



REVIEW 392

**REVIEW OF ANTI-DUMPING MEASURES ON
CERTAIN ALUMINIUM EXTRUSIONS**

**EXPORTED TO AUSTRALIA FROM
THE PEOPLE'S REPUBLIC OF CHINA**

**VISIT REPORT - EXPORTER
TAI SHAN CITY KAM KIU ALUMINIUM
EXTRUSION CO., LTD**

**THIS REPORT AND THE VIEWS OR RECOMMENDATIONS CONTAINED THEREIN
WILL BE REVIEWED BY THE CASE MANAGEMENT TEAM AND MAY NOT REFLECT
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JULY 2017

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1 BACKGROUND

Public notification of the initiation of this review was made on 23 March 2017 in Anti-Dumping Notice (ADN) No. 2017/38¹. The background relating to the initiation of this review is contained in Consideration Report 392².

This review includes a review of the anti-dumping measures as they affect all exporters of the goods exported to Australia from China. Tai Shan City Kam Kiu Aluminium Extrusion Co., Ltd (KAE) was identified by the Anti-Dumping Commission (the Commission) as one of the five selected exporters to be examined for the purposes of this review.

The Commission notified KAE of the initiation of the review and sought its cooperation through the completion of an exporter questionnaire. KAE submitted a completed exporter questionnaire response (REQ) and relevant attachments.

¹ Electronic Public Record (EPR) 392/002 refers.

² EPR 370/001 refers.

2 THE GOODS AND LIKE GOODS

2.1 The goods

The goods the subject of the current anti-dumping measures (the goods) are:

Aluminium extrusions produced via an extrusion process, of alloys having metallic elements falling within the alloy designations published by The Aluminium Association commencing with 1, 2, 3, 5, 6 or 7 (or proprietary or other certifying body equivalents), with the finish being as extruded (mill), mechanical, anodized or painted or otherwise coated, whether or not worked, having a wall thickness or diameter greater than 0.5 mm., with a maximum weight per metre of 27 kilograms and a profile or cross-section which fits within a circle having a diameter of 421 mm.

The goods include aluminium extrusion products that have been further processed or fabricated to a limited extent, after aluminium has been extruded through a die. For example, aluminium extrusion products that have been painted, anodised, or otherwise coated, or worked (e.g. precision cut, machined, punched or drilled) fall within the scope of the goods.

The goods do not extend to intermediate or finished products that are processed or fabricated to such an extent that they no longer possess the nature and physical characteristics of an aluminium extrusion, but have become a different product.

2.2 The goods exported to Australia

During the review period, KAE exported aluminium extrusions to Australia. KAE advised that this included goods which met the definition of aluminium extrusions subject to the anti-dumping measures. The extrusions exported had a variety of finishes

2.3 Like goods sold on the domestic market

During the review period, KAE sold aluminium extrusions to domestic customers in China which had a variety of finishes.

KAE manufactures a wide range of aluminium extrusions which are used in a variety of applications. For each individual extrusion manufactured, KAE maintains a model number. The model number predominately reflects the die used to manufacture the extrusion.

KAE also maintains a product code system which primarily groups extrusions by finish. These product codes can also group products on other characteristics, which include the grade of the alloy used and the type of processing.

KAE stated that the extrusions they manufacture are used in a variety of applications. KAE stated that the mix of end use applications for exported extrusions and domestically sold extrusions were different.

KAE stated that the extrusions with end uses that were not exported to Australia should not be used in determining normal values and, in the case of constructed normal values, not be used in establishing the profit margin applied.

These grounds were considered in **Confidential Attachment 1**.

2.4 Model Matching

The verification team is satisfied that, consistent with the previous review and original investigation, that model matching in the event of normal values being established under section 269TAC(1) of the *Customs Act 1901* (the Act)³, should be completed on the basis of product codes.

The verification team is not satisfied that Kam Kiu has provided sufficient evidence to support its proposal to exclude certain models from these product codes based on the broad category of end use or application. It is not evident to the verification team that all models within the particular end use category would not be suitable and should be excluded from the product codes used to establish normal values under s.269TAC(1).

The verification team is, however, satisfied that, based on the information provided in relation to certain particular models should be excluded from the applicable product codes used for model matching purposes in the event that normal values are determined under section 269TAC(1) of the Act.

However, due to the market situation finding (see chapter 7), the verification team has constructed the normal value using the costs to make the exported goods, plus SG&A applicable to the goods sold domestically, and an additional amount for profit. Therefore, model matching between export and domestic sales was not required.

The verification team's determination of the amount of profit applied in calculating the constructed normal value is discussed in chapter 5.

