Australian Government
Anti-Dumping Commission

PUBLIC RECORD

REVIEW OF ANTI-DUMPING AND COUNTERVAILING MEASURES

CERTAIN ALUMINIUM EXTRUSIONS EXPORTED FROM THE PEOPLE'S REPUBLIC OF CHINA

EXPORTER VISIT REPORT

TAI SHAN CITY KAM KIU ALUMINIUM EXTRUSIONS CO., LTD

KAM KIU ALUMINIUM PRODUCTS SDN. BHD

This report and the views or recommendations contained therein will be reviewed by the case management team and may not reflect the final position of the Anti-Dumping Commission

January 2015

CONTENTS

ABBREVIATIONS

ACBPS	Australian Customs and Border Protection Service
the Act	*Customs Act 1901*
ASCM	Agreement on Subsidies and Countervailing Measures
Capral	Capral Limited
China	People's Republic of China
CIF	Cost, insurance and freight
COGS	Cost of goods sold
the Commission	Anti-Dumping Commission
the Commissioner	Commissioner of the Anti-Dumping Commission
CTM	Cost to make
CTMS	Cost to make and sell
DDP	Delivered duty paid
FOB	Free on board
GOC	Government of China
HYHK	Hong Yeung (Hong Kong) Limited
KAE	Tai Shan City Kam Kiu Aluminium Extrusions Co., Ltd
KAG	Kam Kiu Aluminium Products Group Limited
KAP	Kam Kiu Aluminium Products
KAU	Kam Kiu (Australia) Pty Ltd
KIH	Kam Kiu International Holdings Limited
KIT	Kam Kiu (International) Limited
KMY	Kam Kiu Aluminium Products Sdn. Bhd
MOQ	Minimum order quantity
PanAsia	PanAsia Aluminium
R&D	Research and development
SEF	Statement of Essential Facts
SG&A	Selling, general and administration
SOE	State Owned Enterprise
Tai Ao	Tai Ao (Taishan) Co Ltd
the goods	the goods the subject of the application (also referred to as the goods under consideration or GUC)
the Parliamentary Secretary	the Parliamentary Secretary to the Minister for Industry and Science

1 BACKGROUND

1.1 Existing measures

On 11 May 2009, the Australian Customs and Border Protection Service (ACBPS) initiated dumping and subsidy investigations into certain aluminium extrusions exported from the People's Republic of China (China) following an application by Capral Limited (Capral). Trade Measures Report No. 148 (Report 148) found that:

- with the exception of Tai Ao (Taishan) Co Ltd (Tai Ao), the goods were exported from China at dumped prices;
- with the exception of Tai Ao, the goods exported from China were subsidised;
- the Australian industry producing like goods had suffered material injury as a result of those dumped and subsidised exports; and
- future exports from China may be dumped and subsidised and that continued dumping and subsidisation may cause further material injury to the Australian industry.

The ACPBS recommended that the then Minister for Home Affairs[1] impose anti-dumping measures on the goods exported from China, with the exception of Tai Ao. On 28 October 2010, the Minister published dumping duty and countervailing duty notices applying to aluminium extrusions exported to Australia from China, with the exception of Tai Ao. Notification of the Minister's decision was given in Australian Customs Dumping Notice No. 2010/40.

Following a review by the Trade Measures Review Officer, the ACBPS conducted a reinvestigation into certain findings made in Report 148. International Trade Remedies Report No. 175 sets out the findings affirmed and new findings made as a result of the reinvestigation. The Attorney-General published new notices, effective from 27 August 2011, which replaced the dumping and countervailing duty notices published on 28 October 2010. The effect of the new notices was that the level of the measures changed and the dumping duty notice no longer applied to Zhaoqing New Zhongya Aluminium Co Ltd, now called Guangdong Zhongya Aluminium Company Limited.

