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31 January 2017

Director Operations 3
Anti-Dumping Commission
GPO Box 1632
Melbourne VIC 3001

Dumping investigation – Aluminium extrusions exported from Vietnam

Dear Director,

This submission is made by Aus Star Holdings Pty Ltd (Aus Star) in response to material injury claims raised by Capral Limited (Capral) in its application for dumping and countervailing duties on aluminium extrusions exported from Malaysia and Vietnam. In Aus Star's view, this application is a further example of a clear strategy by Capral aimed at suppressing and shielding the Australian market from legitimate import competition, or more accurately, competition from import sources that compete directly with its imports from Indonesia.

The purpose of the submission is to present information which should provide sufficient grounds for doubting the injury claims being made by Capral, and to highlight specific aspects of the material injury consideration that the Commission is requested to examine more closely.

Capral claims regarding Aus Star

Aus Star wishes to strongly refute the unsupported and plainly inaccurate assertion by Capral that an association exists with the entity Success Aluminium Pty Ltd.

Firstly, Capral incorrectly refers to Aus Star as Star Aluminium. Star Aluminium is a mobile scaffolding business operating in Victoria and has no links or association with Aus Star.

Second, the ownership, directorship and operations of Aus Star have no links or association with an entity referred as Success Aluminium.

Australian industry producing like goods

Aus Star agrees with and welcomes the Commission's initial views outlined in its consideration report that information submitted by Capral in its application, would not be sufficient to make determinations with regard to the entire Australian industry producing like goods. As noted by the Commission, Capral represents less than half of local production and based on Aus Star's estimates, would account for less than 40% of total Australian production.

This issue is particularly important in the context of the overall material injury assessment, as it is Aus Star's contention that Capral's circumstances and economic condition, differs considerably from that of the other more efficient local producers. To that extent, Aus Star considers it vitally important that

the Commission seek relevant information from each of the local producers to ensure that properly understands the changing structure of the Australian industry and in particular, assess whether Capral's claimed material injury is simply a reflection of a less efficient operation compared to that of other domestic producers.

However, whilst the Commission advised in its consideration report that it would '*seek data for 1 July 2012 to 30 June 2016 from all other Australian producers of aluminium extrusions*', it is noted that no industry verification reports are yet on the public record, including that of Capral. Aus Star is concerned that this may indicate that the Commission is placing less weight or importance on the assessment of material injury, when in its view, the material injury assessment ought to be determined as a matter of priority to avoid interested parties being inconvenienced by an application that is ultimately unsupported by evidence of injury.

To highlight and support the view that the local Australian industry is not experiencing a deterioration in its economic/financial performance, the following evidence is presented which demonstrates a confidence in the Australian market and increase in capacity through significant capital investment.

Profit performance

It is noted that in PAD 362, the Commission highlights that '*in no year did the Australian industry achieve a unit sales price which exceeded its unit CTMS during the injury analysis period*'. Aus Star queries the accuracy of this assessment given Capral's 2016 half year results announced on 23 August 2016 showed a record net profit after tax of \$6.8m for the six months to June 2016 compared to the \$1.5m loss for calendar year 2015. This suggests that over the 12-month investigation period ending June 2016, Capral must have achieved a substantial net profit.

It is therefore important for the Commission to reconcile the profit performance reported in its public statements to the submitted cost and make and sell provided at Appendix A6.1 of its application to ensure Capral has submitted complete and accurate financial information in its application.

One possible explanation for the inconsistency between the publicly reported profit performance of Capral and the financial information contained within its application, is the ability to shift profits from its manufacturing operations to its downstream distribution business. The risks from relying on related party transactions for the purposes of injury are identified in the Commission's Dumping and Subsidy Manual which provides:

Related party transactions

The methods outlined below are used to assess the suitability of using the industry's related party transactions in support of their injury claims. Where an applicant's domestic transactions involve a mix of unrelated and related parties, the preferred method is to benchmark the Australian industry's related party transactions against sales made to unrelated arms' length customers. This would normally involve using the industry's detailed sales transactions line by line to compare prices between related and unrelated customers. The Commission will also take into account the applicant's own accounting method for valuing those related party transactions. Where discrepancies are found between related party sales and benchmark unrelated sales, the Commission will take in to account the degree of any discrepancies in considering whether related party sales are suitable for examining the economic condition of the industry.

Further evidence of possible profit shifting by Capral to its downstream processing and distribution businesses can be established by comparing the margins achieved at its manufacturing business

against equivalent margins achieved by other local producers that predominantly sell directly to the market. For this reason, it is important that the Commission request relevant sales and costing information from other Australian producers.

