



Australian Government
**Department of Industry,
Innovation and Science**

**Anti-Dumping
Commission**

INVESTIGATION 362

**INVESTIGATION INTO THE ALLEGED DUMPING AND
SUBSIDISATION OF
CERTAIN ALUMINIUM EXTRUSIONS
EXPORTED FROM
MALAYSIA AND THE SOCIALIST REPUBLIC OF VIETNAM
VERIFICATION REPORT – AUSTRALIAN INDUSTRY
CAPRAL LIMITED**

**THIS REPORT AND THE VIEWS OR RECOMMENDATIONS CONTAINED THEREIN
WILL BE REVIEWED BY THE CASE MANAGEMENT TEAM AND MAY NOT REFLECT
THE FINAL POSITION OF THE ANTI-DUMPING COMMISSION**

March 2017

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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 to Australia from Malaysia and the Socialist Republic of Vietnam (Vietnam). This followed an application for an investigation into the alleged dumping and subsidisation lodged by Capral Limited (Capral).

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 No. 362 (CON 362).

Following the initiation, the Commission arranged a visit to Capral to conduct verification of information provided in their application, as well as to gather information regarding its claims that it has suffered injury caused by the dumped and subsidised aluminium extrusions exported to Australia from Malaysia and Vietnam.

2 THE GOODS AND LIKE GOODS

2.1 Australian industry

Capral is a manufacturer of aluminium extrusions in Australia and makes up a major proportion of the total Australian market for aluminium extrusions.

2.2 Like goods sold on the domestic market

Like goods are defined under subsection 269T(1) of the *Customs Act 1901* (the Act) as:

goods that are identical in all respects to the goods under consideration or that, although not alike in all respects to the goods under consideration, have characteristics closely resembling those of the goods under consideration.

In assessing like goods, physical likeness, commercial likeness, functional likeness and production likeness are characteristics tested. It is noted that the 'like goods' assessment has previously been established in past investigations regarding aluminium extrusions.

During the course of a verification visit the verification team undertook an inspection of Capral's Bremer Park manufacturing facility in Queensland and observed various aluminium extrusions in various stages of production. The verification team found that in relation to the aluminium extrusions produced by Capral;

- the primary physical characteristics of the imported and locally produced goods are similar;
- the imported and locally produced goods are commercially alike as they are sold to common customers;
- the imported and locally produced goods are functionally alike as they have the same or similar end-uses; and
- the imported and locally produced goods are manufactured in a similar manner.

2.3 Like goods – preliminary assessment

From information gathered during the visit to Capral and in responses from exporters and importers, the verification team is satisfied that locally produced goods and imported goods:

- are alike in physical appearance;
- compete directly with each other in the Australian market;
- have comparable or identical end-uses; and
- are manufactured in a similar manner.

3 VERIFICATION OF SALES

3.1 Verification of Australian sales to audited financial statements

The verification team verified the completeness and relevance of Capral's Australian sales by reconciling it to audited financial statements having regard to the procedures outlined in ADN No. 2016/30. During this process the verification team identified the following issue.

3.1.1 Internal sales

The verification team observed that a large proportion of sales in Capral's Appendix A-4 were marked as internal sales. Capral explained that these sales are intra-company transactions between its mill division and distribution division. The verification team considers that for these transaction, no legal transfer of property was involved.

At the verification team's request, Capral provided additional sales data to include all sales of aluminium extrusions through its distribution division. Having combined the external sales reported in Capral's original Appendix A-4 data and the distribution division sales provided during verification, the verification team is satisfied that Capral's sales data is complete.

Using the updated sales data the verification team was able to reconcile Capral's aluminium extrusion sales reported for the 12 month period ending 30 June 2016 to its financial statements.

In addition to providing an updated Appendix A-4, Capral also prepared a revised Appendix A-3 in relation to sales turnover reported for the whole injury analysis period, i.e. 1 July 2012 to 30 June 2016.