1.2 Previous reviews

On 2 November 2012, a notice was published declaring the outcome of a review of the anti-dumping measures as they apply to a single exporter, Wuxi Xisha Photoelectric Aluminium Products Co. Ltd. On 8 May 2014, the Parliamentary Secretary to the Minister for Industry (Parliamentary Secretary) published a notice following a review of anti-dumping measures as they apply to Alnan Aluminium Co., Ltd. Anti-dumping measures applicable to Alnan Aluminium Co., Ltd remained unaltered.

[1] Prior to 25 September 2013, anti-dumping matters were the responsibility of the Minister for Home Affairs. On 25 September 2013, responsibility for anti-dumping matters was transferred to the Minister for Industry. The Minister for Industry subsequently delegated responsibility for anti-dumping matters to the Parliamentary Secretary to the Minister for Industry.

1.3 Background to the review

On 2 May 2014, PanAsia Aluminium (Pan Asia) lodged an application requesting a review of the anti-dumping measures as they apply to its exports of certain aluminium extrusions to Australia from China. PanAsia Aluminium claims that certain variable factors relevant to the taking of the anti-dumping measures have changed.

The Commissioner of the Anti-Dumping Commission (the Commissioner) decided not to reject the application and initiated a review into the current anti-dumping measures, being both the dumping duty notice and the countervailing duty notice. The Commissioner also recommended that the Parliamentary Secretary be asked to extend the review to cover all Chinese exporters of aluminium extrusions to Australia. The Parliamentary Secretary accepted the Commissioner's recommendation and the review was extended to all exporters of the goods from China.

The Anti-Dumping Commission (Commission) invited Tai Shan City Kam Kiu Aluminium Extrusions Co., Ltd (KAE) and Kam Kiu Aluminium Products Sdn. Bhd (KMY) to provide responses to a preliminary request for information in respect of the review. KAE and KMY were included in the sample of exporters to be examined for the purposes of the review and the Commission requested KAE and KMY complete exporter questionnaires and associated spreadsheets, KAE and KMY subsequently provided completed exporter questionnaire responses. The Commission reviewed these responses and considered they warranted verification.

1.4 Purpose of visit

The purpose of the visit was to verify information submitted by KAE and KMY in their exporter questionnaire responses. The exporter questionnaire responses were supported by confidential appendices and attachments, including confidential spreadsheets containing sales and cost data requested in the exporter questionnaire. Public record versions of the exporter questionnaire responses were placed on the public record. The Commission used the verified information gathered at the visit to make preliminary assessments of:

- like goods;
- who is the exporter and who is the importer;
- export prices;
- normal values;
- dumping margins;
- market situation; and
- subsidy margins.

1.5 Meeting and preliminary issues

We advised KAE and KMY of the following.

- the investigation period is April 2013 to March 2014.
- in October 2014, the Parliamentary Secretary granted an extension to the publication date for the statement of essential facts (SEF). In December 2014,

the Parliamentary Secretary granted a further extension to the publication date for the SEF. The revised due date for the SEF is 29 April 2015.

- the SEF will set out the material findings of fact on which the Commissioner intends to base his recommendations to the Parliamentary Secretary. The SEF will invite interested parties to respond, within 20 days, to the issues raised.
- submissions received in response to the SEF will be considered when compiling the final report and recommendations to the Parliamentary Secretary.
- the Commissioner's final report to the Parliamentary Secretary is now due no later than 15 June 2014.
- the Parliamentary Secretary's decision is due within 30 days from the date of receipt of the final report, unless the Parliamentary Secretary considers there are special circumstances that prevent the decision being made within that period.

We advised KAE and KMY that following our visit we would provide the companies with a draft of our report to review its factual accuracy and to identify those parts of the report it considered confidential. We further advised that, following consultation about confidentiality, we would prepare a non-confidential version of the report for the public record.