Increased capacity of Australian industry

It is widely accepted that the Australian industry producing like goods has expanded its capacity over recent years with the entry of new participants and commencement of new operations. This is confirmed by Capral's 2016 half year presentation which states that '*new domestic extrusion capacity has been commissioned over recent years, including extrusion capability installed by traditional Capral customers*'.¹ In addition, members of the Australian industry have announced expansion measures including:

- G.James Extrusion Facility (<http://blog.gjames.com/2015/07/17/g-james-extrusion-facility/>)
- AluShapes (<http://www.alushapes.com.au/>)
- Ullrich Aluminium (http://www.ullrich.com.au/profile_Australia/hez_extrusion_plant.php)
- Independent Extrusions (INEX) (<http://www.inex.co.nz>)
- Aluminium Profiles Australia (<http://www.aluminiumprofiles.com.au/>) – new large press due for installation and commissioning in Melbourne in 4th quarter 2016.

This expansion of the Australian industry must be seen as confidence in the Australian market and a sign that the Australian market is not suffering from the effects being claimed by Capral. Instead, the decision by some of Capral's primary customers to establish their own manufacturing operations in Australia provides an explanation for Capral's loss of volume, market share and deteriorating position in the Australian market. This is evidenced by the following:

- In [redacted] [entity] entered into an ownership agreement with [redacted] [entity], which led to the development of a new extrusion facility in [redacted] [entity] supplying a large proportion of the volume previously supplied by Capral. This is understood to represent a further volume loss of approximately [redacted] tonnes by Capral;
- In [redacted] [entity] installed their own extrusion press in [redacted] [location]. They previously purchased [redacted] tonnes from Capral;
- [redacted] [entity] now supply a significant proportion of volume to some of Capral's previously largest customers – e.g in [redacted] [entity] ([redacted] tonnes) and [redacted] [entity] ([redacted] tonnes);
- In [redacted] [entity], [redacted] [details of ownership] which were one of Capral's largest customers at [redacted] tonnes.

The examples highlighted above support the view that sales volume and associated market share previously held by Capral has been eroded by and transferred to other local Australian producers. It also demonstrates that the relatively small volumes of Vietnamese aluminium extrusion imports (estimated by Capral at 3.5% of total Australian market) did not discourage them from establishing and becoming members of the local industry, or expanding existing production capacity. This confirms that Vietnamese imports have not caused or contributed to material injury.

Aus Star also contends that the expansion of the local Australian industry and subsequent relocation of substantial volumes previously held by Capral to other existing local producers, demonstrates that

¹ Capral Aluminum 2016 Half Year Results Presentation (<http://www.asx.com.au/asxpdf/20160823/pdf/439x0m3tp4br1.pdf>), page 8.

Capral has continued to experience self-publicised issues servicing its customer's needs, whether it be related to product requirements or service delivery.

Imports by Capral

It is noted that Capral's application acknowledges its own imports of aluminium extrusions and separately identifies these volumes as required by Appendix A5. It is well understood in the Australian market that Capral has been sourcing like goods from Indonesia for a number of years and that it offers dual-pricing on its products, whereby its own imports are priced at a substantial discount to its manufactured products.

Aus Star requests the Commission to undertake a price comparative analysis which benchmarks import prices by members of the Australian industry with equivalent prices from Vietnam and Malaysia, to assess whether imports by local producers are undercutting or on par with non-dumped goods. It is inconceivable that dumped imports could be contributing to injury when the industry's own imports are entering the Australian market at corresponding non-dumped levels.

Volume injury

Aus Star agrees with Capral's statement that *'exports from Malaysia and Vietnam have displaced exports from other source countries'*. As such there can be no suggestion that the Australian industry experienced injury in the form of lost volumes or reduced market share. In fact, analysis in the application shows that Capral's volumes increased sharply (19.8%) between 2012/13 to 2015/16. Therefore, the Commission must conclude that imports from Vietnam and Malaysia did not cause volume injury to the Australian industry producing like goods.

Price injury

Aus Star also contends that Capral and the other Australian industry members have not suffered price related injury as a result of imports from Vietnam. As Figure 3 from the Commission's Preliminary Affirmative Determination (PAD) shows, Capral has continued to achieve negative margins on its sales throughout the injury analysis period, although those losses have shown noticeable improvements in 2014/15 and 2015/16.

