



ADC 362

**INVESTIGATION INTO THE ALLEGED DUMPING AND
SUBSIDISATION OF
CERTAIN ALUMINIUM EXTRUSIONS
EXPORTED FROM
MALAYSIA AND THE SOCIALIST REPUBLIC OF VIETNAM**

VISIT REPORT - EXPORTER

PRESS METAL BERHAD.

NOVEMBER 2016

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WILL BE REVIEWED BY THE CASE MANAGEMENT TEAM AND MAY NOT REFLECT
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CONTENTS

CONTENTS	2
1 BACKGROUND	3
2 THE GOODS AND LIKE GOODS	4
2.1 THE GOODS EXPORTED TO AUSTRALIA	4
2.2 FACTORY TOUR	4
2.3 LIKE GOODS SOLD ON THE DOMESTIC MARKET	4
2.4 MODEL MATCHING	5
2.5 LIKE GOODS – PRELIMINARY ASSESSMENT	5
3 VERIFICATION OF EXPORT SALES TO AUSTRALIA	6
3.1 VERIFICATION OF AUSTRALIAN SALES TO AUDITED FINANCIAL STATEMENTS	6
3.2 VERIFICATION OF AUSTRALIAN SALES TO SOURCE DOCUMENTS	6
3.3 COUNTRY OF ORIGIN	7
3.4 THE EXPORTER	7
3.5 THE IMPORTER	7
3.6 RELATED CUSTOMERS	7
3.7 ARMS LENGTH	7
3.8 EXPORT PRICE – PRELIMINARY ASSESSMENT	8
4 COST TO MAKE AND SELL	9
4.1 VERIFICATION OF COSTS TO AUDITED FINANCIAL STATEMENTS	9
4.2 VERIFICATION OF COSTS TO SOURCE DOCUMENTS	9
4.3 RELATED PARTY PURCHASES	9
4.4 COST TO MAKE AND SELL – SUMMARY	10
5 VERIFICATION OF DOMESTIC SALES	11
5.1 VERIFICATION OF DOMESTIC SALES TO AUDITED FINANCIAL STATEMENTS	11
5.2 VERIFICATION OF DOMESTIC SALES TO SOURCE DOCUMENTS	11
5.3 RELATED CUSTOMERS	11
5.4 ARMS LENGTH	12
5.5 ORDINARY COURSE OF TRADE	12
5.6 SUITABILITY OF DOMESTIC SALES	12
5.7 PROFITABILITY OF DOMESTIC SALES	13
5.8 DOMESTIC SALES – SUMMARY	13
6 ADJUSTMENTS	14
6.1 PACKING	14
6.2 INLAND TRANSPORT	14
6.3 EXPORT HANDLING AND OTHER COST	14
6.4 DOMESTIC AND EXPORT CREDIT TERMS	15
6.5 EXPORT SALES COMMISSIONS	15
6.6 EXPORT STILLAGES	15
6.7 ADJUSTMENTS – CONCLUSION	15
7 NORMAL VALUE	17
8 DUMPING MARGIN	18
9 SUBSIDIES	19
9.1 PROGRAM 1: INCOME TAX REDUCTIONS ('PIONEER STATUS')	19
9.2 PROGRAM 2: INCOME TAX ALLOWANCE	19
9.3 OTHER DOUBLE DEDUCTION TAX PROGRAMS	20
10 APPENDICES AND ATTACHMENTS	21

1 BACKGROUND

On 16 August 2016, the Commissioner of the Anti-Dumping Commission (the Commissioner) gave public notice of his decision to initiate an investigation in respect of the alleged dumping and subsidisation of aluminium extrusions exported from Malaysia and the Socialist Republic of Vietnam (Vietnam).

Anti-Dumping Notice (ADN) No. 2016/77 provides further information on the investigation and is available on the Anti-Dumping Commission's (the Commission's) electronic public record (EPR) at www.adcommission.gov.au.

The background relating to the initiation of this investigation is contained in Consideration Report 362 (CON 362).

