PUBLIC RECORD

MFCB
RESOURCES DIVISION
(GST 000604110848)

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Mr Mayuran Jeyarajah
Assistant Director
Anti-Dumping Commission
Australian Government
Level 35, 55 Collins Street
Melbourne VIC 3000
(Via email: operations2@adcommission.giv.au)

Dear Mr Jeyarajah

VERIFICATION REPORT : EXPORTER – RCI LIME SDN BHD (Investigation 348)

On 8 September 2016, the Anti-Dumping Commission of Australia (the Commission") has published the Verification Report: Exporter – RCI Lime Sdn Bhd (Investigation 348) (herein referred to as the "Verification Report").

A. Introduction

On 8 September 2016, the Anti-Dumping Commission of Australia (the Commission") has published the Verification Report: Exporter – RCI Lime Sdn Bhd (Investigation 348) (herein referred to as the "Verification Report").

In reference to the Verification Report and the Confidential Appendices 1 to 5 and Confidential Attachment 2 referred to therein, RCI Lime in this submission wishes to:

1. Request the Commission to reconsider RCI Lime's request for the removal of non-recurrent relining cost for kiln 4 and kiln 5 for the calculation of CTMS on the following grounds:

   i. That the information provided and outlined in Confidential Attachment 2 has been misconstrued by the verification team; and,
   ii. That the information requested by the verification team is incomplete and therefore does not give a clear picture of the circumstances surrounding the relining of kiln 4 and kiln 5 in 2015.

2. Request the Commission to reassess the basis and methodology adopted by the verification team for the following calculations which RCI Lime believes is either inappropriate or unjust:

   i. Normal Value calculation of Quicklime Powder;
   ii. Credit cost for Australian sales (export credit) and Domestic sales (domestic credit) for the purpose of calculating the Normal Value for Domestic sales and the Normal Value (FOB credit) for Australian sales;
   iii. Profitability percentage calculation of Domestic sales for Quicklime Powder; and,
   iv. Unit cost of selling calculation.

A. Relining expenses for kiln 4 and kiln 5

We refer to 4.2.1 of the Verification Report and Confidential Attachment 2 referred to therein.
The Verification Report states:

"The team does not consider that it has sufficient evidence to be satisfied that any relining activities undertaken by RCI Lime during the investigation period were 'non recurring' for the purpose of subregulation 43(5) of the Customs (International Obligations) Regulation 2015".

We opine that the verification team has misunderstood the information given during its visit and has arrived at its conclusion based on an incomplete set of information. Kindly allow us to clarify and explain.

About kiln relining

RCI Lime operates 6 lime kilns (K1, K2, K3, K4, K5, K6) in 2015. K6 is a new lime kiln commissioned in August 2015. Firebricks are installed as the protective layer or lining to the kiln shell steel body as the kiln operates in very high temperature in excess of 1000 Degree Celsius. Under normal heating condition, the service life of the firebricks is 9-10 years. They are replaced after every 9-10 years as a precautionary measure against catastrophic failure/collapse inside the kiln. We attach (Confidential Attachment : A-1 Cimprogetti Email) an email from Cimprogetti to confirm the service life of the firebricks.

RCI Lime uses 2 types of kiln designs, namely Chisaki Corp. (Japan) and Cimprogetti (Italy). Each has its own design characteristics and performances.

CHISAKI KILNS

K1, K2 and K3 are designed and installed by Chisaki (Japan) in (Confidentiality on the age of our equipment) with a rated capacity of (Confidential internal production information) each. The main characteristics of Chisaki kilns are: top shaped vertical single shaft kiln that comes with a single fuel injection firing system and a rotating kiln body with a fixed ceiling cover. This rotating kiln body design is particularly suitable for smaller size limestone feed (Confidential internal production capability) and the rotational cycles can reduce unwanted blockages caused by fusion of limestone. However its main design weakness is greater frequency of firebrick replacement at the top section (Confidential internal production information) of the kiln where excessive abrasive contact with the raw limestone feed takes place. Please see Chisaki kiln's design diagram in Confidential Attachment: A-2 Chisaki Design. This section requires firebrick replacement about every 8-10 months. The remaining about (Confidential internal production information) of the firebrick surface has an average useful life of 9-10 years.

