

ADC TEAM BRIEFING

29TH NOVEMBER 2016



**SUMMIT
SELECT**

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**SUMMIT
SELECT**

BUSINESS OVERVIEW

SUMMIT SELECT PTY LTD

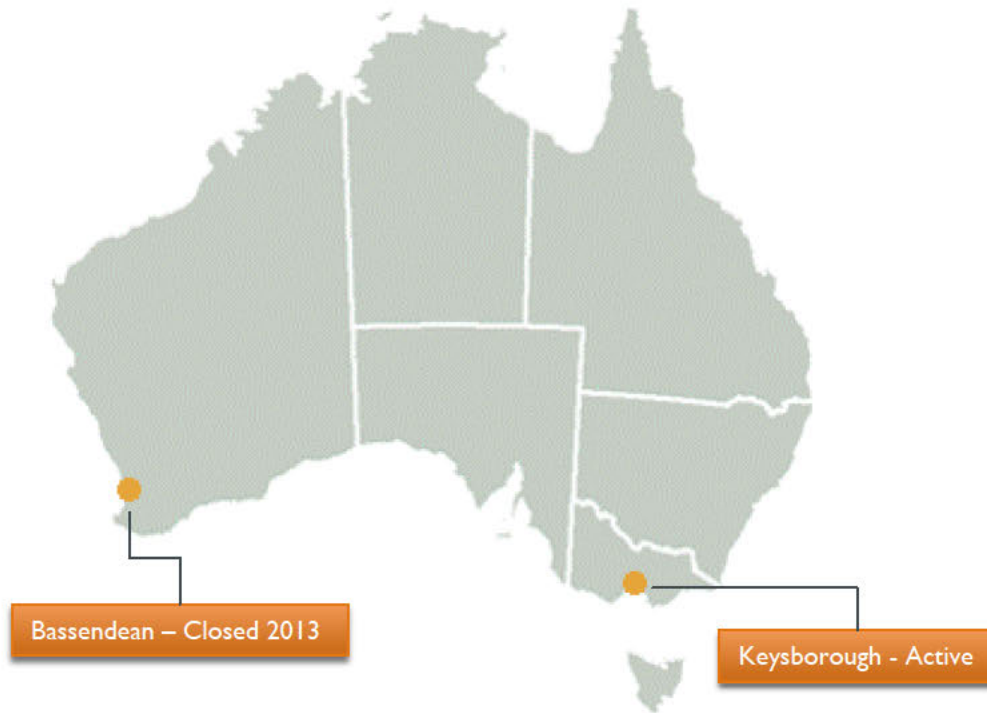
COMPANY INFORMATION

Summit Select Pty Ltd (referred to as Summit) is an Australian owned manufacturer and distributor of high quality pre-packaged shelving systems and garden products. Summit has been in business for 35 years.

Summit has manufacturing and warehousing facilities in Keysborough, Victoria.

Summit formerly had manufacturing and warehousing facilities in Bassendean, Western Australia.

These were closed in 2013.



DESCRIPTION OF GOODS



Nut'n'Bolt 502



Hammer Lok 405

The goods the subject of this application are unassembled steel framed shelving or workbench units with 2,3,4,5 or 6 shelves; the frame of which is either partially or totally:

- Coated with paint or powder coated;
- Galvanised; or
- Made from colour bonded steel.

Typically, the shelves of the units are made of medium density fibreboard (MDF), particle board, melamine or steel, however other materials may be used.

Usually, the units are pre-packed for sale in a kit form, containing all or the majority of the components required to assemble the finished unit.

Goods excluded from the application are:

- Wall mounted bracket and strip shelving;
- Plastic shelving;
- Predominantly melamine and timber shelving units used for home furnishing;
- Industrial shelving;
- Slotted angle shelving;
- Shelving units with wire shelves; and
- Custom-made shelving units (designed and made specifically for a specified project application).