Following this initiation, the Commission wrote to Press Metal Berhad (PMB) inviting it to cooperate with the investigation. PMB provided a completed exporter questionnaire response (REQ) and relevant attachments for the investigation period (1 July 2015 to 30 June 2016).

2 THE GOODS AND LIKE GOODS

2.1 The goods exported to Australia

During the investigation period PMB exported aluminium extrusions of varying lengths, wall thicknesses, sizes, temper grades and profiles. The aluminium extrusions for the export market were in the general surface finish categories of either mill, anodised, powder-coated and bright dip finishes.

2.2 Factory tour

During a factory tour of PMB's Kapar facility the verification team observed aluminium extrusions destined for the Australian market being produced at various stages of the production process. This was confirmed by referring the data on the job sheets which were presented for inspection throughout the factory tour. Job sheets contained information such as customer name, order number, product specification, production volume required and billet size. The job sheets also required staff at each stage of the production process to record the quantity of goods received into a particular work station and the quantity of goods which leave the station. This information was then entered into PMB's production system which could then be used to accurately determine finished goods production volume.

The verification team also visited the die shop and interviewed the die shop supervisor. Using the material code data provided in its Australian sales data, the verification team requested staff to retrieve the tool in relation to the material code identified in PMB's Australian export sales data. The die shop staff referred to a library of technical drawings and from that was able to retrieve the tool from the die shop tool storage area. The profile number was clearly visible on the die and had a cross section which corresponded with the drawing. On the basis of the observations made during the factory tour the verification team was satisfied that the goods reported in PMB's Australian sales data were manufactured in Malaysia.

2.3 Like goods sold on the domestic market

During the investigation period PMB also sold aluminium extrusions to domestic customers in varying lengths, wall thicknesses, sizes, temper grades and profiles. PMB sold extrusions in mill, anodised and powder-coated finishes on the domestic market.

Unlike goods produced for export, PMB indicated that goods for domestic sale are produced both to order and from stock, depending on specifications or whether the profile is customised or not.

The verification team considers that the goods manufactured by PMB for domestic consumption are identical to, or have characteristics closely resembling, the goods PMB exported to Australia, as they:

- have similar physical characteristics
- are commercially alike:
- are functionally alike; and
- are produced at the same facility with the same raw material inputs and manufacturing processes.

2.4 Model matching

For the purpose of model matching, the visit team considers that it is appropriate to have regard to the finish of the product (mill, anodised, powder-coated and bright dip) and billet alloy.

The verification team has chosen this criteria as it is consistent with the cost to make and sell (CTMS) data presented by PMB in its REQ.

2.5 Like goods – preliminary assessment

The verification team considers that aluminium extrusions produced by PMB for domestic sale have characteristics closely resembling those of the goods exported to Australia and are therefore 'like goods' in accordance with subsection 269T(1) of the *Customs Act 1901* (the Act) ¹.

¹ All legislative references in this report are to the *Customs Act 1901*, unless otherwise stated.

3 VERIFICATION OF EXPORT SALES TO AUSTRALIA

3.1 Verification of Australian sales to audited financial statements

The verification team verified the completeness and relevance of PMB's export sales listing by reconciling it to audited financial statements in accordance with ADN. No 2016/30. During this process the verification team did not identify any issues.

Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

3.2 Verification of Australian sales to source documents

The verification team verified the accuracy of PMB'S export sales listing by reconciling it to source documents in accordance with ADN No. 2016/30.

The verification team identified several issues in which the exporter was rectified during the visit. Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

3.2.1 Product specification

A comparison between the Australian data and the sample of sales selected for verification revealed a minor number of sales lines had incorrect product specification data relating to temper and lineal weight. Within the sample, the number of transactions in which the product specification data was found to be incorrect was immaterial.

3.2.2 Product surface finish

A comparison between the Australian sales data and commercial invoices selected for verification found that the surface finish indicated on the invoices did not match the surface finish in the sales data. The verification team instructed PMB to revise the sales data to ensure the system generated finish code was included in the sales data alongside the simplified finish code. The revised data obtained from PMB's accounting system was subject to a secondary examination and found to be accurate when compared to source documents.