3.2 Verification of Australian sales to source documents

The verification team verified the accuracy of Capral's sales by reconciling a sample of sales to source documents having regard to the procedures outlined in ADN No. 2016/30. No discrepancies or issues were identified.

3.3 Verification – summary

The verification team is satisfied that the sales listing is complete, relevant and accurate.

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

4 COST TO MAKE AND SELL

4.1 Verification of costs to audited financial statements

The verification team verified the completeness and relevance of Capral's cost to make and sell (CTMS) data by reconciling it to audited financial statements having regard to the procedures outlined in ADN No. 2016/30. During this process the verification team identified the following issue.

4.1.1 Distribution division on-costs

Consistent with the observations regarding Capral's reported internal sales, the verification team observed that Capral's application cost data at Appendix A-6 did not report costs incurred by its distribution division.

To address this issue Capral prepared additional cost data which reported the costs incurred in relation to the sales of aluminium extrusions through its distribution division. Data in relation to the whole injury analysis period was also provided. Using the updated cost data the verification team was able to reconcile Capral's profit (loss) result reported for the 12 month period ending 30 June 2016 to its financial statements.

4.2 Verification of costs to source documents

The verification team verified the accuracy of Capral's CTMS data reported for the six month period ending 30 June 2016 by reconciling a selection of cost items to source documents having regard to the procedures outlined in ADN No. 2016/30.

The verification team did not identify any discrepancies or issues.

4.3 Cost to make and sell – summary

The visit team considers that Capral's revised CTMS data reported Confidential Appendix A-6 is relevant, accurate and complete.

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

5 ECONOMIC CONDITION OF THE INDUSTRY

5.1 Injury claims

In its application, Capral claimed that the allegedly dumped and subsidised imports of aluminium extrusions exported from Malaysia and Vietnam have caused it material injury in the form of:

- price suppression;
- loss of profits;
- reduced profitability;
- reduced capital expenditure;
- reduced return on investment; and
- increased closing stock levels.

5.2 Price effects

5.2.1 Price depression

Price depression occurs when a company, for some reason, lowers its prices.

As indicated in Figure 1 below, Capral's unit sales price increased marginally over the injury analysis period, but declined in the investigation period, which is indicative of price depression.



Figure 1 – Capral domestic unit CTMS and unit sales price

5.2.2 Price suppression

Price suppression occurs when price increases, which otherwise would have occurred, have been prevented.

In determining whether price suppression has occurred, the verification team has examined:

- a comparison of prices with costs to assess whether over time (e.g. the injury analysis period) or within a specified period (e.g. the investigation period) - prices have not increased at the same rate as cost increases; and
- an assessment as to whether the prices for the Australian industry's product are lower than prices that may have been achieved in the absence of dumping.

Figure 1 shows movements in Capral's domestic weighted average unit CTMS and unit sales prices for all finish types of aluminium extrusions over the injury analysis period.

Figure 1 illustrates that Capral's unit CTMS exceeded its unit sales price for most years in the injury analysis period however the difference between unit CTMS and unit sales price reduced during the injury analysis period which ended with Capral being profitable in the investigation period.

Figure 1 shows that unit sales prices increased in the first three years of the injury analysis period. However both unit sales price and unit CTMS reduced in the investigation period, and the reduction in unit CTMS was greater than the reduction in unit sales prices. Notwithstanding these observations, Capral's unit sales prices have not maintained 2014/15 levels into the 2015/16 period thereby suggesting that any benefit that may have been realised in achieving cost reductions has been offset by downward pressure on prices.

Capral also explained that the price suppression it is experiencing is more evident in the 'spread' component of its sales prices. Spread is an amount which is normally inclusive of conversion costs plus an amount for profit and is in addition to the main raw material cost, being aluminium billet. Since the majority of the cost of producing aluminium extrusions is represented by the cost of aluminium billet, which is based on the London Metal Exchange (LME) benchmark and associated premiums, aluminium extrusion producers are mainly competing on spread.