Prior to (Confidentiality on the age of our equipment), the 3 Chisaki kilns were located at Lahat. They were decommissioned in (Confidentiality on the age of our equipment) and relocated to RCI Lime's premises in (Confidentiality on the age of our equipment) as a result of the expiry of the land lease in Lahat. The relocation took more than (Confidentiality on our equipment relocation period) years. During the relocation, RCI Lime replaced 100% of the firebricks with new firebricks for all its 3 Chisaki kilns.

Therefore, there were no relining costs incurred for Chisaki kilns in the periods (Confidential internal production information) as shown in Confidential Attachment: A-3 Relining Cost. The total cost of relocation of the 3 Chisaki kilns of (Confidential internal costing information), including the 100% firebricks relining cost of (Confidential internal costing information), have been capitalised as fixed assets in (Confidential trade information). The kiln relining cost of K1, K2 and K3 as summarised in the same table for periods (Confidentiality on the age of our equipment) refers to partial firebrick replacement cost for the top section of the kiln where direct abrasive contact with raw limestone feed takes place (Confidential internal production information) firebrick surface). This partial firebrick replacement typically costs between (Confidential internal costing information) per Chisaki kiln per year (depending on the extent of damages identified during inspection) and have been expensed off by RCI Lime in the year of occurrence.

CIMPROGETTI KILNS

K4 (rated capacity) (Confidential internal production information), K5 (rated capacity) (Confidential internal production information) and the recently commissioned K6 (rated capacity) (Confidential internal production information) are designed and supplied by Cimprogetti (Italy). The main design characteristics are their twin shaft vertical kiln that comes with multiple firing lances for fuel injection and an interconnecting section for hot air transfer between the shafts. This “Twin Shaft Regeneration” design is more fuel efficient due to better heat transfer and containment. Cimprogetti kilns are also designed in such a way that unlike Chisaki kilns, there is no direct abrasive contact with raw limestone feed due to the way raw limestone is fed into the kiln. As such, their firebricks are able to last 9-10 years without replacement.

K4 was built in (Confidentiality on the age of our equipment) and has been in operation for (Confidentiality on the age of our equipment) years without the need to replace firebricks until a scheduled 100% firebrick replacement/relining at the end of (Confidential internal production information), (completed early) (Confidential internal production information) at a total cost of (Confidential internal costing information) (Confidential Attachment: A-3 Relining Cost). RCI Lime has opted to expense off this one-off investment (Confidential internal accounting decision). The new firebricks of K4 are expected to last another 9-10 years from (Confidentiality on the age of our equipment). However, a portion of these new firebricks has suffered an abrupt premature damage in (Confidential internal production information) resulting from (Confidential internal production information) which has caused unforeseen choking and subsequent overheating of the kiln. This has resulted in an unscheduled shut down of K4 between (Confidential internal production information) where the damaged firebricks (about (Confidential internal production information) of firebrick surface) has to be replaced. This unscheduled shut down and replacement works was documented in the minutes of Weekly Plant Meeting (please refer to Confidential Attachment: A-4 Minutes Of Meeting MOM 20-05-15 and MOM 18-06-15; relevant section is highlighted in yellow). The replacement cost amounting to (Confidential internal costing information) has been expensed off in 2015 (please see Confidential Attachment: A-3 Relining Cost). The table also clearly shows that there has been no firebrick relining cost in the periods (Confidential internal production information)

K5 was commissioned in (Confidentiality on the age of our equipment) and has been in operation for (Confidentiality on the age of our equipment) years without the need for firebrick replacement until a 100% firebricks replacement/relining in (Confidential internal production information)–at a cost of

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(Confidential internal production information). This 100% firebricks replacement requirement, planning and status update has been documented in the minutes of Weekly Plant Meeting (Confidential Attachment : A-4 Minutes Of Meeting MOM 18-03-15, MOM 20-05-05, MOM 18-06-15, MOM 08-07-15, MOM 19-08-15, MOM 03-11-15 and MOM 02-12-15; relevant section is highlighted in yellow). This is further confirmed in Confidential Attachment: A-3 Relining Cost where there has been no firebrick relining cost for the years (Confidential internal production information). Again, RCI Lime has opted to expenses off this one-off investment in 2015 (Confidential trade information).

