

## Exporter Briefing – Guangdong Zhongya Aluminium Company Limited

### Background

Guangdong Zhongya Aluminium Company Limited (“Guandong Zhongya”) is a Chinese exporter of aluminium extrusions that is the subject of interim countervailing duties (“ICD”) only.

Guangdong Zhongya was determined to have received benefits under the following subsidy programs as detailed in Report No 148 (“Report 148”):

- Program 10 – ‘Preferential Tax Policies for Foreign Invested Enterprises – Reduced Tax Rate for Productive FIEs scheduled to operate for a period of not less than 10 years’;
- Program 13 – Exemption of Tariff and Import VAT for Imported Technologies and Equipment; and
- Program 15 – Goods provided at less than adequate remuneration.

Guandong Zhongya is located at the ‘Asia Aluminium Industrial City, New and High-Tech Industrial Development Zone, Zhaoqing, Guangdong, P R China. It is a manufacturer of aluminium extrusions with different finishes and exports via its parent company located in Hong Kong (Zhongya Shaped Aluminium (HK) Holding Limited).

In Report No. 248 (Review of measures on aluminium extrusions from P R China), the Anti-Dumping Commission (“the Commission”) reported that Guangdong Zhongya did not receive any benefits in the April 2013 to March 2014 investigation review period under Programs 10 and 13. The Commission did establish that Guangdong Zhongya received further subsidies in the form of grants and preferential policies under the following two programs:

- Program 56 – PGOG special fund for energy saving technology reform; and
- Program 58 – Development Assistance Grants from the Zhaoqing New and High Technology Development Zone (“ZHTDZ”).

### Guangdong Zhongya’s EQR

In its Exporter Questionnaire Response (“EQR”) Guangdong Zhongya has indicated that it has received grants under certain redacted programs. It is assumed that Guangdong Zhongya has again received grants under Programs 56 and 58 as identified in Report 248. It is possible that Guangdong Zhongya has received grants under programs that are additional to programs 56 and 58 (as the Program No’s have been redacted from the public file version of the EQR).

Additionally, it appears that Guangdong Zhongya has received exemptions from import duties on certain imported equipment (imported following the 2013/14 investigation period of Investigation 248 and prior to the 2016 investigation period). Guangdong Zhongya confirms that the eligibility for the import duty exemption is that the applicant “*should be a foreign invested company*”.

Guangdong Zhongya has stated that it believes all of its aluminium ingot purchases throughout the investigation period were from non-SOE suppliers at market prices. Capral highlights with the Commission that the absence of any aluminium ingot purchases from SOEs during the investigation period does not exonerate Guangdong Zhongya from it not having received (or in receipt of) benefits of aluminium ingots at less than adequate remuneration. 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 markets<sup>1</sup>.”*

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

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.

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 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;

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 exporter (i.e. Guangdong Zhongya) as per the exporter’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 Guangdong Zhongya 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.

The Guangdong Zhongya EQR did not include any financial information concerning domestic and export sales, or production cost information. Rather, the EQR at the relevant sales and costs sections (i.e. Sections C, D, E, F and G) included the following statement:

*“Because the current measures of the interim dumping duties do not apply to Guangdong Zhongya Aluminium Company Limited. By confirming with the official-in-charge of the Commission, Guangdong Zhongya is selected ONLY for countervailing duty review, therefore, this Section is not applicable to Guangdong Zhongya.”*

The Commission will calculate the applicable subsidy rate for each unit of aluminium extrusion manufactured and sold by Guangdong Zhongya during the investigation period. As a result, Guangdong Zhongya’s production, sales (domestic and export) volume and values are required, as well as the details of the subsidy amounts and whether the subsidy requires allocation over a portion or all of Guangdong Zhongya’s sales for the period. This information does not appear to have been provided. In the absence of this essential information, Guangdong Zhongya should be considered ‘non-cooperative’.

#### Further comment

Capral notes that Guangdong Zhongya is located in a “New and Hi-Tech Development Zone” in Zhaoqing. For businesses located in these zones – particularly FIEs – it is common for the corporate tax rate to be reduced for an extended period of time. Capral acknowledges the Commission’s assessment in Review Investigation 248 that Guangdong Zhongya did not receive a benefit under Program 10 in the relevant investigation period. However, it is not uncommon for GOC programs to be re-named with a new period of application. Capral requests that the Commission fully assess Guangdong Zhongya’s eligibility for any re-commenced benefits that reflect the previously named Program 10.