3.2.3 Export delivery terms

The examination of PMB's export commercial invoices indicated different shippings terms to those which were reported in its export sales data. Further review and discussions with the exporter during the visit resulted in an amendment to the delivery terms PMB reported in its original REQ.

3.2.4 Credit terms

The proof of payment data in relation to the invoices subject to downwards verification indicated that payment was not consistent with the credit terms PMB stated on its commercial invoices. The verification team has therefore determined credit terms by calculating the accounts receivable turnover ratio in relation to PMB's Australian customers and applying this to arrive at an average credit period.

3.3 Country of origin

For the sample of invoices subject to downwards verification the certificate of origin documentation as per the agreement establishing the ASEAN - Australia – New Zealand Free Trade Area (AANZFTA) was examined. The certificate contained information which corresponded to PMB’s Australian export sales data, commercial invoices, export declarations and import declarations. The verification team was therefore satisfied that the goods reported in PMB’s Australian export sales data originated from Malaysia.

3.4 The exporter

For all Australian export sales during the investigation period, the verification team considers PMB to be the exporter of the goods.²

3.5 The importer

The verification team considers that, in relation to the goods³ exported by PMB, the customers listed in the Australian sales spreadsheet were the beneficial owners of the goods at the time of importation and therefore were the importers of the goods.

3.6 Related customers

The verification team identified Australian customers which were related to PMB based on the company’s REQ, sales data and audited financial statements.

3.7 Arms length

In respect of export sales of aluminium extrusions to Australia by PMB during the investigation period, the verification team found no evidence that:

- there was any consideration payable for, or in respect of, the goods other than its price; or
- the price was influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- the buyer, or an associate of the buyer, was directly or indirectly, reimbursed, compensated or otherwise received a benefit for, or in respect of, whole or any part of the price.

The verification team therefore considers that all sales of aluminium extrusions exported to Australia by PMB during the inquiry period were arms length transactions.⁴

² The Commission generally identifies the exporter as a principal in the transaction, located in the country of export from where the goods were shipped, that gave up responsibility by knowingly placing the goods in the hands of a carrier, courier, forwarding company, or its own vehicle for delivery to Australia; or a principal in the transaction, located in the country of export, that owns, or previously owned, the goods but need not be the owner at the time the goods were shipped.

³ Section 2.1

⁴ Section 269TAA of the Act outlines the circumstances in which the price paid or payable shall not be treated as being at arms-length. These are where: there is any consideration payable for or in respect of the goods other than price; the price is influenced by a commercial or other relationship between the buyer, or

3.8 Export price – preliminary assessment

The verification team is satisfied that the export sales listing is complete, relevant and accurate and recommends that the export price be determined under paragraph 269TAB(1)(a), as the price paid by the importer to the exporter less transport and other costs arising after exportation.

The verification team's preliminary export price calculations are at **Confidential Appendix 1**.

an associate of the buyer, and the seller, or an associate of the seller; or, the buyer, or an associate of the buyer, will, directly or indirectly, be reimbursed, be compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.

4 COST TO MAKE AND SELL

4.1 Verification of costs to audited financial statements

The verification team verified the completeness and relevance of PMB's CTMS spreadsheet by reconciling it to audited financial statements in accordance with ADN No. 2016/30.

The verification team observed that PMB had not provided CTMS data in relation to 8 export models. These models had been excluded on the basis that they were not sold on the domestic market. The Australian CTMS data was amended accordingly to include the CTMS of the 8 export models.

Further, the verification team identified that the unit Cost to Make (CTM) amounts for both domestic and export models were based on sales volume rather than production volume. Relying on the verified production volume figures reported by the exporter, the verification team amended PMB's entire CTMS dataset to ensure CTM was based on production volume and Cost to Sell (CTS) was based on sales volume.

The verification team did not find any other issues with the verification of costs and was able to reconcile the CTMS data with these changes to audited financial statements.

Details of the verification process are contained in the verification work program, and relevant attachments, at **Confidential Attachment 1**.

