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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 – Re submission by Darley Aluminium

I. Introduction

I refer to the submission on behalf of Darley Aluminium Pty Ltd (“Darley”) of 19 December 2017. Capral Limited (“Capral”) considers it appropriate to address matters raised by Darley concerning material injury to the Australian industry manufacturing aluminium extrusions.

II. Material injury to the Australian industry

Capral rejects the assertions of Darley that injury sustained by it during the 2016/17 investigation period¹ is not material or representative of the Australian industry.

Consideration Report No. 442 identified that Capral had evidenced injury in the following forms:

- Price suppression;
- Inadequate profit and profitability;
- Loss of market share; and
- Inadequate return on investment.

Darley has sought to address volume injury in its submission, however, Capral has not claimed that it has suffered volume injury in the investigation period [trend] in 2016/17 compared with the previous twelve-month period) and is forecast to slow [trend] as dwelling commencements fall from a high of 233,000 in FY16 to an anticipated 180,000 by 2019². Injury experienced by Capral has been predominantly (but not limited to) price-effect injury where the Australian industry’s selling prices excluding metal costs (spread) have remained suppressed due to the continued dumping of aluminium extrusions from exporters that are not the subject of measures (in this instance, the exporters Guangdong Jiangsheng Aluminium Co., Ltd (“Jiangsheng”) and Guangdong Zhongya Aluminium Co., Ltd (“Zhongya”) of China, and exporters in Thailand. Jiangsheng and Zhongya are exempt from dumping measures, and have continued to maintain

¹ Investigation period for Inquiry No. 442 is 1 October 2016 to 30 September 2017.

² BIS Oxford Economics – Forecast – 23rd Nov 2017

exports into the Australian market, competing historically with the dumped exports from China (refer Report No. 392), and Malaysia and Vietnam (Report No. 362).

Exports from Thailand to Australia increased following the imposition of provisional measures in Investigation No. 362, and secured increased volumes in the investigation period. Exports from Jiangsheng and Zhongya were maintained at levels to previous years, due to the absence of measures on these exports, enabling both exporters to price at levels that undercut the Australian industry.

The price suppression evident in the 2015/16 investigation period in Investigation No. 362 has continued into the investigation period in the current year. This can be attributed to the dumping from the two Chinese exporters and exports from Thailand; along with dumping that occurred from the Chinese exporters the subject of measures.

Capral understands that approximately xx per cent of the total Chinese annual export volume of aluminium extrusions to Australia is from Jiangsheng and Zhongya (i.e. approximately xxx tonnes in 2016/17). The export volume from Thailand was approximately xxx tonnes. On the basis that Jiangsheng and Zhongya priced exports in 2016/17 to compete with Chinese exporters that were already the subject of measures, and given the Anti-Dumping Commission's ("the Commission") findings in Report No. 392 that all Chinese exports to Australia during 2016 were at dumped prices, it is Capral's submission that exports by the two exporters not the subject of measures were also at dumped prices in 2016/17.

It is also noted that the Thai FOB export prices in 2016/17 were below Chinese FOB export prices, indicating that the Thai exports to Australia in 2016/17 were also at dumped prices.

The combined volumes of imported volumes from Jiangsheng and Zhongya, and those from Thailand, would therefore have accounted for approximately xx per cent of the Australian market in 2016/17. This volume of "dumped" exports that have undercut the Australian industry's selling prices was significant to have caused the material injury sustained by Capral in 2016/17.

The continued price suppression maintained downward pressure on Capral's profit and profitability, with the Australian industry not afforded the opportunity to achieve any recovery following the imposition of provisional measures in Investigation No. 362. Capral's profit in 2016/17 was the same as that achieved in 2015/16, with a level of profitability of xxx per cent EBIT to sales and it was xxxx% on goods under consideration (GUC) – a level that is an inadequate return on investment, and [nature].

[*Comments concerning Capral's ROI in relation to the goods contrasted with Capral's Weighted Cost of Capital*].

[*Table re Capral's ROI in 2013 to 2016, and Capral's WCC in 2017*].

Additionally, if injury from dumped imports continues it increases the likelihood that Capral may need to make [accounting treatment] to accommodate for lower forecasted ROI on its assets.

