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7 September 2018

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Public File

Dear Ms Baynham

Investigation No. 482 – Review of measures inquiry – aluminium extrusions exported from P R China – Desk audits Guangdong Zhongya Aluminium Company Limited and Tai Shan City Kam Kui Aluminium Extrusions Co Ltd

I. Background

Capral Limited ("Capral") understands that the Anti-Dumping Commission ("the Commission") will be conducting "remote" verification visits with two Chinese exporters of aluminium extrusions ("the goods") to Australia in Review Investigation 482. The two exporters:

- Guangdong Zhongya Aluminium Company Limited ("Zhongya"); and
- Tai Shan City Kam Kiu Aluminium Extrusions Co Ltd,

are exporters of the goods to Australia during the investigation period and are regular suppliers to the Australian market.

II. General

The Assistant Minister recently accepted in Report No. 392 (dated October 2017) the Commission S view that a particular market situation existed in respect of aluminium extrusions in China during the review period (i.e. 1 January 2016 to 31 December 2016). Capral is not aware of any changes in government-ownership of the major producers of primary aluminium in China over the intervening period since October 2017.

Capral considers (as supported in recent investigation No. 442 involving aluminium extrusions exported to Australia by Guangdong Jiangsheng Aluminium Co. Ltd and Guangdong Zhongya) that a particular market situation in respect of the goods continues to apply in the current investigation period.

Therefore, normal values for Chinese exporters of the goods will be assessed under subsection 269TAC(2)(c) using exporter cost data (where available) and constructed as required by subsections 269TAC(5A) and 269TAC(5B) in accordance with Sections 43, 44 and 45 of the *Customs (International Obligations) Regulation 2015*.

The cost of production for Chinese exporters is determined in accordance with subsection 43(2) of the Regulations that requires:

- If an exporter or producer maintains records relating to the goods that are in accordance with generally accepted accounting (GAAP) in the country of export; and
- Those records reasonably reflect competitive market costs associated with the production of the goods,

the Minister must work out the cost of production using the information set out in the exporter's or producer's records.

In Report No. 392 (and earlier reports involving exports of the goods from China to Australia) the Commission has determined that due to the influence of the Government of China ("GOC") in the domestic market for primary aluminium, "*the exporter's costs do not reasonably reflect competitive market costs for the production or manufacture of the goods*". As a consequence a benchmark cost for primary aluminium is included in the Chinese exporter's production costs that reflects:

- A published price for primary aluminium;
- A regional premium;
- Inland transport costs; and
- A billet premium reflecting the additional cost to convert an ingot into a billet for use in the manufacture of the goods.

The primary aluminium price used by the Commission is the average monthly London Metal Exchange (LME) cash price sourced from Metal Prices Pty Ltd. The regional premium is the Major Japanese Ports (MJP) premium applicable for transactions in Asia (also sourced from Metal Prices Pty Ltd). In respect of inland transport costs for primary aluminium, the Commission was only able to obtain actual verified costs for inland freight for one domestic producer in Review inquiry No. 392. Capral requests the Commission to seek all cooperative exporters top provide details of inland freight costs for domestic purchases of primary aluminium. Capral is also aware that for billet premiums, the Commission used the Australian industry's billet price schedules incurred for the review period. Capral can provide the Commission with the applicable billet premium for the period I July 2017 to 30 June 2018.

The exporter's selling, general and administration costs are determined under subsection 44(2) of the Regulations and level of profit in accordance with subsection 45(2) of the regulations. Where the selling and general administration costs, and the level of profit, cannot be determined for sales of like goods on the domestic market in China, costs/profit for goods sold in the same general category of goods may be used.

Additionally, when considering adjustments to the Chinese exporter's determined normal value, Capral draws to the Commission's attention that the exporter's costs should confirm that packaging costs for export are higher than domestic packaging costs, including for steel trolleys, wooden crates and inter-leave paper. In previous investigations, Kam Kui has argued "there is no such difference" between domestic and export packaging costs. Recent investigations (including 362, 392 and 442) have confirmed the existence of these costs for export sales of the goods to Australia necessitating an upwards adjustment to the Chinese exporter's normal value.,

III. <u>Guangdong Zhongya Aluminium Company Ltd</u>

For Zhongya, this review investigation applies to the countervailable benefits received by the Chinese exporter in the investigation period (as the dumping measures do not apply to exports by Zhongya). The subsidy margin determined for Zhongya in Report No. 392 was 0.1 per cent.