2.5 Like goods – preliminary assessment

Whilst the verification team is satisfied that certain models (see sections 2.2 and 2.3 above) should be excluded for model matching purposes, insufficient evidence has been provided by KAE which would lead the verification team to conclude that these models are not like goods.

Insufficient evidence was provided to the verification team to establish that these certain models did not have characteristics closely resembling the goods exported to Australia, as they:

- had similar production process;
- are produced at the same facilities and with the similar raw material inputs and manufacturing processes; and
- can be considered functionally and commercially alike.

The verification team considers that aluminium extrusions produced by KAE 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 Act.

³ References to any section or subsection in this report relate to provisions of the Act, unless specifically stated otherwise.

3 VERIFICATION OF EXPORT SALES TO AUSTRALIA

3.1 Verification of Australian sales to audited financial statements

KAE advised that in preparing for the visit, the company found some minor errors in the Australian Sales spreadsheet provided in the REQ and submitted a revised sales spreadsheet.

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

Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 2**.

3.2 Verification of Australian sales to source documents

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

The verification team did not identify any material issues during the verification of the Australian sales to source documents.

Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 2**.

3.3 Entities involved in the export of Goods to Australia

There are three entities involved in the sale of the goods to Australia. These are:

- KAE who manufactures the goods;
- Kam Kiu Aluminium Products Sdn. Bhd (KMY), which is incorporated in Malaysia and manages sales to Australia; and
- Kam Kiu (Australia) Pty Ltd (KAU) who facilitates the sale of goods to Australia.

3.4 The exporter

We consider KAE to be the exporter as KAE:

- is the manufacturer of the goods;
- owned or previously owned the goods;
- is the 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 freight forwarder for delivery to Australia; and
- sent the bulk goods for export to Australia and was aware of the ultimate purchaser's identity.

3.5 The importer

In relation to aluminium extrusions exported to Australia by KAE, the verification team considers that related entity KMY was the beneficial owner of the goods at the time of importation, and therefore was the importer of the goods.

3.6 Arm's length

Section 269TAA of the Act outlines the circumstances in which the price paid or payable shall not be treated as arm's length. These are where:

- there is any consideration payable for, or in respect of, the goods other than its price; or
- the price is 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, is directly or indirectly, reimbursed, compensated or otherwise received a benefit for, or in respect of, whole or any part of the price.

In respect of exports of the aluminium extrusions to Australia by KAE during the investigation period, the verification team considers that 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. In reaching this conclusion the verification team has relied on information about KAE's selling arrangements obtained during the exporter verification process, as well as information obtained during the KAU importer verification. The importer verification team also established that the majority of shipments imported were unprofitable, and the aggregated profits and losses across all shipments verified showed them to be unprofitable as a whole, a finding which indicates that the importer will directly or indirectly be reimbursed, be compensated or otherwise receive a benefit for whole or any part of the price.

The verification team therefore considers that sales between the exporter and importer of the goods during the review period were not arms' length transactions.

3.7 Export price – preliminary assessment

Based on the information obtained at the visit we consider that:

- The goods have been purchased by the importer from the exporter;
- The transaction between the importer and exporter was not arms length; and
- The goods were subsequently sold by the importer in the same condition to customers in arms length transactions.

We consider that export price can be calculated under s269TAB(1)(b). Specifically, we consider that export price can be calculated by reference to the invoice from KMY to the Australian customer, less the prescribed deductions to work the invoiced amount back to an FOB price from China.

PUBLIC RECORD

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

4 COST TO MAKE AND SELL

4.1 Verification of costs to audited financial statements

KAE advised that in preparing for the visit, the company found some minor errors in the cost to make (CTM) provided in the REQ and submitted a revised cost to make and sell (CTMS) spreadsheet. Further, in the REQ KAE only presented CTMS data for models exported to Australia. Using data provided during the visit the verification team calculated the CTMS for all models produced during the review period.

The verification team verified the completeness and relevance of KAE's revised CTM data by reconciling it to audited financial statements in accordance with ADN No. 2016/30.

Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 2**.

4.2 Verification of costs to source documents

The verification team verified the accuracy of KAE's CTMS spreadsheet by reconciling it to source documents in accordance with ADN No. 2016/30. The verification team did not identify any issues during the verification of the CTMS to source documents. Details of the verification process are contained in the verification work program, and relevant attachments, at **Confidential Attachment 2**.

4.2.1 Selling, general and administrative (SG&A) costs

KAE advised that in preparing for the visit, the company found that it mistakenly classified some non-subject goods to the GUC in the 2016 sales worksheet. KAE therefore submitted revisions to sales volumes and values of the GUC in Exhibits A-5 (income statement) and Exhibit A-6 (sales summary). Since SG&A costs were allocated to the GUC using sales values of the GUC, KAE submitted revised SG&A calculations. The verification team verified KAE's SG&A costs to audited financial statements.

