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Mr Rhys Piper
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For Public File

Dear Mr Piper

Investigation 542 – Guangdong Zhongya Aluminium Co., Ltd exporter verification report

I. Exporter verification – Zhongya

I refer to the Guangdong Zhongya Aluminium Co., Ltd (“Zhongya”) exporter verification report recently finalised in Investigation No. 542 (refer EPR Document No. 023).

Aluminium Shapemakers Pty Ltd (“Alushapes”) has examined the Zhongya exporter verification report (“the report”) and seeks to address apparent shortcomings in the Zhongya verification process and outcomes.

Zhongya exports the subject goods to Australia via its affiliated trading arm Zhongya Hong Kong (“Zhongya HK”).

II. Cost allocation

Zhongya manufactures flyscreen and hollow sections in mill finish form. Zhongya exports mill finish, powder coated and anodised flyscreen and hollows to Australia. Zhongya only sells on the domestic market hollow micro-extrusions in mill finish, powder coated and anodised forms. Zhongya also sells hollows with an “electrophoresis” finish on the domestic market.

Zhongya operates 37 aluminium extrusion lines. It has two 600T extruders which it is stated “*are only used to produce the GUC*”, including hollow sections. Zhongya acknowledges that the 600T extruders are slower than the larger extruders and that due to the combination of the slower press output and very lightweight kg/m profiles produced, “*the output of aluminium micro-extrusions will be less than the normal aluminium extrusions within the same production time*”.

Zhongya has confirmed that it has calculated a “coefficient” it has used for cost allocations based upon annual micro-extrusion from the 600T operations versus the remaining annual aluminium extrusion outputs. The coefficient was used by Zhongya to allocate labour and manufacturing overheads. At the mill extrusion stage.

Alushapes welcomes Zhongya’s acknowledgment that micro-extrusions are manufactured at a reduced output rate than typical aluminium extrusions of larger sizes. The coefficient that has been utilised by Zhongya has not been published, however, Alushapes would expect this coefficient to be approximately xxx per cent for there to be a fair allocation of labour and manufacturing overheads to accurately cost micro-extrusions.

The Zhongya cost allocation methodology is recognition that Chinese aluminium extruders can identify costs (and allocate with some degree of acknowledgment that micro-extrusions have a longer extrusion timeframe) for the subject goods. The Anti-Dumping Commission (“the Commission”) has access to information concerning an approximate cost allocation methodology that it can use for assessing Guangdong Jiangsheng Aluminium Co., Ltd (“Jiangsheng”) normal value.

III. Powder coating

Alushapes notes the Commission’s “exception” comment at Section 5.1 of the Zhongya report concerning the exclusion of outsourced powder coating costs in Zhongya’s CTM:

“The verification team adjusted the CTM to include the outsourced powder coated finished goods. However, it is noted that these only make up a small proportion of all powder coated goods, and therefore the change is minimal.”

Alushapes is concerned with the Commission’s comment about the inclusion of the powder coating costs. The concern is that the inclusion of the powder coating costs that represent “a small proportion” of all powder coating costs suggests that the actual costs of powder coating the micro-extrusions has not been included. It is likely that the Commission has included an “average” of powder coating costs for all sized extrusions – therefore there has not been an activity-based allocation of powder coating for micro-extrusions.

The Zhongya normal value for coated micro-extrusions therefore understates the actual powder coating costs incurred.

It is also noted that Zhongya has some micro-extrusion coated via an “electrophoresis process”. There is an absence of explanation as to whether this process is similar to powder coating and whether the costs of this process are similar (or indeed relevant) to powder coating costs. It is not clear if the adjustment for powder coating is based upon some component included in costs which also includes electrophoresis treatment.

IV. Ordinary course of trade

Consistent with Alushapes concerns that the Jiangsheng normal value understates the true CTM micro-extrusions, the Zhongya normal value also understates the CTM of the subject goods. As such, the ordinary course of trade test (which also identifies the level of profit on domestic sales) results in a lower than actual profit determination for the subject goods.

This further contributes to the understatement of the actual normal value for Zhongya for the subject goods and must be rectified.

V. Freight

It is a common practice to load the standard 6.5m length aluminium extrusions into 40ft containers leaving over 5m of spare space for the 5m length micro-extrusions to be included in the back of the same container. The standard extrusions absorb the full cost of the container, thereby giving the micro-extrusions a “free ride”, another element of cross-subsidisation to add to the dumping margin.

Alushapes submits that the cost of freight must be recognised and included for the goods under consideration and exported to Australia.

VI. Conclusion

Alushapes does not consider that the normal value preliminarily assessed by the Commission reflects Zhongya’s actual CTMS for the micro-extrusions the subject of investigation. It is considered that the determined coefficient has not been tested by the Commission to establish whether it is representative of actual costs incurred. Similarly, it appears that Zhongya’s costs associated with powder coating are also understated – requiring rectification to reflect actual powder coating costs for micro-extrusions (and not based on average powder coating costs across the whole range of extrusions).

Alushapes also requests the Commission to examine the cost of freight incurred by Zhongya to be satisfied that freight is levied as an actual cost incurred by the exporter.

If you have any questions concerning the matters raised in this submission, please do not hesitate to contact me on 0412 291 552 or Alushapes' representative Mr John O'Connor on (07) 3342 1921.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Wolf Breit', with a stylized flourish at the end.

Wolf Breit
Managing Director