Capral's selling prices were observed to cover the cost of aluminium billet used in the production of extrusions however to maintain pricing at levels which were competitive against imported extrusions from Malaysia and Vietnam, Capral has been forced to limit the spread component of its sales prices. As a result, Capral is precluded from generating a reasonable (increased) profit on the sale of its aluminium extrusions.

The verification team is satisfied that Capral has suffered injury in the form of price suppression.

5.3 Profit effects

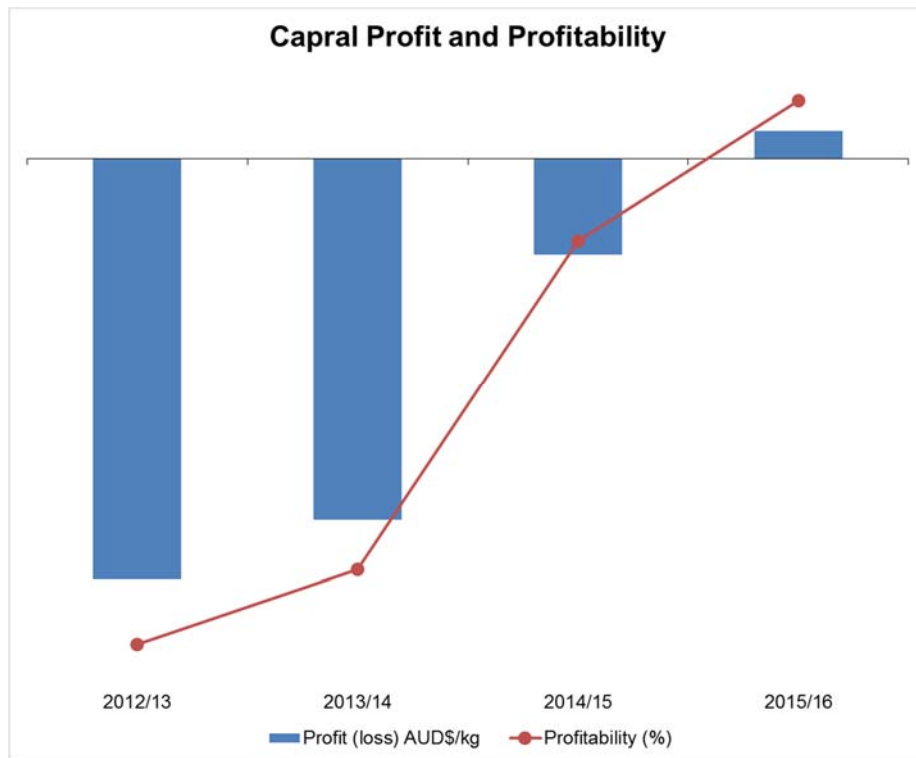


Figure 2 – Capral unit profit and profitability

Commensurate with the data illustrated in Figure 1, Capral’s sales of aluminium extrusions in the investigation period were profitable. However, as published in Capral’s ASIC statements relevant to the investigation period, the profit margin was less than one percent of revenue. The verification team considers that this level of profit is insufficient to allow Capral to fully re-invest in its business. The small profit margin achieved in the investigation period is not sufficient to offset multiple prior periods where sales of aluminium extrusions were unprofitable.

The verification team is therefore satisfied that Capral has suffered injury in the form of reduced profit and profitability due to the suppressed nature of its sales prices.

5.4 Other economic factors

5.4.1 Reduced capital expenditure

At Appendix A-7 of its application, Capral reported minimal levels of capital expenditure through the injury analysis period. Whilst in relative terms Capral’s capital expenditure has fluctuated, overall as a proportion of revenue, Capral’s capital expenditure is limited to maintaining operations rather than undertaking major improvements to its facilities.

Capral explained during the visit that multiple consecutive years of trading unprofitability, largely due to competition from dumped imports from overseas, has not given rise to conditions which would be favourable to committing to large amounts of capital expenditure.

