Prysmian Group

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General Cable

10 August 2018

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Public File

Dear Mr Akdeniz

Investigation No. 469 – PVC flat electric cables exported from the People's Republic of China – Key considerations in Exporter Verification Visits

I. Background

Prysmian Australia Pty Ltd ("Prysmian") understands that the Anti-Dumping Commission ("the Commission") is conducting verification visits with the Chinese exporters Nanyang Cable (Tianjin) Co., Ltd ("Nanyang") and Guilin International Wire and Cable Group ("Guilin") in the weeks commencing 13 August 2018 and 20 August 2018, respectively.

Prysmian considers the following information to be relevant to the Commission's verification of the Chinese exporters' cost data for the purposes of determining normal values and dumping margins for the twin core 2.5T PVC cable (i.e. "the goods") exported to Australia during the 2017 investigation period.

II. Normal values - China

In Investigation No. 271 it was established that the goods the subject of investigation were not sold locally in China. Normal values, therefore, could not be determined under subsection 269TAC(1) of the Customs Act.

In the absence of domestic selling prices in China, the Commissioner therefore determined normal values under subsection 269TAC(2)(c) using the exporter's cost of production, plus amounts for selling and general administration. No amount for profit was applied.

Prysmian insists that a level of profit must be included in the subsection 269TAC(2)(c) constructed normal value. It is unreasonable to consider (and expect) that the Australian industry be required to compete with exports of the goods without a level of profit to permit a return on assets employed and to enable long-term reinvestment in the industry.

Costs breakdown

The most significant consideration in the cost of the goods (i.e. 2.5T PVC cable) is the cost of raw materials. With [*amount*] **copper content** (*comment re competitor analysis*), copper is the single most significant raw material used in the manufacture of the goods.

Prysmian's [*copper price*], **copper makes up almost xx% of Prysmian's total factory cost for 2.5TE cable. Other materials including PVC & copper rod premium is a further xx%.** This equates to almost xx% in just raw materials.

The following table shows how the LME rate, Exchange rate, and the ingredients used in the PVC compound formulation were tracking in 2017 (the investigation period) year which would have impacted the cost of the

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cable significantly given the escalation in both LME copper rate converted to AUD and the ingredients used in the PVC compound.

Table 1 – LME Copper price and PVC/compound costs in 2017

[*Table 1 monthly prices*]

The **<u>SME (Shanghai Metal Exchange) copper rate typically is slightly higher than LME but follows the LME trend</u>**. It is important that the Commission ensure all costs for the purchase of copper are included in the Chinese exporter's purchase cost for copper – including any premium and freight from supplier.

Prysmian notes that the Commission will be examining whether the copper price in China is at less than adequate remuneration. This will entail an examination of all copper purchases by the Chinese exporter during the investigation period from all suppliers – both private and state-owned.

Additionally, **<u>to highlight the impact of the copper rate over the period from the low in October 2016 to the rate in December 2017, the total cost of 2.5TE increased by xx% (driven by the increasing LME rate for copper), however the selling prices for imported 2.5T PVC cable during 2017 only increased by approximately xx to xx%.</u>**

As referred to above, almost xx% of Prysmian's cost is in the copper content alone and the applicable rate at which Prysmian purchases copper is the LME USD converted to AUD using the RBA rate.

The Chinese exporters Nanyang and Guilin were not immune to the copper price increases over the period October 2016 to December 2017. The selling prices in Australia for the exported goods, however, did not reflect the approximate 29 per cent increase in the LME copper rate!

Prysmian's application for measures detailed evidence of Electra's invoice price (Nan's pricing was worse) throughout 2017 (including a demonstration of the rebate payable to the wholesalers). From this analysis, there is strong evidence that the prices were suppressed and the goods were being dumped. Whilst it may be evident there is up to two months lag in prices reflecting higher input costs, the failure to raise prices to recover the full cost increases evident in LME copper pricing evidences the price suppression Prysmian has experienced throughout 2017.

If the exporters' claim that they were hedging copper, the Commission should drill into how far into the future and how much copper, there should be **<u>evidence of trading via broker to substantiate</u>** this. Prysmian does not consider that any normal business would take the risk of hedging the entire forecast volume for 2017 or even half of the volume so far out into 2017 when copper was relatively cheap up to October 2016 compared to the copper rates in the first half of 2017 and then increased further again in the 2nd half of 2017.

It is also evident from pricing of the ingredients used in the PVC formulation for the insulation and sheathing compounds, (i.e. the cost of DIDP and DOP) have also jumped up substantially last year.

Prysmian also understands that as the goods involve considerable value-add manufacture in China, the rebate for VAT is understood to be at 17 per cent. It is critical that raw material costs verified by the Commission are not already net of VAT rebate, and that no double-up of the VAT deduction occurs.

Prysmian would also like to reiterate the point about the rebates paid to the wholesalers - t**the invoice price to the wholesalers will attract [*amount*] % rebate for majority of the wholesalers** e.g. if the invoice price is $100/100 metres then the net price after rebate is $[*amount*] per 100 metres. It is not clear from Investigation 271 whether the Commission fully investigated the extent of the rebates as evidenced by Prysmian in this investigation. Prysmian contends that the Commission should be seeking to investigate with Nanyang and Guilin how the Australian importer's rebates are funded and to what extent the Chinese exporter reimburses its related-party Australian importer.

Finally, it is relevant to reconsider all of the cost elements that should be verified by the Commission during the verification visit, namely:

- What is the Ex-factory cost breakdown? The following discreet elements make up the total cost:
  - Copper content in kg/km x the copper rate.
  - Tolling premium for copper rod supply (this is the 8mm copper rod supplied by smelter converting copper cathode to copper rod).
  - PVC compound for insulation of the 3 cores + outer sheath.
  - Direct labour cost for all operations.
  - Variable overheads e.g. spares for machines, maintenance, electricity, water etc.
  - Fixed overheads – factory supervision, engineering/technology, any R&D, depreciation,
  - Selling and general administration expenses (including R&D expenses).
  - Packaging – made up of plastic spools, pallets, shrink-wrap plastic etc.
- In addition to the above factory and administration expenses, the Commission must also verify with the exporter the cost of stuffing the shipping containers, transport to the dock, local port charges, shipping line charges, local port charges in Australia, and finally destuffing containers and delivery to the local warehouse from Port.
- From a local perspective, there are have stocking/ warehousing/handling costs, + trucking delivery costs to the customer from their warehouse, + sales and admin. cost, +working capital cost etc.

Prysmian welcomes any questions the Commission may have in respect of the above comments and detail concerning costs involved in the manufacture of 2.5T PVC cable.

If you have any questions please do not hesitate to contact me on (02) 9600 0306 or Prysmian's representative Mr John O'Connor on (07) 3342 1921.

Yours sincerely

HRShroff

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