In Report No. 392, Zhongya was nominated as receiving benefits under programs 2, 21, 56 and 58. Programs 2, 56 and 58 are financial grants received by Zhongya from the GOC and would likely have continued in 2017/18. Program 21 relates to VAT and tariff exemptions and has continued in the 2017/18 investigation period. Capral submits that Zhongya would continue to receive benefits under Program 21 throughout the investigation period of this inquiry.

The Commission therefore must receive information from Zhongya for the current investigation period as it relates to the applicable to the four programs identified in the earlier investigation No. 392.

IV. Tai Shan Kam Kui Aluminium Extrusions Co Ltd

Taishan City Kam Kui Aluminium Extrusion Co., Ltd ("Kam Kui") is located in the Shiqiao Industrial Zone, Dajiang County, Taishan City, Guangdong. Kam Kui was involved as exporter in the original investigation (No. 148) and in the subsequent circumvention inquiry (No. 241). Kam Kui was also involved in Review Investigation No. 248, which it made an application to the Anti-Dumping Review Panel ("ADRP") for a review of the Parliamentary Secretary's decision to apply dumping measures at the 2 per cent of export price margin. Following the ADRP appeal, the measures applied to Kam Kui were re-calculated (due to identified errors) at 20.1 per cent. Report No. 392 confirmed a dumping margin for Kam Kui of 21.0 per cent, and a countervailing subsidy margin of 4.5 per cent.

Capral has provided the Commission with a submission on model matching for the purposes of fair comparison of normal values and export prices for Chinese exporters in this investigation (refer EPR Document 06). In Review investigation 392, Kam Kui requested that in determining the level of profit to be included in Kam Kui's constructed normal value, the profit applicable to certain high-end models be excluded from the profit calculations for certain anodised products. The Commission (correctly) did not accept Kam Kui's claims as per the following[1]:

> "*The Commission has retained this small percentage of High-end models in the profit calculation because the cost data provided by Kam Kui was compiled (and therefore verified) at a product code level, rather than at a more detailed level which differentiates between High-end models and standard models. Without cost data provided at a more detailed level, the Commission has no basis for substantiating or quantifying Kam Kui's claims that the High-end models categorised separately within the two product codes have a different cost and profit profile to the standard models*."

The Commission is not planning to conduct a verification visit with Kam Kui. Capral's is concerned that there exists a high risk that Kam Kui will seek to provide the Commission with sales and cost data concerning the alleged High-end models and argue that the profit levels should be excluded from the profit calculation. Capral requests that the Commission maintain the approach and methodology followed in Investigation No. 392 to ensure a consistent methodology for profit determination across the two investigation periods.

Capral notes that Kam Kui has identified it exports through two different related-party company's during the investigation period: KMY in Malaysia and KHK in Hong Kong. The Commission will need to obtain actual costs incurred by these related party exporting entities to correctly include uplifts to normal value for the costs of transacting through another entity. Separate costs for each entity should be identified.

Capral notes that at Section E-5, there appears to be a commission paid on certain sales for export (i.e. "between KMY/KHK and KAU") although it is not clear from the Kam Kui EQR who "KAU" is? The Commission will need to adjust the Kam Kui normal value for the payment of Commissions on export sales that are not made on export sales.

Kam Kui's EQR suggests there are no cost differential in packaging expenses for domestic and export markets. The Commission's previous investigations have determined this not to be the case (e.g. Investigations 362, 392 and 442). Capral anticipates the Commission will obtain actual packaging costs from Kam Kui for sales in both markets.

Capral further anticipates that the Commission will validate with Kam Kui actual payment terms for domestic and export sales. It is anticipated that the payment terms for export sales would be closer to 120 days from BOL, whereas domestic sales are most likely cash on delivery. An upward adjustment to Kam Kui's normal value would there fore apply for the extended payment terms.

[1] Report 392, P. 34, 35.

Report No. 392 identifies that Kam Kui was a beneficiary under the following subsidy programs (as detailed in Report No. 392):

- Programs 21, 47, 48, 61 – 71.

Programs 21, 47 and 48 are anticipated to have continued in the current investigation period (i.e. 2017/18) as the GOC has not withdrawn the programs since the completion of Review Investigation 392. Similarly, the financial grants identified in Programs 61 – 71 are also considered to have been available to Kam Kui during the investigation period.

The Commission will therefore seek information from Kam Kui in relation to each subsidy program identified as having afforded Kam Kui a benefit in Review Investigation 392.

If you have any questions concerning the attached updated financial data, please let me know. I can be contacted on (02) 8222 0113 or you may contact Capral's representative Mr John O'Connor on (07) 3342 1921.

Yours sincerely

Luke Hawkins
General Manager – Supply and Industrial Solutions