DEFINITIONS

Summit have made several submission to clarify the definition of industrial shelving and slotted angle. In summary the submissions define:

Industrial Shelving

Industrial shelving is defined as pallet racking or heavy duty commercial shelving. This shelving is commonly purchased for industrial, warehousing and commercial fit-out applications throughout Australia. Summit Select Pty Ltd does not manufacture Industrial Shelving.

Further defined as

- 'Pallet racking' for storage of pallets and subject to strict Australian standards
- 'Heavy duty commercial shelving' which is over 200kg weight loading per shelf. This weight loading is for each shelf level that makes up the shelving unit.

Summit considers over 200kg weight loading per shelf to be a reasonable and accurate identifier of shelving units that are heavy duty commercial shelves, and is a limit that would be generally accepted by market players.

Slotted Angle

Slotted Angle is used in a wide variety of applications including shelving, workbenches, trolleys and light construction work such as creating supports or structural bracing.

Slotted Angle's unique pre-punched holes allow multiple steel sections to be bolted together to form customised sturdy storage systems and fabrication solutions. Summit Select have a division (Stormor Shelving Australia) who manufacture and sell Slotted Angle in Australia which is branded Handy Angle.

MANUFACTURING PROCESS

NUT 'N' BOLT SHELVING

MANUFACTURE NUT 'N' BOLT LEGS

1. A coil of steel is loaded onto a de-coiler which feeds the steel into a die press which pierces and cuts the leg to length.
2. The leg is then moved along rollers and is formed into a right angle in the Roll Former.
3. An automated stacking unit at the end of the line picks up and stacks eight legs ready for the operator to store in a stillage.
4. A forklift moves the stillage of legs to the end of the shelf line where they are packed with other components into a cardboard carton.



MANUFACTURE NUT 'N' BOLT CORNER BRACING BRACKETS

1. A coil of steel is loaded onto a de-coiler and fed into a press which punches and pierces six brackets.
2. An arm pushes the brackets along a conveyor.
3. The operator tapes six brackets together and they are stored in bulk and moved to the shelf line to be packed with the finished unit.



MANUFACTURE OF NUT 'N' BOLT STEEL SHELVES

1. A coil of steel is loaded onto a de-coiler which feeds the steel onto the line rollers.
2. In the first stage of production the steel has the required holes pierced and is cut to length in a die press.
3. The steel is then fed along rollers to the roll former where the two longer lengths of the shelf are formed and rolled for safety purposes.
4. The last stage of production is when the steel shelf goes through the forming press where the remaining ends of the shelf are formed.
5. A conveyor system pushes the shelf towards the operator at the end of the line who packs the required number of shelves into the cardboard carton with the manufactured legs and corner brackets.



6. Purchased nut and bolt packs and plastic feet are also put into the carton. The assembly instructions are printed on the back on cardboard carton which is sealed by the operator with a glue gun. (Shown next page)

NUT 'N' BOLT PACKING AND STORAGE

1. An air cylinder pushes the sealed shelving unit down and under several rollers.
2. The rollers put pressure on the sealed shelving unit until the glue is set. The unit is then pushed along a conveyor to a pallet where the units are stacked and shrink wrapped.
3. The pallet is then taken by a forklift driver to be stored in racking ready for sale. (Not shown)



MANUFACTURING PROCESS

HAMMER LOK® SHELVING

MANUFACTURE HAMMER LOK® LEGS

1. A coil of steel is loaded onto a de-coiler and fed into a die press that punches and counter sinks holes and slots into the steel.
2. The steel is then fed along into the roll former which forms the leg and finally the leg is cut to length by the last die press on the line.
3. A conveyor system moves the legs to an automated stacking unit at the end of line which picks up and stacks the legs in the quantity required for each unit.
4. The operator either stores the stacks of legs in a stillage or they are picked and packed directly into the finished unit. If stored, a forklift moves the stillage of legs to the packing station. (Not shown)



MANUFACTURE HAMMER LOK® BEAMS

1. The coil of steel is loaded onto a de-coiler and a straightening feeder pushes the steel into a die press on the line which pierces required holes and tabs and cuts the beam to required length.
2. The beam is fed along a conveyor into a roll formers which forms the edges of the beam.
3. The operator stacks the beams in the required quantities for each shelving unit and places the stacks in a stillage for storage. A forklift moves the stillage of beams to the packing station.