4.2 Verification of costs to source documents

The verification team verified the accuracy of PMB's costs in the audited financial statements by reconciling them to source documents in accordance with ADN No. 2016/30.

The verification team did not identify any issues.

Details of the verification process are contained in the verification work program, and relevant attachments, at **Confidential Attachment 1**.

4.3 Related party purchases

The verification team identified related suppliers of various raw material inputs used to manufacture the goods. The verification team examined the aluminium raw material purchases data PMB provided with its REQ. A sample of source documents was obtained in order to verify the accuracy of the figures provided in PMB's REQ and for comparison to the relevant direct material general ledger accounts. The data in PMB's REQ was found to be an accurate reflection of the general ledger and the source documents. The verification team compared the various raw material cost inputs sourced from related parties to the prevailing market price for aluminium, i.e. London Metal Exchange (LME) and Major Japanese Port (MJP) premium. The prices paid by PMB were found to correlate with the benchmark LME+MJP prices in each month of the investigation period.

Since PMB also manufactures extrusions using in-house produced billet, it also provided detailed calculations in relation to the cost of in-house manufactured raw materials. The verification team examined the raw material cost inputs and compared these to market prices and the raw material purchases ledger. The verification team was satisfied that the

PUBLIC RECORD

cost of raw materials used to determine billet costs was based on market prices for the purchase of those inputs and the finished billet cost, inclusive of relevant conversion costs, was comparable to the market price of billet.

4.4 Cost to make and sell – summary

Having verified PMB's CTMS data for aluminium extrusions to audited financial accounts and to source documents, the verification team is satisfied that the revised CTMS spreadsheet is complete, relevant and accurate.

PMB's revised CTMS spreadsheet is at **Confidential Appendix 2**.

5 VERIFICATION OF DOMESTIC SALES

5.1 Verification of domestic sales to audited financial statements

The verification team verified the completeness and relevance of PMB's domestic sales listing by reconciling it to audited financial statements in accordance with ADN No. 2016/30.

The verification team did not identify any issues during this process. Details of the verification are contained in the verification work program, and relevant attachments, at **Confidential Attachment 1**.

5.2 Verification of domestic sales to source documents

The verification team verified the accuracy of PMB's domestic sales listing by reconciling it to source documents in accordance with ADN No. 2016/30.

The verification team identified several issues in which the exporter was required to rectify during the visit. Details of this verification process are contained in the verification work program, and its relevant attachments at **Confidential Attachment 1**.

5.2.1 Product surface finish

A comparison between the domestic sales data and commercial invoices selected for verification found that the surface finish indicated on the invoices did not match the surface finish in the sales data. The verification team instructed PMB to revise the sales data to ensure the system generated finish code was included in the sales data. The revised data obtained from PMB's accounting system was subject to a secondary examination and found to be accurate when compared to source documents.

5.2.2 Domestic delivery terms

The examination of PMB's domestic commercial invoices and other sales documentation suggested that the shipping terms indicated by PMB in its REQ were not accurate. Further review and discussions with the exporter during the visit resulted in an amendment to the delivery terms PMB reported in its original REQ.

5.2.3 Credit terms

The proof of payment data in relation to the invoices subject to downwards verification indicated that payment was not consistent with the credit terms PMB stated on its commercial invoices. The verification team has therefore determined credit terms by calculating the accounts receivable turnover ratio in relation to PMB's domestic customers and applying this to arrive at an average credit period.

5.3 Related customers

The verification team identified domestic customers which were related to PMB based on the company's REQ, sales data and audited financial statements. The verification team's analysis of the prices for sales to related customers found that a sufficient volume of sales were in the ordinary course of trade (OCOT) and prices were comparable to unrelated party sales. The verification team also obtained evidence of payment for the goods which

PUBLIC RECORD

was observed to be equal to the value stated on commercial invoices. The verification team was therefore satisfied that exclusion of related party transactions is not warranted.

