CAPRAL ALUMINIUM

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13th October 2016

Mr Gavin Crooks
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Public File

Dear Mr Crooks

Please find attached Exporter briefing documents for Public file, for co-operating exporters that the Anti-Dumping Commission plans to conduct in country verification.

Capral looks forwarding to assisting the Commission with its inquiries.

If you have any questions concerning this submission, 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

Luke Hawkins
General Manager – Supply and Industrial Solutions

Investigation No. 362 – Aluminium Extrusions exported from Malaysia and Vietnam

Exporter Briefing: Press Metal Berhad

(i) Background

Press Metal Berhad ("PMB") was incorporated in Malaysia in 1986 as a private company under the name Press Aluminium Industries Sdn Bhd. The company listed on the Kuala Lumpur Stock Exchange (Bursa Securities Malaysia Berhad) in August 1993. At that time the company only has two subsidiaries. It now has 14 subsidiaries.

PMB is primarily engaged in the manufacturing and trading of aluminium products and investment holding company activities. PMB's main activities include:

- Smelting and extrusion segment that includes manufacturing and trading of smelting products;
- Trading segment that includes marketing of aluminium products;

Other activities include contracting & fabrication, waste management, and investment holding.

PMB ventured into smelter activities in 2007 and built a new smelter in Mukah in the State of Sarawak, the first aluminium smelting plant in Malaysia. In 2011, PMB commenced development of its Phase 2 aluminium smelter in Samalaju Industrial Park in Bintulu, Sarawak. The smelter has a production capacity of 320,000 tonnes, and commenced operations in 2012.

Further expansions in smelting by PMB followed with a smelter in Sarawak to complement those in Mukah and Samalaju. The new development makes PMB's smelting capacity to 760,000 tonnes per annum.

It is clear from the foregoing that PMB is an integrated aluminium ingot-aluminium extrusions manufacturer. It is therefore important for the Anti-Dumping Commission ("the Commission") to validate the transfer price of ingot into the aluminium extrusion business at full cost.

The impact of the 100 per cent Pioneer Status on the subsidiary company PM Sarawak Sdn Bhd and the 100 per cent Investment Tax Allowance to PM Bintulu Sdn Bhd (see below).

PMB's 2015 annual report (P.9) indicates that PMB 'incorporated' Press Metal International (owns 100%) in Foshan, Ghangzhou into its business with an initial production capacity for aluminium extrusions of 40,000 tonnes. This has since been expanded to 120,000 tonnes. PMB exports from China and is the subject of measures in Australia.

The Commission is requested to clarify that xx xxxxxxx xxxxxxx xxxxxxx xx xxxxxx Malaysia to Australian markets xx xxxx xxxxxxx xxxxxxxx measures.

PMB confirms that it has customers of its aluminium ingot facility as "far as Brazil and Mexico", including into billets and wheel alloys.

The company Group Structure including ownership in subsidiaries is listed on P. 19 of the 2015 Annual Report.

(ii) Exporter Questionnaire Response

Sales to PMAA

PMB exports to two companies in Australia – Press Metal Aluminium (Australia) Pty Ltd ("PMAA") and BlueScope Distribution. Both companies are distributors in Australia.

PMB pays PMAA a commission for its sales to BlueScope. It is claimed that there is not commission agreement with PMAA. An upwards adjustment to normal value will be required for the commission paid on export sales to BlueScope Distribution.

PMB has forward orders on sales to PMAA and BlueScope Distribution. PMB will seek to continue to supply the Australian market from its Malaysian operations.

Like Goods

PMB states that it "compare(s) exported goods and like domestically sold extrusions without considering them on a model by model basis". PMB confirms that the same goods for domestic and export sale are made on the same extrusion presses, using the same labour and raw materials (Section C-3, P. 25). Rather, the exports to PMAA are on 'smaller diameter presses' that match PMB's domestic extrusion sales.