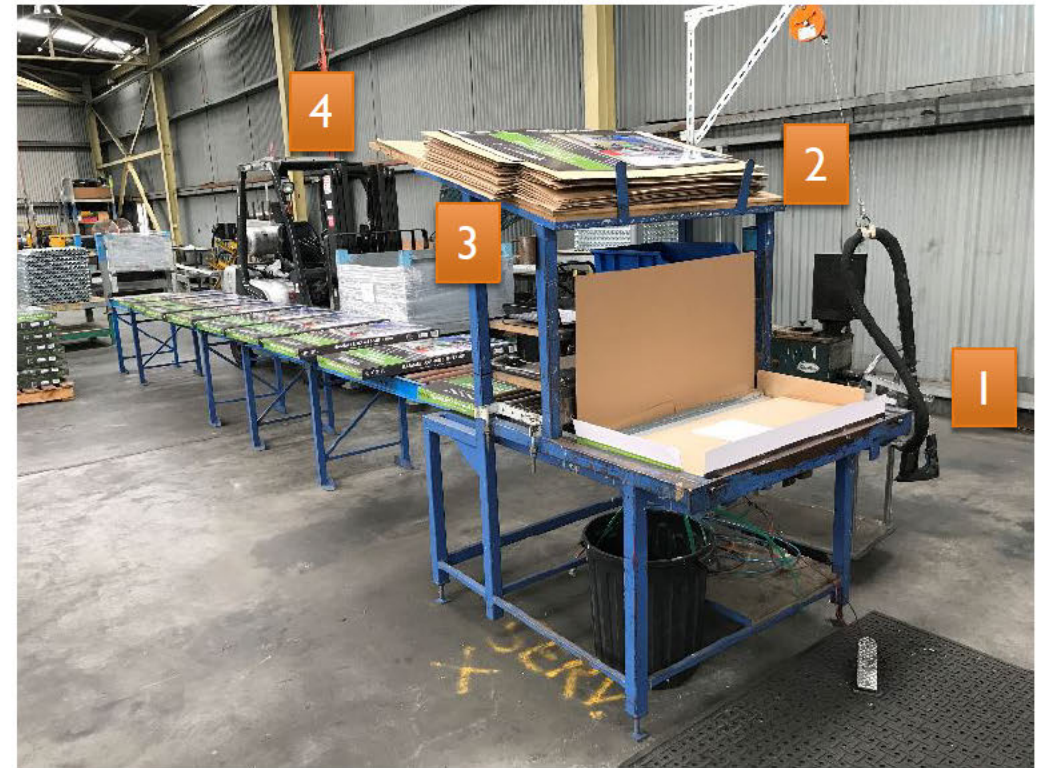
MANUFACTURE HAMMER LOK® LEG JOINERS

1. A coil of steel is loaded onto the de-coiler fed into a die press which pierces and punches the steel to produce the leg joiner.
2. The leg joiners drop into a tote bin at the base of the machine. (Not shown)
3. The leg joiners are moved to the packing station where the components of the shelving units are packed into cardboard cartons. (Shown next page)



HAMMER LOK® PACKING AND STORAGE

1. The operator lifts the MDF shelves from the pack to the cardboard box and they are packed with the other components – legs, beams, feet, and leg joiners. (Not shown)
2. The carton is sealed by the operator with a glue gun.
3. An air cylinder pushes the sealed shelving unit down and under several rollers. The rollers put pressure on the sealed shelving unit until the glue is set. The unit is then pushed along a conveyor to a pallet where the units are stacked.
4. The pallet is then taken by a forklift driver to be shrink wrapped and stored in racking ready for sale.