4.3 Related party purchases

KAE did not purchase any major raw materials from related parties.

4.4 Cost to make and sell – summary

Having verified KAE's CTMS spreadsheet to audited financial statements and to source documents, the verification team is satisfied that the revised CTMS spreadsheet is complete, relevant and accurate. The 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 KAE'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 material issues.

Details of the verification process 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 KAE's sales listing by matching the details to selected source documents in accordance with ADN. No 2016/30. The verification team did not identify any material issues.

Details of the verification process are contained in the verification work program, and relevant attachments, at **Confidential Attachment 2**.

5.3 Related party customers and level of trade

Based on the company's response to the Exporter Questionnaire, sales data and audited financial statements, the verification team did not identify any information that might suggest domestic customers were related to KAE.

5.4 Arm's length

In respect of domestic sales of aluminium extrusions made by KAE to its domestic customers during the review 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 made by KAE to domestic customers during the review period were arm's length transactions.

5.5 Ordinary course of trade

Section 269TAAD of the Act 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 ordinary course of trade (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.

PUBLIC RECORD

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 review period. Those sales found to be unrecoverable were considered not to be in the ordinary course of trade.

5.6 Suitability of domestic sales and profit

Due to market situation claims, normal values have been constructed under subsection 269TAC(2)(c) using the costs to make the goods exported to Australia, plus SG&A applicable to the goods sold domestically, and an additional amount for profit.

The profitability of domestic sales of like goods has been calculated by comparing the selling price with the corresponding quarterly CTMS. In calculating the profit, the verification team has used domestic sales of all like goods made in the ordinary course of trade.

KAE submitted that the purpose or end use of the goods was an important consideration in determining which goods should be included in any profit margin calculation. KAE submitted that certain aluminium extrusions used for certain end uses should be excluded from any profit determination. KAE stated that these goods were different to the products exported to Australia.

Regulation 45(2) of the *Customs (International Obligations) Regulation 2015* (the Regulations) specifies that, if reasonably practicable, an amount of profit must be worked out using data relating to the production and sale of like goods in the ordinary course of trade.

As specified in section 2.3, the verification team is not satisfied that sufficient evidence has been provided by KAE, to date, to establish that these models are not like goods and should be excluded from any determination of profit pursuant to the requirements of Regulation 45(2) of the Regulations.

5.7 Domestic sales – summary

The verification team is satisfied that the domestic sales listing is complete, relevant and accurate, and can be used for assessing profitability of sales in the ordinary course of trade for the purposes of constructing a normal value in accordance with subsection 269TAC(2)(c).

The domestic sales listing, ordinary course of trade test and profitability calculation are at **Confidential Appendix 3**.

6 ADJUSTMENTS

To ensure the normal value is comparable to the export price of goods exported to Australia at free-on-board (FOB) terms, the verification team has considered the following adjustments in accordance with subsection 269TAC(9).

6.1 Domestic credit terms

The verification team considers that a downward adjustment to the normal value for domestic credit is necessary to ensure a fair comparison to the FOB export price.

The credit period is based on the agreed payment terms in the sales contracts. The interest rate used was a rate for Chinese short-term loans during the review period.

6.2 Domestic inland freight

The verification team considers that a downward adjustment to the normal value for domestic inland transport expenses is necessary to ensure a fair comparison to the FOB export price.

The verification team has applied this adjustment based on the inland transport costs listed for each domestic transaction.

6.3 Domestic Quality Issue Discount

The verification team also considers that a downward adjustment for off invoice discounts applied where compensation for quality issues is required, to ensure a fair comparison to the FOB export price. This is a discount that KAE was required to apply for defective goods for certain domestic customers. The verification team verified a sample of the discounts applied and the methodology used for allocation. The verification team was satisfied with the accuracy of the discounts applied and the reasonableness of the methodology used to allocate this discount to relevant transactions.

The verification team has applied this adjustment based on the discount applied to relevant transactions subject to a quality issue discount.

6.4 Export credit terms

The verification team considers that an upwards adjustment to the normal value for export credit between KAE and KMY is necessary to ensure a fair comparison to the FOB export price.

The credit period is based on the average credit term calculated from the accounts payable turnover ratio for KMY. The interest rate used was a rate for Chinese short-term loans during the review period.

6.5 Export inland freight & handling

The verification team also considers that an upward adjustment for export inland transport and handling expenses is required, to ensure a fair comparison to the FOB export price.

PUBLIC RECORD

The verification team has applied this adjustment based on the inland transport and handling costs listed on a weighted average basis.

6.6 Export packaging

The verification team considers that an upward adjustment for costs is required, to ensure a fair comparison to the FOB export price. The verification team has applied this adjustment based on the weighted average cost for this expense over the review period.