Conclusion

In light of the above, RCI Lime requests that the Commission reconsiders RCI Lime's request for the removal of the following one-off relining cost from the unit cost calculation:

	2015 (RM)	**Description**
K4		
K5		(Confidential internal production information)
Total		

We further provide in Confidential Attachment: A-5 Detail Listing Of K4 and K5 Relining, a detailed listing of the above costs for K4 and K5 respectively together with matching supporting documents.
If such relining costs were indeed recurrent as concluded by the verification team, RCI Lime would have been out of business a long time ago!

C. Normal Value calculation for Quicklime Powder

We refer to item 7 (Normal Value) of the Verification Report and Confidential Appendix 4 (Normal Value) referred to therein.

The Verification Report states:

"it found sufficient volumes of domestic sales of quicklime, for ***both models*** *exported to Australia, that were arm's length transactions and at prices that were within the OCOT, and is therefore satisfied that prices paid in respect of domestic sales of quicklime are suitable for assessing normal value under subsection 269TAC(1)."*.

RCI Lime does not concur with the verification team's analysis and conclusion in respect to Quicklime Powder (one of two of the models exported to Australia), as explained below:

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The table below is the Quicklime Powder sales summary, extracted from Confidential Appendix 4 and Confidential Appendix 5:

Summary of RCI Quicklime sales in 2015							
2015	**No. of customers**	**Trade Level**	**Sales Volume**		**Net Invoice Value**		**Average Net Invoice Value**
			(MT)	**(%)**	**(MT)**	**(%)**	**(RM/MT)**
Quicklime Powder							
- Domestic Sales (Note 1)		(Confidential internal trade information)					
- Australian Sales							
Note 1: Refer to Domestic Sales included only in Normal Value (NV) calculation							

We further attach in Confidential Attachment: C-1 Sales Breakdown (QLP) the breakdown of domestic Quicklime Powder sales by customer extracted from Confidential Appendix 4.
The table together with Confidential Attachment: C-1 Sales Breakdown (QLP) clearly shows the following:

- Total domestic Quicklime Powder sales volume, which is sold to (many) customers, accounted for a mere (small percentage) of total Australian/Domestic Quicklime Powder sales.
- Whereas, there is only ONE customer for Australian sales, Merchant. Merchant accounted for (a high percentage) of total Australian/domestic Quicklime Powder sales volume.
- (A high percentage) of domestic sales volume were to end users, and only (a small percentage) to distributors;
- Whereas, 100% of the Australian sales were to distributor.

We also refer to RCI Lime's responses to B-2 (e), D-2 and E-2 (3) of the Exporter Questionnaire. An extract is provided below for ease of reference:

B-2 (e)

*"RCI Lime's export price is not based on a standard price list but is negotiated at arm's length based on **various commercial factors**, including but not limited to, cost to delivery, **quantity**, lime applications, packaging type and **customer potential**."*

D-2

*"RCI Lime's selling prices do not vary according to the distribution channel. All selling prices are negotiated individually on an arm's length basis. Prices between customers **may differ depending on various factors**, including but not limited to, the packaging type, Ex-factory versus Delivered Duty*

*Unpaid, delivery distance, **quantity**, **demand consistency**, applications, credit term, commitments, **customer profile** and operating environment"*

E-2 (3)

"For domestic sales, RCI Lime does not treat end user and trading company differently during price negotiation. Domestic trading companies are middleman earning a spread on order secured.
***Merchant on the other hand operates differently**. Although a trading company, it **behaves more like a distributor, selling, marketing and promoting RCI Lime's products** to general end users in Australia.*
As such, Merchant is expected to incur a reasonable amount of selling, marketing and operating costs.
RCI Lime takes account of this fact when negotiating prices with Merchant."

Based on the above, RCI Lime argues that using the domestic Quicklime Powder sales transactions to calculate its Normal Value for the purpose determining the Dumping Margin (as calculated in Confidential Attachment 5 - DM) for Quicklime Powder sales to Australia is flawed and inappropriate.
In our view, the Verification Report has failed to consider the following in its analysis and conclusion:

- Domestic demand for Quicklime Powder is very small, fragmented and irregular. RCI Lime only sold a total of (Confidential trade information) MT to its largest domestic customer (Confidential trade information) in 2015.
- Whereas, Merchant (the only customer for Australian sales) is the (large) buyer (Confidential trade information) of Quicklime Powder for RCI Lime. Orders from Merchant are large and consistent throughout the year.

RCI Lime does not have a formal standard policy on volume discount and does not have a standard price list for different level of trade. Nonetheless, as explained above, RCI Lime factors in amongst others, the order quantity, level of trade, growth potential and commitment in its price quotation/negotiation.
(Competitive information).