**SUMMIT
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OVERVIEW OF EXPORTERS

BOLTLESS STEEL SHELVING

MANUFACTURERS TO BE VERIFIED BY THE COMMISSION

1. Geelong Holdings Limited (Geelong) – however manufacturer is in fact Zhongshan Geelong Manufacturing Co Ltd (ZGM)
2. Eastern Deer Hardware & Plastics (China) Co Ltd (Eastern Deer)

GEELONG GROUP

Manufacturer: Zhongshan Geelong Manufacturing Co Ltd (ZGM)

Parent company: Geelong Holdings Limited (Geelong)

General comment: Exporter questionnaire (EQ) is **almost completely redacted**, with limited explanation to provide an understanding of what information has been removed. It is therefore difficult for Summit to understand the crux of the claims made – consider does not comply with requirements.

Sales process: Available information indicates that multiple related entities are involved in the manufacture and sales process (for export, but also possibly for any domestic sales – though the EQ is unclear what is sold domestically).

For export, the goods are likely physically sent directly for export by ZGM. It is possible that the goods could be being internally **transferred or sold** to a related company with a selling function (possibly Geelong Sales Co. International (HK) Ltd)) and then on-sold to Australia (with some role in the sales transaction by an Australian ‘representative’).

EQ states that the Australian customers are not related to the Geelong group.

GEELONG GROUP

Related party considerations

The Commission should investigate the roles of all parties in the Geelong group, in domestic (if any) and export sales processes, and:

- make determinations as to whether price(s) between entities during the export transaction are **arm's length**, applying s.269TAB such that the transaction determined to be the basis of the **export price is a reasonable arm's length commercial price**;
- ensure **any costs incurred by members of the Geelong group** on behalf of ZGM (e.g. marketing, research and development, selling functions, etc.) are **adequately accounted for in ZGM's cost to make and sell (CTMS) and dumping calculations** (e.g. via corporate overheads, adjustments to normal value, etc.); and
- **ensure any input or service provided** by any related company (including loans or other finance from the parent company) are provided at a **reasonably competitive market cost** (and make amendments where necessary).

GEELONG GROUP

Specific CTMS considerations

1) Reasonable allocations – joint processes

- ZGM make multiple products (not just shelves), as well as multiple models of shelves.
- It is possible that joint machinery, processes are facilities used to make and store various models and products.
- Summit requests the Commission ensure that **all reasonable costs are included** in ZGM's CTMS and are appropriately allocated to the goods and models (e.g. if a joint machine is used for the goods and non-goods items, a proportion of the costs associated with that machine should be allocated to the goods based on a reasonable allocation method).

2) Scrap

- Small volumes of scrap are produced in the manufacturing process. This may be being sold on the open market, and revenue could be used as cost offsets.
- However scrap volume should be low (Summit's is approx. ■■■) so this should not be a significant offset. Summit's scrap steel is sold for approximately ■■■ of its original value.

GEELONG GROUP

Cost to make and sell considerations (cont.)

3) Research and development

- The Geelong Group's website indicates the company has internal research and development resources.
- ZGM's cost to make and sell should include reasonable allocations of these costs to the goods and like goods.

GEELONG GROUP

Normal value

- EQ does not clearly indicate whether domestic sales of like goods are made in sufficient volumes. However, available information indicates that this is unlikely.
- Even if there are reasonable volumes of domestic sales, a **market situation exists that means that normal values based on selling prices should not be used.**
- S.269TAC(2)(c) **constructions should be used**, after an assessment of whether all costs incurred were **reasonably reflective of competitive market costs** and **modifications** made to any unreasonable costs.
- **Profit:**
 - If based on domestic sales, should represent the **rate of profit achieved prior to any modification** by the Commission to address unreasonable costs, as if costs actually incurred were at the modified rate, the Geelong group would have **aimed to achieve the same margin on sales.**
 - It is unclear if there are sales in the same general category – if available, Summit requests the Commission **closely consider the available categories** and choose the most reasonable option.
 - However, believe it is likely that the Commission will need to rely on **another reasonable method** for determining profit.

