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Director
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Public File

Dear Sir/Madam

Investigation No. 557 – Copper tube exported to Australia from China and Korea – Nungwon Metal Ind. Co Ltd Verification Report

I. Background

MM Kembla has reviewed the exporter verification report for Nungwon Metal Ind Co., Ltd (“Nungwon”) (EPR Document No. 029) recently published on the Investigation 557 EPR.

MM Kembla submits that the Anti-Dumping Commission (“the Commission”) has incorrectly concluded that goods manufactured by Nungwon and sold in Korea cannot be “distinguished” from the goods manufactured and exported to Australia by Nungwon.

This conclusion impacts the determination of Nungwon’s normal value and dumping margin as reflected in the Nungwon exporter verification report.

II. Like goods

MM Kembla does not dispute that the goods manufactured by Nungwon and sold on its domestic market in Korea are like goods to the goods exported to Australia. Section 2.5 of the Nungwon verification report states “*The verification team was satisfied that NWM (i.e. Nungwon) sold like goods in the domestic market.*” The verification team further stated that “*..the goods manufactured for domestic consumption are identical to, or have close characteristics resembling, the goods exported to Australia, as they:*”

- *are **not distinguished** from the exported goods during production (the exported goods and goods sold on the domestic market are produced in the same way, subject to individual customer specifications, and **the costs of production for models sold domestically and for export are the same**);*
- *are produced at the same facilities, using the same raw material inputs and manufacturing processes;*
- *compete in the same market sector, **are interchangeable** and use similar distribution channels; and*
- *can be considered functionally alike, as they have similar end uses (emphasis added)”.*



The copper tube manufactured by Nungwon and sold domestically are not identical to the goods produced and exported to Australia. Consistent with the Commission's findings in the exporter verification report for Guilin International Wire and Cable Co Ltd in PVC Electrical Cables exported from China¹, the locally produced goods differ from the exported goods due to the latter being manufactured to Australian Standard AS 1432 and AS/NZ 1571 whereas the locally produced goods are manufactured to a Korean Standard KS D5301 (which is essentially the same as the Japanese Standard JIS H3300). The Korean Standard KS D5301 requires a completely different range of outside diameter and wall thicknesses for its pipe and tube. This range while falling into the definitions of the MCC the majority of OD and wall thicknesses are larger than the closest AS1432 comparable size. Across the entire range (Type L) the average kg/metre of Nungwon's seamless copper pipe and tube is 19% higher than AS1432 type B.

The thinner the wall thickness and lower the total weight of the product the conversion cost increases on a \$/T basis. In MM Kembla's experience every xx% increase in weight equates to \$xxx/T reduction in variable conversion cost. The xxx% difference equates to \$xxx/t difference across the range due to the difference in the KS D5301 standard and AS1432. This equates to ~xx% difference at the current LME copper cost. This is a material difference and should be a positive adjustment to the Nungwon normal value (so that the dumping margin truly reflects the difference in conversion cost between the domestic and export sales).

MM Kembla draws your attention to Investigation 469, where the Commission found that the primary differences between the exported good and the domestic good (which also included copper as a primary raw material input) were as follows:

Physical likeness

The domestic good is manufactured to a different technical standard, voltage capacity and is fire-resistant.

Commercial likeness

There is no marketing of the domestic good in the housing market in China whereas the export good is a key product that competes with other suppliers in the housing and construction market in Australia.

Functional likeness

Based upon the operation of different wiring standards the domestic and export good are not interchangeable between Chinese and Australian markets.

Production likeness

There is a significant production difference regarding the number and diameter of the wires used in the manufacturing of the domestic and export product.

The Commission's findings in Investigation 469 that PVC electrical cable manufactured for the Chinese domestic market is not identical to the PVC electrical cable exported to Australia due to the applicable National Standards applicable in the respective market applies equally to the differences in the domestic and export markets for copper tube.

The applicable standards for seamless copper tube manufactured in Korea (as well as for China) are different to the goods manufactured and exported to Australia which comply with the applicable Australian standards. The differences between the seamless copper tube produced to the local Korean standard and the goods exported to Australia include differences in:

- manufacturing different standard.
- safe working pressures.
- manufacturing wall thickness tolerance;
- manufacturing OD tolerance;

¹ Guilin International Wire and Cable Co., Ltd verification report, Case 469, EPR Document 019, P. 4-5.

The differences in these factors significantly impact the manufacturing cost and when the copper price is fixed (as reflected in the London Metals Exchange (LME) price) this represents a large percentage of the conversion cost (i.e. different manufacturing costs for domestic versus export seamless copper tube). The following explanations detail the clear differences.

