Guangdong Jiangsheng Aluminium Co., Ltd

I. Background

Guangdong Jiangsheng Aluminium Co., Ltd ("Jiangsheng") has been an exporter of aluminium extrusions ("the goods") to Australia for a number of years – both in its current corporate form and previously as Tai Ao Aluminium Tai Shan Co., Ltd ("Tai Ao").

Jiangsheng has also previously been involved in anti-dumping investigations in Australia (in Investigation No. 148).

This document has been prepared to assist the Anti-Dumping Commission ("the Commission") with its verification visit to the Chinese exporter, Jiangsheng.

II. Name changes for Chinese exporter and Australian importer

Capral Limited ("Capral") outlined in its 21 November 2017 submission[1] that Jiangsheng had notified of a name change with effect from 16 March 2017. The name change applied as follows:

- For the Chinese extrusion factory located at Tai-Ao Aluminium (Taishan) Co Ltd becomes Guangdong Jiangsheng Aluminium Co Ltd (with the same factory address); and
- For the Australian importer Tai Ao Aluminium (Australia) Pty Ltd becomes Guangdong Jiangsheng Aluminium (Australia) Pty Ltd.

Capral notes that the public announcement concerning the change in ownership from Tai Ao to Jiangsheng occurred at a point approximately mid-way through the investigation period of Inquiry No. 442. Capral further notes that Jiangsheng was incorporated on 3 November 2015, however, notification of a change in entities was not confirmed in Australia until 16 March 2017.

[1] EPR 447, Document No. 10.

The change in ownership transition will likely impact the accounts of the exporter and will similarly impact the trading position of Tai Ao prior to transition (i.e. during the first half of the investigation period). The Anti-Dumping Commission ("the Commission"), therefore, will require access to the former Tai Ao's records for the purpose of verification.

III. Jiangsheng

Jiangsheng is a limited liability company with a single owner, [*name*]. The owner is also the legal representative, executive director and general manager of the company.

The owner is also active in Jiangsheng's sister company – Guangdong Aluminium Mould Technology Co., Ltd ("GAMT"). Jiangsheng is involved in the manufacture of aluminium rods casting, profile extrusions and moulds. The allocation of costs for the goods (as distinct to the moulds) should be a focus of the Commission's attention. Capral understands that Jiangsheng sources almost all of its raw materials from local supply (i.e. approx. 99 per cent). Jiangsheng sells both domestically and on export markets.

Jiangsheng confirms at Section B-2 of its exporter questionnaire response ("EQR") that it pays a 'management fee' to Jiangsheng Aluminium (Australia) Pty Ltd for what it describes as "services in facilitating JS's imports into Australia and delivery to its customers". It refers to these expenses as 'post exportation' expenses. Capral requests the Commission to examine whether these costs are anything more than simply the cost of doing business domestically and with Australia and are therefore should not be considered 'post exportation expenses'.

Jiangsheng's EQR states that it does not incur any packing cost differences between domestic and export sales, other than for the cost of stillages. Capral understands from earlier investigations involving Chinese exports to Australia that packing cost differences do exist between the Chinese domestic market and export sales, along with the cost of stillages (along with additional timber and inter-leave paper) used in export sales to Australia. The Commission is requested to examine this matter further with Jiangseng.

IV. Aluminium at less than adequate remuneration

In August 2016, the Commission released the report "Analysis of Steel and Aluminium Markets – Report to the Commissioner of the Anti-Dumping Commission". The Commission's research confirmed the following in respect of aluminium prices in China:

> "*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*[2]."

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 No. 442 as exported by Jiangsheng are value-added products that have been influenced by the Government of China's ("GOC's") policies and regulations. It is evident that

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

the 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.

Capral reiterates that Jiangsheng sources almost all of its raw materials domestically (including primary aluminium ingots) used in the manufacture of aluminium extrusions.

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.

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 Jiangsheng's verified costs.

The Commission will therefore use Jiangsheng'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 following methodology for an appropriate replacement cost for purchased aluminium (as per Investigation No. 287) 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.

Jiangsheng's aluminium cost in its constructed normal value must, as a minimum, reflect the sum of these costs.

V. <u>Arms-length sales</u>

As detailed in its 21 November 2017 submission, Jiangsheng exports aluminium extrusions manufactured in China to its related party Jiansheng Aluminium (Australia) Pty Ltd. The Commission is requested to examine whether the relationship of the exporter and the importer impacts the export price and how export price should be determined for related party sales to Australia (i.e. under subsection 269TAB(3)).

Further, Jiangsheng has a number of subsidiary companies each have functions associated with finance and investment (i.e. lending). There exists a likelihood that these related party companies have provided capital to Jiangsheng – either directly or indirectly - and this must be quantified and identified as a cost of Jiangsheng operating its manufacturing business in China. It is Capral's expectation that the Commission will examine the impact of the related entities on the Chinese exporter's cost to manufacture the goods under investigation.

VI. Upwards adjustment for VAT

Jiangsheng's EQR confirms that it receives a 13 per cent VAT rebate on exports of the goods. Jiangsheng'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.

VII. Conclusions

The key issues for the Commission to consider in its verification with Jiangsheng are as follows:

- The impact of the change in ownership of the manufacturing assets formerly operated by Tai Ao to Jiangsheng (and whether any debt was transferred in the purchase);
- Jiangsheng's claim that a payment to its Australian subsidiary represents 'post exportation expenses';
- The suitability of Jiangsheng's cost data to surrogate the benchmark cost for primary aluminium used in the manufacture and sale of the goods exported to Australia;
- Jiangsheng's packing costs (including the cost of stillages) for the goods exported to Australia (when contrasted with goods sold domestically);
- Whether sales by Jiangsheng to its related party company in Australia can be considered to have been made at arms-length; 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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