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Public File

Dear Mr Grigg

Investigation No. 557 – Copper tube exported to Australia from China and Korea – Copper cost

I. Introduction

The Anti-Dumping Commission ("the Commission") is undertaking exporter verifications in Investigation 557 that involve the examination of the producer's copper cost consumed in the manufacture of copper tube. MM Kembla's application for anti-dumping measures asserted that the Government of China ("GOC") through a range of policies and directives, influences the traded copper price in China.

MM Kembla seeks to provide the Commission with relevant information concerning an appropriate basis for copper costings to be used in the Chinese normal value.

II. CBSA Determination – certain copper tube

In the Canadian Border Services Agency ("CBSA") investigation (No. 4214-40 AD/1401, 4218-38 CVD/137). CBSA found that an indicator of the domestic copper price in China is that for copper futures traded on the Shanghai Futures Exchange (SHFE). Only corporations registered in China can trade on the SHFE. CBSA obtained information from the Metal Exchange, an independent publisher of metal prices including copper, to enable it to compare copper prices on the SHFE with the LME and COMEX (a benchmark metals exchange).

The CBSA further confirmed that COMEX and LME prices fluctuate closely with each other, whilst the SHFE prices "*diverge significantly above and below the prices on the other two exchanges*". Importantly (and relevant to Investigation 557) was that "*during periods of high copper prices, it appears that copper prices on the SHFE are noticeably lower compared with prices on the other two exchanges.*[1]"

Following comparison of the purchased raw material cathode copper prices with import prices over a specified period, CBSA confirmed that the two cooperative Chinese producers purchases in the domestic market averaged 2.01 RMB/kg or 4.0 per cent, and 1.66 RMB/kg or 3.3 per cent

[1] CBSA Statement of Reasons, Certain copper tube, Statement of Reasons, 3 December 2013, P. 21.

MM KEMBLA QUALITY RELIABILITY SERVICE 100 YEARS respectively, below their import purchases of copper cathode[2]. Importantly, CBSA stated that "*since the cost of copper can account for upwards of 95 % of the total cost of production of the copper tube, a very slight difference in copper input prices can provide a significant cost advantage to the Copper Tube producers in China*".

The apparent differences in prices between the referenced exchanges led the CBSA to conclude "*Given that copper is a commodity product freely traded on the world market, this discrepancy between the exchanges further indicates that* ***domestic prices of copper in China are not being determined under competitive market conditions****. The low cost of copper in China clearly impacts the* ***prices of copper tube in China, such that they are not substantially the same as they would be if they were determined in a competitive market***." (emphasis added).

The CBSA investigation into copper tube included exports from Brazil, China, Greece Korea and Mexico. The CBSA was able to compare copper prices in China against prices in Brazil, Greece, Korea and Mexico. During the investigation period (1 May 2012 to 30 April 2013) "*the average prices for coil products in China were overall 14.9%, 20.3%, 4.6% and 22.9% lower compares to average prices for coil products from Brazil, Greece, the Republic of Korea and Mexico. Similarly, average prices for straight products in China were overall 26.0%, 31.7%, 12.5% and 24.4% lower compared to average prices for straight products in Brazil, Greece, the Republic of Korea and Mexico*."

CBSA was satisfied that the domestic price of copper in China was influenced by the GOC's plans and policies and that "*prices were not substantially the same as they would be if they were determined in a competitive market.*"

In Investigation 557, MM Kembla contends that the GOC's plans and policies would have similarly influenced raw material copper prices during the investigation period. The Commission has available to it market selling prices from the two cooperative Korean exporters of copper tube – Nungwon Metal Ind Ltd (Ningwon") and Daejin Copper Pipe and Tube Manufacturing Co., Ltd ("Daejin").

III. <u>Copper price</u>

MM Kembla notes that the CBSA used the "*the average monthly settlement prices reported on the LME*" for the purpose of a benchmark copper price for the cost of copper in China.

MM Kembla considers that the average monthly settlement prices are publicly available prices that provide a reliable basis for the benchmark and propose that the Commission similarly adopt this benchmark in Investigation 557.

The CBSA added weighted-average amounts for fabrication costs to convert the copper into copper tube, before applying amounts for selling, administrative and other costs (including financial, technical, etc), and an amount for profit.

In the US Department of Commerce ("USDOC") 2014-15 Administrative Review investigation involving Chinese exports of seamless copper tube, the USDOC identified that the Chinese exporter's consumption rate for copper did not include recycled copper. That is, the actual consumption rate of copper by a manufacturer includes virgin ingot, shells, straps, and buckets and reclaimed briquettes). The reclaimed copper involves additional overhead costs that must also be reflected in the producer/exporter's copper consumption rate.

MM Kembla highlights with the Commission that the copper consumption rate for the producer/exporter must include all copper consumed (including recycled copper).

IV. <u>Due allowance</u>

The CBSA investigation identified important adjustments to account for the differences in copper tube sold domestically versus the exported goods (not just for Chinese copper tube). CBSA identified adjustments to domestic selling prices were required for "*differences in weights between the domestic models and the models exported to Canada*". The identified weight differences relate to the Chinese

[2] The two Chinese producers were Shanghai Hailiang Copper Co., Ltd (SH Hailiang) and Zhejiang Hailiang Co., Ltd (ZJ Hailiang).

producer 'rolling light' for domestic sales versus the exported copper tube which is required to meet International Standards applicable in the importing country.

MM Kembla anticipates that similar adjustments will be required to normal values determined for China and Korea, as different standard specifications apply to copper tube sold in accordance with the AS1432, AS1572 and ASNZ 1571.

V. Treatment of affiliated companies

MM Kembla notes that Zhejiang Hailiang Co., Ltd (Zhejiang Hailiang") and its affiliate trading company, Hong Kong Hailiang Metal Trading Limited ("HK Hailiang") have completed exporter questionnaires for the goods exported to Australia.

In the US Investigation (A-570-964) involving the 2014-15 Administrative Review of the Anti-Dumping Order on Seamless Refined Copper Pipe and Tube from The People's Republic of China, the USDOC concluded that the Hailiang affiliated companies (including HK Hailiang, Zhejiang Hailiang, and other companies Shanghai Hailiang Copper Co., Ltd and Hailiang (Anhui) Copper Co., Ltd) operated "under common control" were affiliated and therefore treated as a single entity.

MM Kembla anticipates that Commission will similarly treat the Hailiang affiliates as a single entity for the purpose of Investigation 557.

VI. Closing remarks

MM Kembla's application for anti-dumping measures on copper tube exported from China and Korea identified that copper was sold in China at artificially low prices. The CBSA's analysis confirmed that Chinese copper prices based upon the SHFE reflected prices lower than the LME – particularly during periods of high copper prices (as is presently evident).

CBSA used average monthly settlement prices on the LME as a benchmark copper price. It is important to identify relevant delivery costs and the producer/exporter's applicable copper consumption rate (i.e. the treatment of recycled copper).

Adjustments to normal value will also be required for weight differences for goods sold domestically versus for export (i.e. rolling light).

If you have any further questions concerning this submission, please advise me.

Kind Regards

Tony Bova
Executive General Manager