EASTERN DEER

Manufacturer: Eastern Deer Hardware & Plastics (China) Co Ltd (Eastern Deer)

Trading Company: Eastern Field Promotion Limited Company (Eastern Field) (100% owner of Eastern Deer)

Sales process: The EQ indicates that Eastern Deer exports the goods to Australia via Eastern Field, however the goods are physically sent directly for export by Eastern Deer. Transactionally, the EQ indicates that Eastern Deer transfers the goods to Eastern Field, who on-sells the goods to unrelated Australian customers.

Eastern Field collect orders from Australian customers and places orders on Eastern Deer, who then produces the goods. Eastern Field undertakes Australian marketing and selling activities.

EASTERN DEER

Related party considerations

The Commission should investigate the roles of Eastern Deer and Eastern Field the export sales processes, and:

- make determinations as to whether price between the entities are **arm's length**, applying s.269TAB such that the transaction determined to be the basis of the **export price is a reasonable arm's length commercial price** (EQ indicates that the first arm's length price will be between Eastern Field and the Australian customers); and
- consider and apply upwards adjustment(s) necessary to normal value to **account for the selling costs incurred by Eastern Field** on behalf of Eastern Deer (e.g. Eastern Deer's SG&A expenses also included in constructed normal value if Eastern Field is acting as a selling arm; or if it is a commission arrangement, accounting for this).

EASTERN DEER

Specific CTMS considerations

1) Reasonable allocations – joint processes

- Eastern Deer make multiple products (not just shelves), as well as multiple models of shelves.
- It is possible that joint machinery, processes are facilities used to make and store various models and products.
- Summit requests the Commission ensure that **all reasonable costs are included** in Eastern Deer's CTMS and are appropriately allocated to the goods and models.

2) Scrap

- Small volumes of scrap are produced in the manufacturing process. This may be being sold on the open market, and revenue could be used as cost offsets.
- However scrap volume should be low (Summit's is approx. [REDACTED]) so this should not be a significant offset. Summit's scrap steel is sold for approximately [REDACTED] of its original value.

EASTERN DEER

Specific CTMS considerations

3) Allocation of model-level costs

- Eastern Deer does not routinely keep model-level costs, so has developed them specifically for the purpose of the EQ.
- EQ indicates that this was performed by:
 - multiplying the actual 'unit cost' of the 'major raw materials' by the standard consumption of those raw materials (by model – presumably from the bill of materials) to arrive at a raw material cost; and
 - for 'auxiliary costs, labour and overhead', allocated these by the 'sum of the total standard major material cost' (Summit considers this means these costs were simply allocated out based on the ration of raw material per model vs total raw material costs.
- Summit requests the Commission critically evaluate the reasonableness of this allocation method in determining accurate model-level manufacturing costs. Essentially, this is based on steel consumed in each model, however this is not likely to reasonably represent the those costs on a model-level basis (e.g. heavier shelves will be allocated a large proportion of labour but in reality the labour in lighter shelves may be similar).

EASTERN DEER

Normal value

- Domestic sales of like goods are not made.
- S.269TAC(2)(c) **constructions should be used**, after an assessment of whether all costs incurred were **reasonably reflective of competitive market costs** and **modifications** made to any unreasonable costs.
- **Profit**
 - **Cannot be determined by domestic sales of like goods** (no sales).
 - It is unclear whether there sales in the same general category – if available, Summit requests the Commission **closely consider the available categories** and choose the most reasonable option.
 - Likely that the Commission will need to rely on **another reasonable method** for determining profit.

NOTES