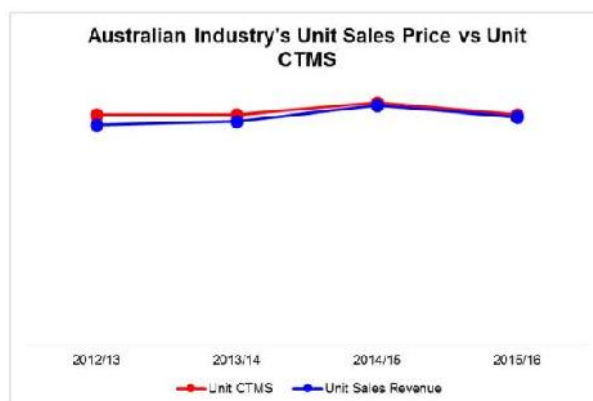


Figure 3 – Australian industry's unit CTMS and unit domestic sales price

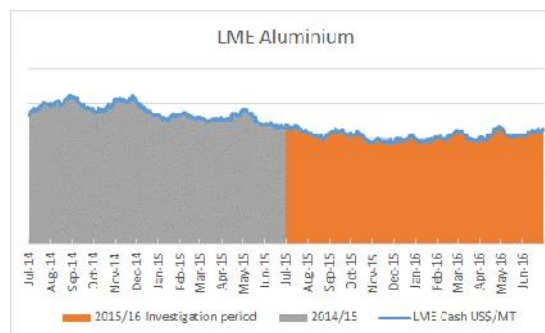
It is important to note that imports from Vietnam were effectively non-existent in 2012/13 when Capral's losses were at their greatest. Since the entry of Vietnamese imports in 2013, Capral's margins have improved steadily. In these circumstances, it is inconceivable to consider that the subject imports have caused price suppression during the investigation period when Capral had already been experiencing substantial losses in earlier years when Vietnamese imports were not present in the

Australian market, and have subsequently experienced improving margins in those years when Vietnamese imports were present.

In addition, Aus Star rejects the preliminary finding that Capral experienced price depression during the investigation period which can be attributed to the subject imports. As Capral has correctly explained, *'manufacturers mainly sell aluminium extrusions to the next level of trade (distributors and OEMs) on a pricing formula reflecting:*

1. *the London Metal Exchange (LME) base price, plus*
2. *Premiums (billet premiums and Major Japanese Port ("MJP") premium);*
3. *a conversion or processing fee (to cover conversion costs, profit and freight to customer store or wharf for export), plus*
4. *finish extras if applicable (e.g. painting/powder coating or anodising).*

As the Commission would be well aware, the main component of the pricing formula outlined above is the LME base price which reflects a global price for primary aluminium. Therefore, this key component of the final price is unconnected and independent of imports. It is important then for the Commission to understand and acknowledge that the LME Aluminium price showed a decline of approximately 18% between 2014/15 and the 2015/16 investigation period, as shown in the graph below.



As a consequence, local manufacturer prices would have incorporated a similar decline in the LME component of their prices which would have resulted in final average prices being overall lower than in the previous 2014/15 year. The Commission cannot simply ignore this fact and accept Capral's unsupported assertion that imports prices are to blame for lower prices in the Australian market.

Price undercutting

It is noted that in its PAD, the Commission undertook price comparisons on the basis of average free-into-store selling prices made by importers and Capral. Aus Star does not consider that a comparison of average prices provides a meaningful and accurate assessment of the level of undercutting in the Australian market.

As Capral highlighted in its application, *'import products do not cover the whole range of Australian market requirements.... Another feature of this process is the tendency for common, easier to make profiles to be dual-sourced, with the more difficult and lower-run volume sections mainly supplied from local sources.'* Aus Star would agree with Capral's view that Vietnamese imports are predominantly represented by simple and standard shaped profiles which are stocked and readily available from other manufacturers/distributors in the Australian market. By contrast, Capral's production range incorporates a large proportion of custom and complex profiles.

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In establishing prices between standard/easy profiles and custom/complex profiles, Capral's conversion costs and as a result the 'spread' for these product ranges would differ significantly. Likewise, it is reasonable to expect that average import prices and subsequent selling prices by importers would also incorporate a 'spread' which accurately reflects the complexity of the profile, which in Aus Star's case is predominantly represented by standard/easy profiles.

With the imported and locally produced profiles possessing key differences in characteristics which Capral confirms affect production costs and selling prices, it is inappropriate to then simply bundle these product ranges together to derive a single average price for comparison with a completely different mix of products. This type of analysis will not provide any insight into whether the imported subject goods contributed to any of the claimed price suppression or depression.

Aus Star therefore requests that the Commission undertake its price undercutting analysis by properly identifying and comparing equivalent products sold by the Australian industry to those imported subject goods. One such way would be to compare the imported subject goods to Capral's selling prices of its own imported profiles from Indonesia, as these are expected to largely represent the easier to make profiles being imported from Vietnam.

Conclusion

Aus Star urges the Commission to carefully examine the financial performance of Capral and other integrated local producers to ensure that its injury assessment is based on true arms-length sales into the Australian market. Likewise, it is critical that the overall performance of the Australian industry be examined to ensure that repositioned volumes and aggressive competition between the local producers are distinguished and isolated from the effects of subject imports.