

Exporter Briefing – Guangdong Jinxiecheng AL Manufacturing Co., Ltd

Introduction

Guangdong Jinxiecheng AL Manufacturing Co., Ltd (“Jinxiecheng”) is a Foreign Invested Enterprise (“FIE”) that is involved with the manufacture of aluminium extrusions in China. Jinxiecheng was involved in an accelerated review prior to continuation investigation No. 287. However, Jinxiecheng is the subject of the interim dumping duty (“IDD”) residual exporter rate for goods exported via:

- Foshan Nanhai Newtime Trading Co., Ltd;
- Foshan Everbright Import and Export Co., Ltd; aor
- Guangdong Nenking Import and Export Co., Ltd.

Jinxiecheng operates in the Henggang Industrial Zone, Shishan Town, Nanhai District, Foshan City, Guangdong Province.

Jinxiecheng was established in 1998. The company sells aluminium extrusions in both the domestic and export markets.

Matters requiring address from Jinxiecheng’s EQR

Jinxiecheng’s EQR confirms that the company manufactures aluminium extrusions in mill finish, anodised, and powder coated forms. During the investigation period, Jinxiecheng exported only mill finished and powder coating products to Australia.

It is stated that Jinxiecheng sells domestically to traders and non-associated end-users. It is further claimed that a *“little percentage of products was sold to end users”*. All of Jinxiecheng’s sales are ex-works, and no delivery is included in sales price.

It would appear that Jinxiecheng is seeking the Anti-Dumping Commission (“the Commission”) to determine normal values for Jinxiecheng on the basis of domestic sales to the local non-related trader for comparison with Jinxiecheng’s export sales to Australia via its affiliated trader. Capral Limited (“Capral”) would highlight that the export sales price(s) via the export trader are likely to be influenced by the relationship between Jinxiecheng and Foshan Nanhai Newtime Trading Co., Ltd (“Foshan Newtime”). It will therefore be difficult for the Commission to establish whether the export selling prices are influenced by this relationship as it will not be able to contrast with unrelated export sales to Australia.

Jinxiecheng’s export sales volumes via Foshan Newtime are likely to be in differing volumes to those sold domestically. 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 Jinxiecheng’s affiliated trading company 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 Jinxiecheng’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.

In short, Capral contends that Jinxiecheng’s normal value cannot be assessed purely with sales to the trader on the domestic market with sales to the affiliated trader (Foshan Newtime) on the export market. There exists cost differences impacting the trader’s functions on either market that differentiate the trader’s role in each market and represent different costs of conducting business. Jinxiecheng’s normal value therefore must reflect these very real cost differentials.

It is stated by Jinxiecheng that there is no difference in packaging for domestic and export sales. The Commission’s experience in Investigation No. 362 is that there does appear to be 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. Jinxiecheng has not mentioned the cost of trolleys in its EQR. The Commission is encouraged to pursue this matter further with Jinxiecheng.

Jinxiecheng has not detailed (in the public file version of its EQR) whether aluminium ingot suppliers in China are SOEs (although it does concede that all of its raw material purchases are from domestic suppliers).

Irrespective of whether Jinxiecheng's supplier isn SOE or a non-SOE, Capral highlights with the Commission that aluminium ingot purchases in China throughout the investigation period are influenced by the Government of China ("GOC"). 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 markets¹."

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 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 248) 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;

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

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 Jinxiecheng as per the manufacturer's records and applied 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 Jinxiecheng should, as a minimum, reflect the sum of these costs.

In Investigation No. 287, the Commission determined that the exporter was in receipt of certain countervailable benefits from the GOC. In its EQR, Jinxiecheng has redacted details of information concerning countervailable grants that it has received during the investigation period.

The Commission is requested to full examine the identified grant programs as well as any additional grants not identified by Jinxiecheng (including those programs tha the exporter may now be claiming as having 'expired').

Conclusion

Jinxiecheng has been treated as a 'residual exporter' in Investigation No. 287. The Commission is conducting a verification visit with Jinxiecheng and, subject to complete cooperation and validation of data, it is anticipated that Jinxiecheng will seek independent variable factors for future exports to Australia.

Capral has detailed that it has formed the view that Jinxiecheng's domestic sales via a non-affiliated trader and export sales via related-party trader (i.e. Foshan Newtime) are not directly comparable and adjustments to Jinxiecheng'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 (contrary to Jinxiecheng's assertions that these are the same), including for steel trolleys, wooden crates and inter-leave paper.