5.4 Arms length

In respect of PMB's sales of aluminium extrusions to related and unrelated customers during the investigation period, the verification team found no evidence that:

- there was any consideration payable for, or in respect of, the goods other than its price; or
- the price was influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- the buyer, or an associate of the buyer, was directly or indirectly reimbursed, compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.

The verification team therefore considers that all domestic sales by PMB during the inquiry period were arms length transactions.

5.5 Ordinary course of trade

Section 269TAAD provides that if like goods are sold in the country of export at a price less than the cost of such goods, and are unrecoverable within a reasonable period, then they are taken not to have been sold in the OCOT.

The verification team compared the revenue (i.e. net sales value) for each domestic sale of aluminium extrusions to the corresponding quarterly domestic CTMS to test whether those sales were profitable.

Where the volume of unprofitable sales exceeded 20 per cent for a particular model, the verification team tested the recoverability of the unprofitable sales by comparing the revenue for each transaction to the corresponding weighted average CTMS over the investigation period. Those sales found to be unrecoverable were considered not to be in the OCOT.

5.6 Suitability of domestic sales

Subparagraph 269TAC(2)(a)(i) provides that the normal value of goods exported to Australia cannot be ascertained under subsection 269TAC(1) where there is an absence, or low volume, of sales of like goods in the market of the country of export.

Low volume is defined by subsection 269TAC(14) as less than 5% of the total volume of the goods under consideration that are exported to Australia.

The verification team found there was a sufficient volume of domestic sales made in OCOT in relation to twelve out of the 24 models of aluminium extrusions exported to Australia during the investigation period. For the models, where there was not sufficient volumes of an equivalent model in OCOT or there were no sales of a model on the domestic market that was comparable to a model exported to Australia, the verification team has constructed the normal value under paragraph 269TAC(2)(c).

PUBLIC RECORD

5.7 Profitability of domestic sales

Where the normal value has been constructed under paragraph 269TAC(2)(c), an amount for profit has been included with respect to the weighted average profitability of all domestic sales of like goods made in the OCOT.⁵

5.8 Domestic sales – summary

The verification team is satisfied that the domestic sales listing provided by PMB is complete, relevant and accurate, and can be used for assessing normal value under subsection 269TAC(1).

The domestic sales spreadsheet is at **Confidential Appendix 1**.

⁵ Subsection 45(2) of the *Customs (International Obligations) Regulation 2015* refers.

6 ADJUSTMENTS

To ensure the normal value is comparable to the export price of the goods exported to Australia, the following adjustments were made to the normal value.⁶

6.1 Packing

PMB stated that it did not recognise a difference in packaging costs between the goods exported to Australia and the goods it sells on the domestic market. As a result, any costs relating packing expenses are considered identical for the goods exported and like goods sold domestically.

The verification team observed the goods for export and like goods sold domestically being packed for delivery during a tour of PMB's manufacturing facility. Minimal differences in the materials and form of packing between the goods for export and like goods sold domestically was observed. Identical types and amounts of packing materials were observed being used in the packing process, e.g. plastic wrapping, wooden frames. An examination of the general ledger accounts used in the preparation of PMB's packing cost calculations was also undertaken. Within these accounts the verification team was able to identify the various cost elements relating to the packing department and reconcile these to the audited financial statements. The detailed examination of the items contained in packing material general ledger account was also undertaken. The verification team is satisfied that after observing the packing process together with an examination of PMB's packing department costs, PMB's allocation of costs for packing expenses is reasonable.

The verification team considers PMB's statement regarding packing differences is accurate and an adjustment for packing expenses is therefore not required to ensure a fair comparison to the export price.

6.2 Inland transport

The verification team considers a downwards adjustment for domestic inland transport to the customer is required to ensure a fair comparison to the export price. The verification team applied these downwards adjustments based on the actual inland transport expenses verified in the domestic sales spreadsheet.

The verification team considers an upward adjustment for export inland transport is required to ensure a fair comparison to the export price. The verification team applied an upwards adjustment based on the weighted average inland transport expenses verified in the export sales spreadsheet.