(i) Made to different standards

The local standard has different Outside Diameter and Wall Thickness dimensions compared to the goods sold in Australia. The domestic standard appears to be a Korean standard KS D 5301 which is comparable to JIS H3300 (Japanese Standard) and ASTM B88 (American Standard).

Refer product sizing table (Non-Confidential Attachment 1) that show the differences in Outside Diameter (“OD”) and Wall thickness (“WT”) between Australian goods produced to AS 1432 standard. There is very little alignment in sizing of OD above 19.05mm and no direct comparisons on WT.

(ii) Made to different working pressures

As a result of the differing standards and product dimensions in (i), the safe working pressures are different across sizes due to the calculation between OD and WT dimensions.

Point 1 illustrates the product sold in the domestic market is not considered identical (and hence costs are not the same) to the product exported to Australia.

Subsequently the tube chosen will have varying safe working pressures and may/may not be suitable for the same application in local/export markets. These should not be considered comparable for normal value purposes as safe working pressures are a critical determining factor in the selection of product for an application.

(iii) Made to different manufacturing wall thickness tolerance

The local product standard not only has varying dimensions but also varying allowable min and max. tolerances of the tube wall thickness.

Min and max tolerances in the local standard can range between 9.5% and 14.6%. In the standard exported to Australia, tolerances range between 13.7% and 15.4%

(iv) Made to different manufacturing mean outside diameter tolerance

The local product standard not only has varying dimensions but also varying allowable min and max. tolerances of the tube mean outside diameter.

Minimum mean OD tolerances for the local standard range between 0.1 - 0.3%, in the Australian standard they range between 0.3 – 0.6%.

Maximum mean OD tolerances for the local standard range between 0.1 - 0.3%, in the Australian standard, there is no allowable tolerance from the specified OD.

From the preceding commentary, it is evident that the verification team’s conclusions that the differences between the domestic and exported goods cannot be distinguished and that the costs of production for models sold on the domestic and export markets are the same, are incorrect. Critically, the conclusion that the domestic and exported goods are interchangeable is also flawed and incorrect.

There exist considerable cost differences between seamless copper tube produced for sale on the domestic market in Korea (or China) and goods produced and exported to Australia. These differences are material in terms of the copper cost (primarily) and the cost of conversion. The differences therefore warrant adjustments for copper cost and conversion costs for the differences in the domestic and export models.

III. Weighted-average cost of copper

The Commission has calculated the dumping margins for Nungwon on the basis of a comparison of quarterly weighted average export prices with the corresponding quarterly weighted-average normal value for the investigation period (as per subsection 269TACB(2)(a)).

Further, Section 9 of the Nungwon verification report does not identify any adjustment for copper price variability. The Commission's methodology is considered reasonable *if* the same copper price is used in the sales for domestic and export. Where this is not the case an adjustment to normal value for the copper price variance is required. As outlined in MM Kembla's application, the copper cost accounts for up to 95% of the total cost of copper tube. Subsequently, the adjustment for copper price variability between domestic and export pricing should be considered as it is a significant contributor to the total price of copper tube.

The copper pricing mechanics for the domestic market used for the normal value will not be exactly the same, or in the same mix of copper pricing (e.g. fixed, average etc) as export. When pricing in exports copper prices are predominately fixed in a rising copper market, then domestic prices will be higher due to the increase in the copper component as all pricing is copper (LME) plus a premium (or Fabrication Cost + Premium). The only solution to this is to substitute the same LME copper cost into the Australian export prices and the normal value calculation taking out this variability of copper movements and pricing methods.

Ultimately with all copper manufacturers the customer pays the same copper cost as the manufacturer (i.e. LME if in a fair market) and it is the premium that varies by manufacturer so the premiums are what should be compared between export prices and normal value.

IV. Conclusion and recommendation

MM Kembla requests the Commission to re-assess its preliminary conclusions that Nungwon's sales of seamless copper pipe and tube sold domestically can have the same cost of production as seamless copper pipe and tube exported to Australia when both products are manufactured to standards that have different dimensions, tolerances and calculated safe working pressures.

The impact of the different standards is that the goods produced and sold domestically in Korea are heavier and have more copper by unit of product in the goods produced and sold in accordance with the Korean Standard KS D 5301, resulting in a lower cost of conversion on a per kilogram basis.

The impact of the differences between the respective standards is that the costs to produce the domestic and export goods is not the same, although the Commission may have considered that the models are comparable. To address this anomaly, it is essential that the Commission adjust the Nungwon normal value for a conversion differential and any copper price variance that exists between the domestic and export sales.

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

Kind Regards



Tony Bova
Executive General Manager