Conclusion

Based on the above, RCI Lime requests that the Commission reassess the basis and methodology in calculating the Normal Value of domestic Quicklime Powder sales. From a commercial stand point, RCI Lime's selling price to Merchant deserves a discount when compared to prices sold domestically given Merchant's (Confidential trade information) – purchase quantity and role – (Confidential trade information). The fact remains the selling price differential between Merchant and domestic customers is (Confidential trade information). In our view, at least a (Confidential trade information) % discount to the domestic Normal Value calculation is warranted when assessing the dumping margin for Australian Quicklime Powder sales.

D. Credit cost for Australian and Domestic sales

We refer to point 3.2.2 (Payment terms) of the Verification Report, which states (extract):

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"The verification team found that the payment terms identified in the relevant invoices for RCI Lime's Australian customer were not reflective of the actual timing of payments."
"In the absence of documentation that will allow the verification team to calculate an average credit term, the team has elected to amend the Australia listing to reflect:

- *The actual payment terms verified for each selected export sales transaction; and*
- *For all other export sales transactions not selected for verification, the largest number of days between invoice and payment of the selected transactions."*

We wish to highlight the following:

i) The Exporter Questionnaire (specifically B-4 for Australian sales and D-4 for Domestic sales) did not ask for the actual timing of payments for each of the Australian and Domestic sales transactions. It merely asked for the agreed payment term with customer as illustrated below.

Questionnaire reference:	Column heading	Explanation
B-4	Payment terms	agreed payment terms eg. 60 days=60 etc
D-4	Payment terms	payment terms agreed with the customer eg. 60 days=60 etc

ii) The Exporter Questionnaire [specifically E-1 (3) for Australian sales and E-2 (4) for Domestic sales] requested RCI Lime to calculate the average number of collection days using the methodology outlined in E-2 of the Questionnaire. Based on our calculation, the average number of days is (Confidential trade information) for Australian sales and (Confidential trade information) - for Domestic sales. The Questionnaire did not ask for actual timing of payments for each transaction.

iii) Prior to the verification visit on 27 July – 1 August 2016, the verification team on 19 July 2016 emailed to RCI Lime requesting, amongst other information, proof of receipt of payment for all sales samples for verification during the visit. There was again no request for RCI Lime to provide the actual payment date for the non-selected transactions.

In our view, RCI Lime should not be faulted for the *"absence of documentation"* as such information was never requested by the Commission prior to and during the verification team's visit. The fact is, RCI Lime would have been more than happy to provide the actual timing of payment for ALL transactions if requested in order for the verification team to calculate the export and domestic credit cost more accurately.
RCI Lime therefore opined that it is inappropriate for the verification team to look at the 6 samples selected (out of (many) transactions) for Australian sales transactions and take the highest number of days (in this case days) (Confidential trade information) to apply across all non-selected Australian sales transactions for the purpose of calculating export credit cost.

Additionally, the verification team has selected 10 Domestic sales transactions for verification during the visit. The number of collection days for these Domestic sales transactions range from xx days to xx

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(Confidential trade information) days, which are (Confidential trade information) than the agreed credit term of xx to xx days (Confidential trade information).

Instead of applying the same methodology (as used for Australian Sales by taking the largest number) to calculate credit cost for Domestic Sales, the verification team has chosen to use the agreed credit term to calculate the credit cost for all Domestic Sales in determining the Normal Value (Confidential Appendix 4). The inconsistent methodology to calculate credit cost for Australian and Domestic sales transactions is incomprehensible and inappropriate, in our view.

Conclusion

Given the circumstances, RCI Lime wishes to request that the Commission revisit the credit cost calculation for both the Australian and Domestic sales transactions based on the actual payment date for each of the transaction. We attach herewith the actual date of payment for each transaction for Australian sales [Confidential Attachment: D-1 Sales Payment Dates (Australia)] and Domestic sales [Confidential Attachment: D-1 Sales Payment Dates (Domestic)] for your consideration and further action. Based on RCI Lime internal calculation, the average number of collection days is (Confidential trade information) days for Australian sales and (Confidential trade information) days for Domestic sales.

E. Profitability percentage of Domestic sales for Quicklime Powder

We refer to 5.5 of the Verification Report, and Confidential Appendix 3 (Domestic Sales) and Confidential Appendix 4 (Normal Value) referred to therein.