6.3 Export handling and other cost

The verification team considers an upwards adjustment for export handling and other costs is required to ensure a fair comparison to the export price. The verification team applied these upwards adjustments based on the actual inland transport expenses verified in the export sales spreadsheet.

⁶ In accordance with subsections 269TAC(8) and (9)

6.4 Domestic and export credit terms

The verification team considers a downwards adjustment to the normal value for domestic credit terms and an upward adjustment for export credit terms is required to ensure fair comparison. The verification team applied these adjustments based on an average credit period based on the account receivable turnover ratio for its domestic and export customers and PMB's short term borrowing rate for the investigation period.

6.5 Export sales commissions

PMB paid Press Metal Aluminium Australia commissions in relation to sales to certain other unrelated Australian customers. As PMB is not in the practice of paying commissions in relation to its domestic sales, the verification team considers an upwards adjustment to the normal value is required to ensure fair comparison.

6.6 Export stillages

PMB was found to incur costs relating to the return of shipping stillages used for its exports to Australia. PMB provided data during the visit in which the verification team was able to verify within the general ledger accounts. The cost of stillage return is the transport costs incurred for shipping the stillages from Australia back to PMB's location in Malaysia. The verification considers an upwards adjustment to the normal value for export stillage return costs is required to ensure fair comparison. The cost of stillage returns was determined by identifying the total cost of stillage returns in the general ledger and calculating a weighted average cost per kilogram based on the volume of extrusion exported during the investigation period.

6.7 Adjustments – conclusion

The verification team is satisfied that there is sufficient and reliable information to justify the following adjustments, in accordance with subsections 269TAC(8) and 269TAC(9), and considers these adjustments are necessary to ensure a fair comparison of normal values and export prices:

PUBLIC RECORD

Adjustment Type	Deduction/addition
Domestic inland transport	Deduct domestic inland transport costs for both subsection 269TAC(1) and paragraph 269TAC(2)(c) normal values.
Export inland transport and handling and other charges	Add export inland freight and port charges for both subsection 269TAC(1) and paragraph 269TAC(2)(c) normal values.
Domestic credit terms	Deduct domestic credit terms costs for subsection 269TAC(1) normal value only.
Export credit terms	Add export credit terms costs for both subsection 269TAC(1) and paragraph 269TAC(2)(c) normal values.
Export sales commission	Add export sales commission for both subsection 269TAC(1) and paragraph 269TAC(2)(c) normal values.
Export stillage return costs	Add export stillage return costs for both subsection 269TAC(1) and paragraph 269TAC(2)(c) normal values.

7 NORMAL VALUE

The verification team was satisfied that for twelve models there were sufficient volumes of domestic sales at arms length transactions and at prices that were made in the OCOT. The verification team is therefore satisfied that the prices paid in respect of domestic sales of like goods are suitable for assessing normal value under subsection 269TAC(1).

In using domestic sales as the basis for normal values for like goods the verification team considers that certain adjustments, in accordance with subsection 269TAC(8), are necessary to ensure fair comparison of normal values with export prices as outlined in Chapter 6 above.

For the remaining twelve models the verification team has constructed normal values in accordance with paragraph 269TAC(2)(c). To construct the normal value for each quarter, the verification team has used:

- the weighted average CTM for Australian export sales; plus
- SG&A applicable to goods sold domestically; plus
- profit of domestic OCOT sales (as discussed in section 5.7).

In using costs as the basis for constructed normal values the verification team considers that certain adjustments, in accordance with subsection 269TAC(9), are necessary to ensure fair comparison of normal values with export prices as outlined in chapter 6 above.

8 DUMPING MARGIN

The dumping margin has been assessed by comparing weighted average Australian export prices to the corresponding quarterly weighted average normal value for the investigation period.⁷

The dumping margin in respect of aluminium extrusions sold by PMB for the investigation period is **negative 3.3%**.

Details of the preliminary dumping margin calculation are at **Confidential Appendix 1**.

⁷ In accordance with subsection 269TACB(2)(a).