In matching models between export and domestic sales, PMB refers to the costing for the alloy and finish type, but also indicated that the following criteria can also be used:

- Linear weight;
- Length (shorter lengths and longer lengths are more expensive);
- Press size.

Domestic sales

It appears that the majority of domestic sales for PMB are ex-factory (with customer collecting). There are some sales delivered to customer on PMB vehicles.

PMB has some related party sales including to Angkasa Jasa Sdn Bhd, and subsidiaries of PMB Technology Berhad. The identified related party sales require testing for 'arms length' nature and should be excluded from normal value assessments.

PMB operates three divisions involved in the sale of aluminium extrusions. These are:

- Press Metal Kapar ("PMK") – the extrusion mill that sells domestically and for export;
- PMB that sells to the area Joher Bahru, a southern area of Malaysia; and
- Corporate.

PMB claims that there are "no material" prices differences between customers except for sales influenced by volumes sold.

Pricing is based upon the base aluminium price which accounts for approximately 80 per cent of cost. It is not clear whether the aluminium cost reflects the LME plus MJP plus product premiums, or is cost-driven. Additional costs include conversion, and finish (whether mill finish, powder coated or anodised) plus profit margin.

Fair comparison

From the EQR it is evident that adjustments will be required for:

- Export inland freight for transport from PMB's plant to Port Klang;
- As export sales to BlueScope (CIF) and PMAA (into store), adjustments for overseas freight, Australian inland freight and customs broker fees, loading & handling fees, required;
- PMB has indicated that packing costs between domestic and export sales are 'insignificant'. Capral submits that the differing packaging does require different costs to be incurred and adjustments should be made;
- As mentioned, a commission is paid by PMB to PMAA for sales made to BlueScope Distribution;
- Differing xxxxxx xxxxx between domestic and export sales to be accounted for.

Production costs

The key costs in the production of aluminium extrusions as identified from PMB are as follows:

- Raw material billet – purchased from PMS or “arm’s length suppliers”;
    - also supplied from PMB’s own smelter – ingots from PMBTU using PMB own scrap and scrap supplied from unrelated parties (confirm pricing);
- Cost of presses and dies including conversion costs;
- Finishing – anodising and powder coating;
- Fabrication – drilling or further working of profile; and
- Packaging.

PMB confirms that actual costs are rather than standard costs.

No detail on cost allocations.

(iii) Subsidisation

PMB claims that it has not received any benefits under the 100 per cent Pioneer Status Program or the Investment Tax Allowance Program. PMB has confirmed that its subsidiary PMBTU (aluminium ingot producer) has received a benefit under the 100 per cent Pioneer Status Program, but is claiming no benefit received in the investigation period.

Similarly, PMB’s subsidiary PMS (billet producer) qualifies under the 100 per cent Investment Tax Allowance Program, however, no benefit is alleged to have been received in the 2015/16 investigation period.

It would appear from the redacted EQR that PMB is asserting that no benefit is received due to the absence of an income tax liability for the period.

Investigation No. 362 – Aluminium Extrusions exported from Malaysia and Vietnam

Exporter Briefing: LB Aluminium Berhad

(i) Background

LB Aluminium Berhad ("LB Aluminium") is a publicly listed company operating on the KL stock exchange since 1994. LB Aluminium is principally engaged in the manufacturing, marketing and trading of aluminium extrusions and ceiling metal tee products in Malaysia.

The aluminium extrusions manufactured by LB Aluminium are used for finished products for:

- Architecture & building construction – window & door frames, curtain wall cladding, etc
- Electronic components & electrical parts;
- Furniture & interior decoration;
- Transportation;
- Common profiles & others.

LB Aluminium has an extensive branch network with warehouses in major cities in the Peninsular Malaysia, East Malaysia and Singapore.

The company has two manufacturing facilities:

- A 32-acre site in Beranang, Selangor; and
- A 4-acre site at Kuching, Sarawak.

