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Dear Ms Baynham

Investigation No. 482 – Aluminium extrusions exported from P R China – Planned Changes in China’s Value Added Tax Rebate

I. Background

Capral Limited (“Capral”) understands that the Government of China’s (“GOC”) Ministry of Finance and State Administration of Taxation announced on 5 September 2018 the intention to raise the applicable value added (“VAT”) on exports of certain products¹.

II. Announcements

The GOC’s announcement follows a State Council executive meeting chaired by Premier Li Keqiang on Monday October 8 2018 where it was announced that China’s value-added tax (VAT) rebates on some exports will be raised on November 1 to support foreign trade. The GOC plans to raise the VAT rebate on certain exports of aluminium products (including aluminium extrusions) to assist Chinese exporters following the increased tariff barriers imposed by the US Administration on Chinese exports. According to the consultancy group CRU, the recent boost in export growth of Chinese aluminium products “*is likely to continue in coming months and next year as well, following the boosted tax rebates as part of a package to soften the impact of a trade war with the United States*”.

III. Impact of increased VAT rebate

It is Capral’s understanding that for goods that currently receive a VAT rebate of 13 per cent or 15 per cent at present, from 1 November this rate will increase to 16 per cent for aluminium exports. For those exports currently receiving a 9 per cent rebate, the new rebate will be at 10 per cent and those receiving 5 per cent will get 6 per cent (or even as high as 10 per cent for certain products).

The increased VAT rebate on export is aimed at assisting Chinese exporters penetrate export markets (beyond the US) as the US market becomes difficult for Chinese exporters to supply.

¹ Refer alcircle.com/news/downstream-products/detail/35106/china-to-increase-value-added-tax-vat-rebates-on-exported-aluminium-products-smm-updates?utm_source=newsletter-11-09-2018&utm_medium=news&utm_campaign=downstream (Non-Confidential Attachment 1).

It is understood that the VAT changes will result in certain aluminium products with a current rebate of 13 per cent that include aluminium bars, rods, and profiles (HS code 7604), aluminium plates, sheets, and strip, of a thickness exceeding 0.2mm (HS code 7606), aluminium tubes and pipes (HS code 7608), as well as aluminium structures and parts of structures (HS code 7610, 7611, 7612, 7613, 7615, and 7616), and those products with a 15 per cent rebate including aluminium foil (HS code 7607), will benefit from the increased VAT rebate at 16 per cent².

Other products like stranded wires, cables, ropes and similar articles of aluminium (HS code 7614) already receive a full rebate of 16 per cent.

The Anti-Dumping Commission's ("the Commission") recent review investigation (i.e. Investigation No. 392) re-affirmed the 13 per cent VAT rebate applicable to exports of aluminium extrusions to Australia. As normal values for Chinese exporters of aluminium extrusions have been determined on a constructed basis in accordance with subsection 269TAC(2)(c), the upward adjustment to the normal value required was 4 per cent. The adjustment to normal value post the introduction of the revised export rebates with effect from 1 November 2018 will be reduced (i.e. at 1 per cent).

It is Capral's expectation, however, that with the increased export rebate available to Chinese exporters it is likely that the Chinese exporter will reduce export prices to penetrate markets and secure export sales with the full knowledge that the GOC is providing an increased export rebate (of up to 3 per cent for certain aluminium extrusion products).

Capral is concerned that the GOC's announcement will result in further increases in Chinese exports of aluminium extrusions to Australia at injurious prices. Exports of aluminium extrusions to Australia in 2018 are at the highest levels since the measures were introduced in 2010 - refer Confidential Attachment 3). Increases in the VAT export rebate for aluminium extrusions the subject of the measures will further assist Chinese exporters seeking to supply into the Australian market. Capral highlights with the Commission the recent comments in Aluminium Alert (Harbour Aluminium) of 9 November 2018:

"Year to date, China's aluminium exports continue to reach fresh record highs, having accumulated 4.7 m ton during the first 10 months of 2018 (and risen annually by about 19% or 750k ton). Semi-fabricated aluminium products – sheet/pate, foil extrusions, and cable/wire usually constitute about 89% of the aforementioned aggregate figures."

