**Exporter Briefing –PanAsia affiliated companies**

Background

PanAsia Aluminium (China) Limited ("PanAsia China") and its affiliated companies, including:

- PanAsia Aluminium (Macao Commercial Offshore) Ltd; and
- Opal Macao Commercial Offshore Limited,

are subject to interim duties of 21.9 per cent following review investigation No. 248.

In this review investigation No. 392, two affiliated PanAsia exporters have completed exporter questionnaire responses:

(i) PanAsia Aluminium (China) Limited ("PanAsia China"); and
(ii) OPAL (Macao Commercial Offshore) Limited ("OPAL").

The PanAsia Group of companies includes a complex corporate structure where the ultimate parent company is PANASIALUM Holdings Company Limited ("PANASIALUM"). Below PANASIALUM there are two companies, [entity] and [entity]. A subsidiary of these companies is Panasia Aluminium Limited ("Panasia Aluminium") that has the following 'sister' or affiliated companies:

[List of entities]

A check of the PANASIALUM affiliated companies confirms the ultimate parent company as [entity], with an intermediate holding company, [entity], and a 'direct' parent [entity]. PANASIALUM has the following listed subsidiary companies:

[List of entities]

There are numerous affiliated companies of the exporter entities PanAsia Aluminium (China) Limited ("PanAsia China") and Opal Macao Commercial Offshore Limited ("OPAL"). The Commission will require extra care in identifying relevant costs of and including interacting affiliates in transactions involving the export of goods to Australia during the investigation period.

PanAsia China EQR

According to the PanAsia China exporter questionnaire response ("EQR") PanAsia China manufactures aluminium extrusions for sale in China and for export. Export sales to Australia are via the affiliated OPAL trading company. PanAsia China has relied upon the completed EQR for OPAL to detail export sales details for aluminium extrusions produced by PanAsia China that were exported during the investigation period.

PanAsia China has claimed that it does not prepare an annual report "as it is not a publicly listed company". It has referred to 2013 Annual and 2014 Interim Reports for PanAsialum Holdings Company Limited. Why is the 2015 Annual Report not yet available?

For domestic sales, PanAsia China sells direct to customers via its own sales team. All export sales are via its affiliated trading company, OPAL.

Capral Limited ("Capral") submits that the export sales price(s) via the affiliated export trader are likely to be influenced by the relationship between PanAsia China and OPAL. It may be difficult for the Commission to ascertain whether the export selling prices are influenced by this relationship as the Commission will not be able to contrast PanAsia's selling price to its related party OPAL, with an unrelated export sale(s). OPAL's export sales volumes are likely to be in differing volumes to those sold domestically by Asia. The Commission will need to establish whether purchased volume impacts price.

Capral further requests that the Commission ensure that all of the costs associated with PanAsia China's affiliated trading company (i.e. OPAL) for export sales are identified. Capral submits that the costs associated with the export trading company would be higher than that of a domestic trading entity – particularly where the affiliated trading company is embarking on all sales functions associated with the export of the goods to Australia. Capral anticipates that an upward adjustment for the selling and general administration costs of the agency and margin would be applied to PanAsia China's normal value. These trader costs would be higher than the non-affiliated domestic trader's costs that would reflect a broader range of sales/products for distribution on the Chinese domestic market.

Capral contends that Pan Asia China's normal value cannot be assessed purely with sales to the trader on the domestic market with sales to the affiliated trader, OPAL, on the export market. There exist cost differences impacting the sales and marketing functions on either market that differentiate the role in each market and represent different costs of conducting business. PanAsia China's normal value therefore must reflect these very real cost differentials.

PanAsia China has redacted from its EQR information relating to any cost differences in packing for domestic and export markets. The Commission's experience in Investigation No. 362 is that there is a difference in packaging costs incurred by the exporter, which has typically established that export packaging costs are higher than domestic packaging costs. Additionally, there is a stillage (or trolley) cost associated with exported goods.

Pan Asia China was determined to have received a benefit under Program 15 – aluminium provided at less than adequate remuneration in Continuation Investigation No. 287. Capral considers that this benefit continues to be available to PanAsia China and that aluminium continues to be sold in China at less than adequate remuneration during the investigation period. Capral notes the findings of the Commission in its recent "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*."

Aluminium extrusions the subject of Review Investigation No. 392 is one of those value-added products. 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.

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

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 Anti-Dumping Commission ("the Commission") has determined (refer Reports 248 and 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.

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).

The Commission is not revisiting the market situation finding in relation to Review Investigation No. 392. Rather, the review encompasses a review of each of the applicable variable factors only.

In this regard, the Commission will utilise the production costs of the producer PanAsia China as per the producer's records 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 PanAsia China 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.

Conclusion

Capral is aware that PanAsia China is a subsidiary company within a network of inter-related entities with parent company holdings listed in the British Virgin Islands. The Commission will therefore be required to exercise special care in identifying relevant costs and charges that apply to the production, sales and export of aluminium extrusions exported to Australia that have been produced by PanAsia China.

Capral has detailed that it considers PanAsia China's domestic sales to customers are at a different level of trade than the export sales to Australia via its affiliated company, OPAL. Pan Asia's domestic sales are not directly comparable with sales to OPAL and adjustments to PanAsia's normal value demonstrating the different costs incurred in each market will be required.

It is further highlighted with the Commission that following from Investigation No. 362, it is anticipated the exporter's packaging costs for export are higher than domestic packaging costs, including for steel trolleys, wooden crates and inter-leave paper.