The company states that it has an integrated production capability that it refers to as the largest press in Malaysia at 4,300 tonnes capacity. LB Aluminium also states that it is "one of the largest aluminium extrusion manufacturers in South-East Asia". It operates 14 extrusion presses with an annual production capacity of 90,000 metric tonnes. LB Aluminium claims it can manufacture extrusion profiles up to 300 mm in circumference circle diameter (CCD) with 11" billet size.

LB Aluminium operates a 'fully automated vertical anodising plant with a monthly production capacity of 1,400 metric tonnes. Additionally, LB has a horizontal anodising line at Beranang with a 1,000 tonnes per month capacity, and a 600 metric tonnes monthly capacity at Kuching, for a combined 36,000 tonnes of capacity annually for anodising.

LB Aluminium also operates powder coating lines. The vertical powder coating line and the horizontal powder coating line have a combined annual capacity of 24,000 tonnes, as well as a fluorocarbon painting line.

The company has an in-house die/mould shop which it states has the latest computer-aided design capabilities.

(ii) Group Structure

The LB Aluminium Group comprises 6 Malaysian company subsidiaries (Rank Metals Sdn Bhd, ALBE Marketing Sdn Bhd, Omega Persona Sdn Bhd, LB Aluminium (Sarawak) Sdn Bhd, LB Sarawak Industries Sdn Bhd, Poly Acres Sdn Bhd) and one Singaporean subsidiary (i.e. LB Aluminium (Singapore) Pte Ltd.

With a group structure involving 6 subsidiary companies, the allocation of costs will be key to the verification visit. The range of production goods from aluminium extrusions to aluminium sheets & coils to fittings & accessories, will require careful examination as to the basis for corporate costs and allocations.

(iii) Adjustments

LBA exports finished goods to Australia and hence upwards adjustments for anodizing or powder coating is required.

It is Capral's understanding that domestic and export packaging costs are different for the goods under consideration as additional packaging is required for safe handling for export sales. Capral anticipates separate adjustments to normal value for domestic and export sales.

(iv) Financial results

According to the latest financial information on the LB Aluminium website, the company's turnover for the 12 months ending 30 April 2016 was RM 444,823,000 (approx. A$148 M). On this revenue, LB Aluminium has indicated it will pay tax of RM 588,000, or at a rate of 3.6 per cent.

At Section H-1 of its exporter questionnaire response ("EQR") LB Aluminium states that has received no benefits related to Income Tax Reductions or the Investment Tax Allowance subsidy programs operated by the Government of Malaysia ("GOM"). LB Aluminium's responses in the EQR refer to P.86 of its 2016 Annual Report. The reconciliation relates to tax paid for the financial year with a starting point based upon the 24 per cent Malaysian company tax rate.

Importantly, there is reference to the "Utilisation of re-investment allowances" totalling RM 2,251,000 in 2016 that relate to capital expenditures incurred in 2016 and the prior period.

The Commission is encouraged to examine whether this reinvestment expenditure relates to the Income Tax Allowance referred to in Section H-1 of the EQR.

Investigation No. 362 – Aluminium Extrusions exported from Malaysia and Vietnam

Exporter Briefing: East Asia Aluminium Co., Ltd

(i) Background

East Asia Aluminium Co Ltd (also known as Dong A Aluminium Co Ltd) is a manufacturer of finished aluminium products including aluminium extrusions.

EAA was set up in 2007. According to *AluminiumInsider*, EAA in Chin Linh initially produced 6,500 tons and is rated a small to medium aluminium extruder.

(ii) Manufacturing capability

Capral understands that EAA operates 12 extruders ranging in size from 3.5 inch to 12 inch, with an annual capacity of xxxxxx tonnes, producing approximately xxxxxx tonnes currently. Capral understands that EAA is currently expanding, with additional capacity to come online in 2017.

EAA does not use aluminium scrap but purchases approx. xxxxxx tonnes per annum of aluminium ingot. EAA's ingot is imported from [source] and possibly China [form of imported inputs].

EAA is continuing to expand its production capacity and plans to be the largest factory in East Asia. New on-line capacity is scheduled for 2017.