The relatively poor return achieved (i.e. \$xxxx Million profit on turnover of \$xxxxx Million) has been adversely impacted by the growth in import volumes at dumped (and subsidised) prices that have continued since 2009/10. The growth in sales achieved by Capral has been as a result of the buoyant housing market which is forecast to slow in 2018/19 and 2019/20. The improvements that Capral has achieved during the period since measures were first imposed can be attributed to the increased production volumes sold into the housing sector and an expanding market, and not from the recovery anticipated in margins over cost that should have followed from the imposition of measures.

When market volumes fall as a result of a housing market slowdown, it is likely that at the current suppressed selling prices, [*trend in Capral's economic performance*].

The significant volumes of imports from Jiangsheng and Zhongya, and Thailand, in the 2016/17 investigation period have further compounded the price suppression experienced by Capral.

The operating margins in the distribution business have also [*impact*] 2016/17 (by approximately xxx per cent). This is as a direct result of competing against dumped products supplied by Jiangsheng and Zhongya and Thailand. Capral's distribution business competes directly with Darley and Jiangsheng customers within the Australian market.

Capral remains optimistic that anti-dumping measures will be effective in correcting the dumping and permit an improvement of the "spread" over variable costs, resulting in improved profit and profitability from the currently suppressed levels that have continued from Investigation No. 362 into 2016/17.

Capral rejects the representations of Darley that there is an absence of injury in the form of return on investment and that grounds to initiate the investigation were not evident. Conversely, Capral has demonstrated that the inadequate returns in 2016/17 have been caused by the large volumes of dumped exports by Jiangsheng and Zhongya and exports from Thailand, that have undercut Capral's selling prices – as evidenced by examples in Capral's application for measures (Part A-9.2 of application) and further during the verification visit conducted by the Commission at Capral.

III. Injury cannot be attributed to exports from China and Thailand

Capral disputes Darley's assertions that it has not substantiated evidence of injury that can be attributed to the exports at dumped prices by the two Chinese exporters Jiangsheng and Zhongya, and Thai exporters. As indicated, Capral's application included a number of examples of price undercutting from importers offering aluminium extrusions from the nominated exporters during the 2016/17 year. The competitor pricing information on market offers identified certain importers and most notably, [*Importer*] as a consistent and aggressive supplier.

Additional market intelligence was provided to the Commission on market offers received subsequent to the timing of the application (i.e. including the July to September 2017 quarter) during the Capral verification visit. The allegation by Darley that there exists no evidence of "price-based displacement" is therefore incorrect.

Capral again reiterates the pricing pattern as depicted in the recent review investigation No. 392 involving exports from China. The Commission concluded that all Chinese exports the subject of measures were at dumped prices. Darley has been an active supplier of Zhongya exports on the Australian market during 2016/17 and its prices have been at levels below suppliers of goods sourced from exporters the subject of measures (whether China, Malaysia or Vietnam). The selling prices for imports from Jiangsheng have undercut Capral (as evidenced by Capral) in 2016/17 to secure increasing sales volumes. Darley's claims that the information does not support the existence of a causal link between the dumping and injury experienced by Capral and the Australian industry is not supported by the market intelligence made available to the Commission.

The Darley submission postulates as to what may have happened for exports by Jiangsheng and Zhongya, and those from Thai exporters, for displacement of import volumes the subject of measures to have occurred. An examination of the trends in the import data confirms that Chinese export volumes increased in 2016/17, Malaysian and Vietnamese volumes declined and Thai exports increased. Capral suggests that these trends are supportive of a 'displacement' analogy.

Darley further claims that its imports (ex-Zhongya) do not compete directly with the Australian industry. Darley asserts:

- It imports goods developed to its own proprietary designs;
- It owns operations that value-add in Australia;
- It markets under its own proprietary specifications;
- It provides '*the best value-adding services in the Australian market*';

- It is a dedicated and reliable distributor;
- It has a '*reliable and steady base of fabricator customers*';
- It's customers cannot shift supply to Australian aluminium extrusions manufacturers;
- It has '*demonstrated to the Commission time and again that its sales of the GUC on the Australian market are consistently profitable*';
- It is not a seller of '*low value non-branded products that compete at low prices*'.