We note that the verification team has included the sale of waste product (product code “GQLPSBWASTE”) in the OCOT profitability calculation for Quicklime Powder in Confidential Appendix 3. We also note that these sales transactions have been excluded from the Normal Value calculation in Confidential Appendix 4

In our view, the sale of waste product should be excluded from the OCOT profitability calculation for domestic Quicklime Powder for the following reasons:

- Product code GQLPSBWASTE refers to under-spec lime products that have been “contaminated” (e.g. by either water, soil, exposure to air) or have passed their normal shelf life. Naturally, such product has much lower commercial value and understandably has been sold below the normal cost of production.
- Product code GQLPSBWASTE therefore should not be considered as “like” goods for Australian sales.
- It is sold only to domestic customers (none exported). Specifically, it is sold to putty lime producers (namely - Confidential trade information) and for (Confidential trade information) (to lower the acidity) (Confidential trade information) where quality is not of significant importance. A copy of the letter from (Confidential trade information) in Attachment E-1 Letter confirming the end user requirement.

- It constitutes about (Confidential trade information) of total Quicklime Powder sales volume of (Confidential trade information) in 2015. It however accounts for (Confidential trade information) of total domestic Quicklime Powder sales.

The inclusion of this product code in the OCOT profitability calculation for domestic Quicklime Powder sales inevitably gives the impression that a high percentage of Quicklime Powder sold domestically is unprofitable, which is not the case. Excluding these sales transactions would have shown a profitability percentage of xx instead xx (Confidential trade information) as calculated by the verification team.

Conclusion

RCI Lime requests that the Commission excludes the sale of waste from the percentage profitability calculation for domestic Quicklime Powder sales.

F. Unit cost of selling

We refer to 4.4 of the Verification Report and Confidential Appendix 2 (Revised CTMS) referred to therein.

In the Confidential Appendix 2, the verification team has allocated the administrative expenses, other expenses and finance cost by sales revenue.

RCI Lime does not concur with the verification team on the following:

1. The inclusion of finance cost in unit selling cost.
2. Allocation of the unit selling cost by revenue.

Inclusion of finance cost

RCI Lime's finance cost in 2015 relates to bank borrowings to part finance the plant expansion. It is not to provide for working capital. In our view, finance cost should be excluded in the calculation of unit selling cost as it is a function of the capital structure of the exporter. For better comparison amongst exporters, the capital structure should not form the basis for distortion in unit selling cost calculation. If finance cost is included, an exporter could lower its unit selling cost easily by injecting additional capital and do away with bank borrowings.

Allocation by revenue

In our view, the unit selling price of the different product categories has no bearing on the cost of selling of these products. A more appropriate methodology is to allocate these expenses on sales volume (in MT).

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Conclusion

We request that the Commission exclude finance cost and allocate administrative and other expenses by sales volume. We attach in Confidential Attachment: F-1 Units Cost Of Selling On Sales Volume, the revised unit cost of selling under 2 scenarios for your consideration:

- Scenario 1: Administrative, finance cost and other expenses allocated based on sale volume;
- Scenario 2: Administrative and other expenses (excluding finance cost) allocated based on sales volume.

G. CONCLUSION

RCI Lime prides itself as free marketeers. For decades, RCI Lime has been operating in a highly competitive local and regional environment without government subsidy or support. In spite of this, our products are sold non-discriminately to (Confidential trade information) countries in the region. In 2015, exports accounted for (Confidential trade information) % of revenue.

We categorically state that RCI Lime does not engage in dumping activities. There is no pressure whatsoever for RCI Lime to engage in dumping activities that will inevitably hurt its earnings. Our selling prices to Australia are within normal price range for the region.

In fact, for the relevant period, RCI Lime experienced kiln capacity shortages and had to buy finished quicklime from domestic sources to fulfil demand of our domestic and export customers. RCI Lime is also on an expansion mode as we see growth opportunities in the region, including Australia. It would be illogical if we had embarked on our expansion plan with the intent to sell at below cost or through dumping. Dumping is therefore counter intuitive. In 2015, RCI recorded a respectable gross margin of (Confidential trade information) and an EBIT of (Confidential trade information) million on (Confidential trade information) million turnover.

Yours sincerely,

…………………………………….
JOHN CHU
Executive Director

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