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5.4.2 Reduced return on investment (ROI)

Capral reported negative ROI for three out of the four years of the injury analysis period.

The verification team reviewed Capral's ROI calculations and observed these to be based on the net gain (loss) on the sale of aluminium extrusions as a ratio of total assets. Due to the provision of revised CTMS data referred to in sections 3.1 and 4.1 the verification team has recalculated Capral's ROI using the method outlined above.

The revised ROI figures show that Capral's ROI in relation to sales of aluminium extrusions turned positive in the 12 month period ending 30 June 2016. This figure represents an approximate 10 percent swing from the negative ROI figure observed for the 12 month period ending 30 June 2015. In the two year period ending 30 June 2014, Capral's ROI was lower.

Capral's improved ROI was observed to be a combination of a reduction of its asset base and increasing profit rather than profit alone. In this context the verification team is satisfied that Capral has suffered injury in the form of reduced ROI.

5.4.3 Increased closing stock levels

Capral provided opening and closing stock levels for each year of the injury analysis period at Appendix A-7 of its application. During the visit to Capral the verification team was satisfied with the data provided in Capral's application in relation to closing stock levels.

Capral raised during the visit that aluminium extrusions and billets are priced with reference to the London Metal Exchange (LME) price and Major Japanese Port (MJP) premium. Injury in the form of closing stock levels occurs in a falling market when manufacturers incur expenses due to downwards revaluations on raw material stocks and finished goods stocks and are unable to recover these costs in the price for finished goods. This form of injury is further compounded in a falling market when manufacturers are required to hold stock for longer periods leading to disparity between selling prices and the prices paid of raw material purchases.

Injury due to increased closing stock levels is exacerbated when prices reduce in response to dumping of goods exported to Australia and in addition to LME price movements. The verification team understands that the combined LME and MJP price fell by approximately 5.5 per cent in the 12 month period ending 30 June 2016 however prices of goods exported from Malaysia and Vietnam have respectively fallen by approximately 8 and 12.5 percent.

The verification team obtained general ledger data for the injury analysis period in relation to Capral's gains and losses on materials and finished goods. The verification team also reviewed Capral's billet purchases and extrusion sales which established that the pricing mechanisms in place for the purchase of raw materials and the sale of aluminium extrusions reference LME and MJP prices.

Capral's general ledger data confirmed that it has incurred revaluation expenses on stocks of raw materials and finished goods in the investigation period and across the injury analysis period. At the same time Capral also reported increasing closing stock

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levels. This presents a risk that downward movements in prices due to either the LME price, dumping or a combination of the two would require Capral to revalue stock and inventory downwards and incur expenses as a result. Maintaining low stock levels would assist in keeping expenses incurred as a result of downwards revaluations to a minimum.

Capral is of the view that increasing closing stock levels generally are the result of large volumes of dumped goods being exported to Australia. In the absence of these dumped volumes Capral asserts that it would be able to reduce closing stock levels the impact of downwards valuation expenses would be greatly reduced. In the absence of imported goods which are at dumped prices Capral further assert that if it did incur expenses due to downwards revaluations then it should be able to recover the cost of such revaluations in its selling price for aluminium extrusions. Under current trading conditions where prices are being suppressed Capral is not able to recover these expenses.

On the basis of the examination of Capral's records in relation to closing stock levels, revaluation gains and losses and other observations, the verification team is satisfied that Capral has suffered injury due to increased closing stock levels.

6 UNSUPPRESSED SELLING PRICE & NON-INJURIOUS PRICE

Capral did not comment on its preferred approach to calculating an unsuppressed selling price and non-injurious price during the visit but has subsequently made a submission that there are 2 or more SME's in the industry and that the Minister can exercise discretion to not take account of the non-injurious price.

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7 APPENDICES AND ATTACHMENTS

Confidential Attachment 1	Verification work program
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