Darley cites these factors as a basis for its conclusion that it is not a "source of harm" to the Australian industry. The Commission is familiar with the composition of the Australian market for aluminium extrusions. Capral – and other Australian manufacturers – will produce the goods in accordance with the customer's specifications. Capral's locally produced aluminium extrusions are sold to fabricators that also value-add and market these goods as specialist end-use goods. Capral sells to distributors that also view themselves as reliable customers and suppliers. Darley's generic claims therefore are not relevant to the key issue – that Darley has sourced aluminium extrusions at dumped prices from Zhongya and it is this price advantage that has afforded Darley a competitive advantage over Australian manufactured aluminium extrusions.

Darley's claims that Darley's sales are non-injurious to the Australian industry are fanciful and cannot be accepted based upon reliable market intelligence confirming that Darley is actively pursuing sales in direct competition with Capral and consistently undercuts the selling prices of the Australian industry.

IV. Other factors

Capral has disputed and rejected Darley's claims that dumped exports from Jiangsheng and Zhongya, and those from Thailand, have not caused injury to the Australian industry manufacturing like goods. Darley has also sought to contend that injury experienced by the Australian industry has been as a result of imports from sources the subject of measures that it claims have increased following Investigation No. 362. The trend in imports from Malaysia and Vietnam has been a decline following Investigation No. 362 and not an increase as depicted by Darley. In relation to China, the exports did increase over the nominated period – due in the main to outdated measures (as evidenced by Review Investigation No. 392).

Capral anticipates that the Commission will exercise care when examining the impact of exports currently the subject of the measures throughout the 2016/17 investigation period. Capral notes that the Parliamentary Secretary must be satisfied that the dumped and injurious exports by Jiangsheng, Zhongya and Thai exporters must have caused, or threatens to cause, injury to the Australian industry that is considered material. That is not to say that the Australian industry must not have also experienced material injury from other factors during the investigation period; the injury from the dumped exports that is material may also have coincided with injury from other factors that may also be considered material.

Darley's claims that its dumped imports from Zhongya, and the exports by Jiangsheng and Thai exporters, have not been the cause of injury that is material to the Australian industry during the 2016/17 investigation period, is not supported by the available evidence and market intelligence that directly implicates the exports as causing injury to the Australian industry. Capral acknowledges that injury may have been caused by exports from suppliers the subject of measures, however, this level of injury would have diminished throughout the course of 2016/17.

V. Conclusions

Darley's submission seeks to deflect the cause of injury to the Australian industry to exports from countries the subject of measures and to competition on the Australian market between Australian manufacturers. It should be noted that imports account for between 35 and 40 per cent of the total Australian market and that Australian production capacity is not in surplus. Darley's claims that it supplies proprietary product to fabricators that cannot shift to locally sourced aluminium extrusions is no different to that of customers of the Australian industry.

Capral reiterates that the exports by Jiangsheng, Zhongya and Thai exporters have been at dumped prices. The exporters the subject of this investigation have been active in securing sales and increasing export volumes as exports the subject of measures have declined.

Darley's assertions that the Australian industry has not suffered material injury in 2017/18 are not supported by the facts. Capral's return on sales in 2016/17 is at xxxx% (xxxx% on GUC) [*magnitude*]. [*nature*].

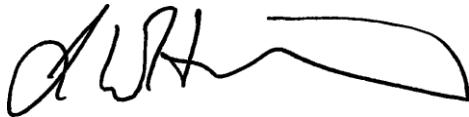
Finally, Darley's claims that it's sales have not been a cause of injury to the Australian industry is at odds with the market intelligence available to Capral that supports a view that Darley is an active and aggressive supplier of dumped goods onto the Australian market.

Capral requests that the Commission exercise care in assessing Darley's claims. Capral has provided evidence to the Commission that it has experienced multiple instances of price undercutting by Darley sourcing goods from its Chinese supplier Zhongya. Should the Commission require additional information in support of that already provided by Capral, please do not hesitate to contact the undersigned.

Capral requests that the Commission dismiss Darley's assertions and generic claims that exports by Jinagsheng, Zhongya and the Thai exporters have not been at dumped prices and not been the cause of injury to the Australian industry that is material in 2016/17.

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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