6.7 Non-refundable VAT

Consistent with investigation 148 and the prior review, we consider it necessary to apply a positive adjustment to normal values to take into account non-refundable VAT.

The verification team has applied this adjustment based on the refundable VAT which is equivalent to 4%.

6.8 Adjustments – conclusion

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

Adjustment Type	Deduction/addition
Domestic credit	Deduct the cost of domestic credit
Domestic inland freight	Deduct the cost of domestic inland freight
Domestic quality issue discount	Deduct the cost of the domestic quality issue discount
Export inland freight & handling	Add the cost of export inland freight & handling
Export credit	Add the cost of domestic credit
Export packaging	Add the cost of export packaging
Non Refundable VAT	Add the cost of non-refundable VAT

The verification team's preliminary adjustment calculations are included in normal value calculations at **Confidential Appendix 4**.

7 NORMAL VALUE

The previous review of the anti-dumping measures applying to aluminium extrusions completed in July 2015 (Review 248) found that the situation in the market of the country of export was such that sales in that market were not suitable for use in determining a price under subsection 269TAC(1).

Due to market situation findings in Review 248, the verification team has constructed the normal value under subsection 269TAC(2)(c) using KAE's:

- cost to make the goods exported to Australia; plus
- SG&A amounts on the assumption that the goods, instead of being exported, were sold domestically, and the profit on that sale.

As discussed in section 5.6, a rate of profit has been determined using KAE's domestic sales of like goods made in the ordinary course of trade.

The verification team's preliminary normal value calculations are at **Confidential Appendix 4**.

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 review period, in accordance with paragraph 269TACB(2)(a) of the Act.

The preliminary dumping margin in respect of goods exported by KAE for the review period is **positive 46.3%**.

Details of the preliminary dumping margin calculation are at **Confidential Appendix 5**.

9 SUBSIDIES

9.1 Preferential tax programs

In its exporter questionnaire response KAE advised that it received benefits under programs 47 and 48 during the review period.

Program 47

KAE advised that to be eligible to a reduced tax rate under program 47 a company should be recognised as a high and new technological enterprise. KAE advised that the benefits it received under this program were not applicable to the products exported to Australia. KAE submitted that the benefits it received under this program should not be included in the subsidy calculations.

KAE provided relevant documents supporting the calculation of the benefit received in relation to this reduced tax rate.

It is noted by the verification team that this program benefited all production of KAE.

Program 48

KAE advised that to be eligible to receive the income tax offsets for R&D expenditure under program 48 they are required to meet certain eligibility criteria. KAE advised neither the products or activities for which these income tax offsets were relevant to the product types KAE exported to Australia. KAE submitted that the benefits it received under this program should not be included in the subsidy calculations.

KAE provided relevant documents supporting the calculation of the benefit received in relation to this income tax offset.

It is noted by the verification team that this program benefited all production of KAE.

9.2 Grants and preferential policies (Programs 2, 3, 4, 5, 6, 7, 8, 9, 26, 29, 32, 35, 56 and 58)

In its response to the exporter questionnaire, KAE declared that it did not receive any government benefits under the assistance programs specified in the exporter questionnaire.

However, KAE identified and listed other grants it benefited from. In supplying the list of other grants KAE advised that by providing this list it did not concede that these grant payments were countervailable.

The verification team verified the amount received during the review period and obtained a copy of KAE's non-operating income ledger and found no evidence of KAE benefiting from other grants or preferential policies.

9.3 Tariff and VAT Exemptions on Imported Materials and Equipment (Program 21)

As part of its exporter questionnaire response, KAE provided an asset schedule summary relating to benefits received under program 21. KAE identified certain assets it had purchased, but had not become operational during the review period. KAE advised that these assets should not be included in the calculation of any benefit under this program.

The verification team verified the accuracy and completeness of the schedule provided by KAE by comparing a sample of assets to KAE's asset register. In relation to the equipment claimed to be non-operational during the review period, the verification team verified that a sample of these assets were not depreciated during the review period.

The verification team is satisfied that the asset schedule provided by KAE is complete and accurate.

9.4 Aluminium provided by government at less than adequate remuneration (Program 15)

In its exporter questionnaire response, KAE provided a spreadsheet listing all its purchases of primary aluminium during the review period. The visit team was able to verify the spreadsheet to source documents.

10 APPENDICES AND ATTACHMENTS

Confidential Appendix 1	Australian export sales
Confidential Appendix 2	CTMS spreadsheet
Confidential Appendix 3	Domestic sales
Confidential Appendix 4	Normal value
Confidential Appendix 5	Dumping margin
Confidential Attachment 1	Like goods sold on the domestic market
Confidential Attachment 2	Verification work program, with attachments