Aluminium Alert also confirmed the practice of Chinese exporters of avoiding the export of unwrought aluminium products that attract the 15 per cent export tariff, and focusing exports on the further processed goods (including aluminium extrusions). Aluminium Alert concluded:

"Overall, booming Chinese semis exports continue to cannibalize demand for primary aluminium in the Western World, which is bearish for LME prices and conversion prices of semis (outside the US)."

The outlook is for further increases in Chinese exports of aluminium products – including aluminium extrusions.

IV. Conclusions

The announced changes to Chinese VAT export rebates for aluminium extrusions with effect from 1 November 2018 will impact future exports of Chinese aluminium extrusion exports to Australia.

The Australian industry has seen Chinese exports of aluminium extrusions (under subheadings 7604 and 7608 only) in 2018 return to the levels experienced pre-imposition of measures in 2010, with a 45 per cent increase evident since 2013.

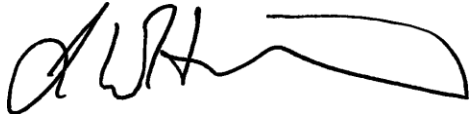
The announced changes to increase the VAT rebate for aluminium products (including aluminium extrusions) will lead to further increases in Chinese exports of aluminium extrusions to Australia. Capral

² Primary Aluminium, 12 September 2018.

highlights with the Commission the need to address the intended effect of the increased rebate in the anti-dumping measures applicable to Chinese exporters of aluminium extrusions in the current review of measures investigation No. 482.

If you have any questions concerning this submission, please do not hesitate to contact me on (02) 8222 0113 or Capral's representative Mr John O'Connor on (07) 3342 1921.

Yours sincerely

A handwritten signature in black ink, appearing to read 'LHAWKINS', with a long horizontal flourish extending to the right.

Luke Hawkins
General Manager – Supply and Industrial Solutions

China to increase value-added tax (VAT) rebates on exported aluminium products: SMM updates

According to the report by Shanghai Metals Market, China plans to increase the value-added tax (VAT) rebates on exported aluminium products from September 15, 2018. The notice came from the Ministry of Finance and State Administration of Taxation on September 5.



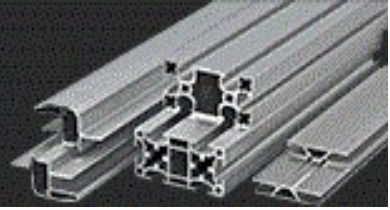
The VAT rebate rates on the exports of aluminium alloys bars and rods (HS code 76042910) have been decided to be 13 per cent.

In 2017, China's export of the two categories of materials had come in at around 200,000 tonnes, showed China Customs data. However, this increased rebate on aluminium products are hoped to encourage domestic companies to export more of such products and therefore, would expectedly buoy up the total export volume.

In the United States, aluminium extrusion, foil and common alloy plates from China are all subject to anti-dumping and countervailing duties after the US Commerce Department determined that such Chinese products are sold below "fair value" in the US.

On the other hand, as far as stranded wire, cables, plaited bands and other similar aluminium products with steel core (HS code 76141000) are concerned, China has decided to raise rebates on exports of these products. Stranded wires, cables, ropes and similar articles, of aluminium other than with steel core and electrically insulated products (HS code 76149000) are also included in the increased export rebate. Rebate rates have been decided to rise to 16 per cent from 13 per cent currently.

The World of Aluminium Extrusions - an industry analysis with forecasts to 2025



SMM believes these increased rebates may less likely to fuel overseas consumptions as producers mostly process such bars and rods into finished products and for domestic use.

Only a few domestic companies are able to produce such aluminium bars and rods, given high technical requirements in production. These companies include Chinalco Southwest Aluminium, China Zhongwang, and Chinalco Northeast Light Alloy, SMM learned.