Capral understands the alloy used in percentage terms is as follows:

Alloy grade	Percentage
6060/6063	xx%
6101	xx%
6005A	xx%
6082	xx%
Other	xx%

EAA can supply anodised and powder coated aluminium extrusions upon request. Incremental cost increases beyond the standard colour USD xxx per metric tonne powder coating, and same for clear, thin anodised product.

(iii) EAA sales

EAA sells xx per cent of its production on the domestic market and exports xx per cent. [Comments re EAA sales of aluminium extrusions domestically].

[Basis for EAA selling prices].

It is Capral's understanding that x xxxxxxx xxxxxxx of EAA's export to Australia are finishes other then mill finish and this volume should be verified.

(iv) Exporter Questionnaire Response

EAA has indicated at Section E-1 that it does not differentiate packing costs between domestic and export sales. Capral has indicated to the Commission that it understands the costs associated with export sales are at a higher cost than domestic, due to the required additional packaging to prevent damage to shipped goods.

The Commission will need to examine packaging costs further with EAA.

Duty drawback is identified by EAA as an item that is different between domestic and export sales. EAA refers to the amount of duty drawback that it has received during the investigation period. Capral also notes that EAA has indicated that it has received import tariff exemptions on raw materials (ingot). The Commission's investigation with EAA will need to accurately identify whether any drawback received by EAA relates to the goods exported to Australia and that the correct, supporting documentation is available.

(v) Subsidisation

Corporate tax concession

Section H-1 of EAA's EQR confirms that the company has benefited from a preferential corporate tax rate. The standard tax rate in 22 per cent, and EAA has paid a rate of 10 per cent[1]. EAA has also confirmed that it has received a reduction in non-agricultural land tax (i.e. Program 3).

EAA notes that the standard tax rate for 2016 is 20 per cent. EAA also indicates that other than via tax returns, the company is not required to file anything with the tax authority or the government of Vietnam ("GoV"). As the 2016 return has not been lodged, the company has not yet claimed its preferential 10 per cent tax rate. This does not evidence that EAA is not eligible for the concessional rate of 10 per cent.

It is also noted at H-11 of EAA's EQR that eligibility is based upon the location of EAA's production facility in the Chi Linh district of Hai Dong province, with the concessional corporate tax rate applicable for a 10 year period. Thus, EAA will qualify for the reduced 10 per cent rate of taxation for the whole of the 2015/16 investigation period.

Non-agricultural land tax reduction

EAA qualifies for a 50 per cent reduction of the non-agricultural land tax rate which is applied at 0.03% by "multiplying the land area and the land price". The benefit is deducted from the amount of tax due. It appears from EAA's responses at H-2 that it is eligible for the reduction in land tax due to the number of employees the company engages.

Preferential import tariffs

EAA has received exemptions from import tariffs on imported equipment and machinery used as fixed assets. EAA indicates it received benefits in the 2008 and 2009 years that were depreciated over a 7 year period (EAA states that the plant was completed in 2009, so depreciation would only have commenced from 2009 at the earliest). The exemption provided a benefit through until the 2015 year.

EAA registered its imports of capital equipment to qualify for the exemption. It is noted that EAA has received the exemption due its employee numbers consistently exceeding 500 as well as qualifying as an "Investment sector of encouragement".

Capral understands that EAA is currently expanding its operations and will bring on line additional capacity in 2017. It would be expected that imported capital equipment for the expanded production capacity would also qualify for the import tariff exemption. The Commission is requested to examine EAA's eligibility and the level of benefit involved.

In relation to imported raw material inputs, EAA has confirmed that it is eligible for duty drawback on raw materials used in exported goods. Duty Drawback Schemes are sometimes loosely administered. The Commission is encouraged to validate that EAA has made the appropriate drawback amounts for the exported goods that is supported by the correct documentation that can be fully validated.

[1] Refer Company Analytical Report at Confidential Attachment C-1.5 of Capral's application.