9 SUBSIDIES

9.1 Program 1: Income Tax Reductions ('Pioneer Status')

In its REQ, PMB stated that it did not benefit directly from Program 1. However, its related party supplier of ingot, Press Metal Bintulu (PMBTU), has been awarded 'Pioneer Status' by the GOM and is eligible for income tax exemptions relating to Program 1. The assessment team considered whether there was a flow-through of subsidies from PMBTU to PMB from Program 1 during the investigation period.

From an examination of income tax returns for the years 2013 to 2015, income tax computation records and general ledgers, the assessment team did not find any evidence to suggest that PMBTU will benefit from Program 1 during the investigation period. The assessment team notes that, in the most recent tax return for 2015, PMBTU had capital deductions available which reduced its statutory income to zero. Therefore no income tax exemption was necessary.

Noting that 2015 covers only the first half of the investigation period, the assessment team verified the capital deductions carried forward into 2016 and the purchases of further qualifying assets that increased the available capital deductions relating to the second half of the investigation period and is satisfied that those capital deductions will likely eliminate any tax payable in 2016. Therefore, despite eligibility for Program 1, the assessment team considers that PMB has not benefited from any flow-through of subsidies from PMBTU for Program 1 in the investigation period.

9.2 Program 2: Income Tax Allowance

In its REQ, PMB stated that it did not benefit directly from Program 2. However, its related party supplier of billet, Press Metal Sarawak (PMS), is eligible for income tax exemptions relating to Program 2. The assessment team considered whether there was a flow-through of subsidy from PMS to PMB during the investigation period.

From the examination of income tax returns for the years 2013 to 2015, income tax computation records and general ledgers, the assessment team did not find any evidence to suggest that PMS benefited from Program 2 during the investigation period. The assessment team notes that in the most recent tax return for 2015, PMS had substantial capital deductions available which reduced its statutory income to zero. Therefore no income tax exemption was necessary.

Noting that 2015 covers only the first half of the investigation period, the assessment team verified the capital deductions carried forward into 2016 and its purchase of further qualifying assets that increase the available capital deductions for the second half of the investigation period and is satisfied that those other deductions will likely eliminate the majority, if not all, tax payable in 2016. Therefore, despite eligibility for Program 2, the assessment team considers it unlikely that PMB has benefited from any flow-through of subsidy from PMS for Program 2 in the investigation period.

9.3 Other Double Deduction Tax Programs

The GOM in its Government Questionnaire response provided details of certain income tax related double deductions available to certain entities in Malaysia.

In its REQ, PMB disclosed income tax double deductions that were claimed by PMBTU and PMS in 2015, including import/export related insurance expenses and freight charges in relation to the shipping of goods from Sarawak to the Malaysian mainland. The assessment team considered whether there was a flow-through of subsidy from PMBTU and PMS to PMB.

The assessment team confirmed that the income tax double deductions were claimed by PMBTU and PMS in 2015, however as outlined above for Programs 1 and 2, despite claiming these double deductions in 2015, there was no financial contribution and therefore no benefit to PMBTU and PMS during the first half of the investigation period due to the existence of significant capital deductions which eliminated the statutory income to zero.

Although not disclosed in the REQ, an examination of PMB's 2015 tax return confirms that it also claimed certain income tax double deductions. However, as with PMBTU and PMS, there was no financial contribution and therefore no benefit for PMB for the first half of the investigation period due to the existence of capital deductions which eliminated PMB's statutory income to zero.

The assessment team notes that the quantum of the income tax double deductions claimed by PMBTU, PMS and PMB in the context of total company sales is relatively immaterial, therefore any benefit likely to be received by PMB under the income tax double deduction programs for the second half of the investigation period is likely to be either non-existent or negligible.

Details of the verification of subsidies are contained within the verification work program at **Confidential Attachment 1**.

PUBLIC RECORD

10 APPENDICES AND ATTACHMENTS

Confidential Appendix 1	PMB Dumping Margin Calculations
Confidential Appendix 2	PMB Domestic and Export CTMS
Confidential Attachment 1	Verification work program, with attachments