1.6 Meeting dates and attendees

Verification meetings were held at the offices of KAE in Taishan City, Guangdong Province, China. KAE and KMY were represented by Zhong Lun Law Firm, a Beijing based legal firm that has previous experience with Australian anti-dumping investigations. Key representatives involved in the visit had good verbal English language comprehension and official translation services were not required at any stage of the meeting. The following people were present at various stages of the meeting:

KAE and KMY	
Mr Li Lei	Chief Executive Officer, Kam Kiu International Holdings Limited (KIH) and KAE
Mr Peter Chan	Chief Marketing Officer, KIH
Mr Gary Chan	Group Finance Manager, KIH
Mr Hongyi Cao	Finance Manager, KAE
Zhong Lun Law Firm	
Mr Jianwei Liu	Partner
Mr Jian Guan	Partner
Ms Jingjing Tong	Attorney
Anti-Dumping Commission	
Mr Chris Vincent	Assistant Director, Operations 2
Mr Matthew Williams	Assistant Director, Operations 4

Prior to the verification, we asked KAE to explain some unusual prices in the domestic sales spreadsheet. KAE advised that it had inadvertently included processing revenue in its domestic sales spreadsheet. Correction of this oversight also affected other spreadsheets provided in the exporter questionnaire response, such as the allocation of selling, general and administrative (SG&A) expenses. KAE and KMY also identified some minor errors during preparation for the verification (explanations are at **Confidential Attachment GEN 1**). Revised spreadsheets were provided at the commencement of the verification, however, we were able to incorporate the corrections into the spreadsheets originally provided.

2 COMPANY INFORMATION

2.1 Company background

Both KAE and KMY are [redacted]. KAE is [redacted]. KMY is [redacted]. Both [redacted]. All related companies are [redacted] [confidential ownership structure]. We have treated all these companies, including KAE and KMY, as a single economic entity.

A summary of the roles of some of the companies in the group is as follows:

- KAE manufactures aluminium extrusions for sale to China, Hong Kong, Macau and other export destinations, including Australia. KAE submits tax returns in China.
- KMY manages sales to Australia, [redacted]. KMY stated that while it is incorporated in Malaysia its operations are performed in Macau via group company. It prepares its accounts in Hong Kong dollars (HKD) and submits them to its Malaysian auditor who converts all values to Malaysian Ringgit (RM). KMY submits tax returns in Malaysia but does not pay Malaysian tax because it does not operate in Malaysia. We noted that [redacted]. KMY provide a copy of its income statement for the first nine months of 2014 showing that [redacted] (**Confidential Attachment GEN 2**).
- Kam Kiu (Australia) Pty Ltd (KAU) facilitates the sale of goods to Australia. It acts as sales agent and is paid a commission by KMY. KAU submits tax returns in Australia.
- Taishan City Kam Shing Moulding Plant Co. Ltd [redacted].
- Hong Yeung (Hong Kong) Limited (HYHK) [redacted] [confidential intercompany role].

2.2 Accounting

Both KAE and KMY use the “Kingdee” accounting system and their financial year is from January to December. KAE stated that it operates a separate sales system, ERP and costing system. The sales and cost data are copied into its accounting system.

KAE’s 2013 audit report stated:

> *In our point of view, the financial statements of the Company are compiled in accordance with the accounting standard of enterprises and present the financial condition of the Company on Dec. 31, 2013 as well as the result of operation and cash flow in 2013 fairly.*

The audit opinion for 2012 was similarly worded.

KMY provided a copy of its 2013 audited financial statements during the meeting (**Confidential Attachment GEN 3**). The audit report stated:

> *In our opinion, the financial statements give a true and fair view of the financial position of the company as at 31 December 2013 and of its financial performance and cash flows for the year then ended in accordance with Private Entity Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.*

The financial statements of KMY for 2012 were audited by another firm, but the audit opinion was unqualified.

3 THE GOODS UNDER CONSIDERATION

3.1 The goods

The goods the subject of the current anti-dumping measures (the goods) are:

Aluminium extrusions produced via an extrusion process, of alloys having metallic elements falling within the alloy designations published by The Aluminium Association commencing with 1, 2, 3, 5, 6 or 7 (or proprietary or other certifying body equivalents), with the finish being as extruded (mill), mechanical, anodized or painted or otherwise coated, whether or not worked, having a wall thickness or diameter greater than 0.5 mm., with a maximum weight per metre of 27 kilograms and a profile or cross-section which fits within a circle having a diameter of 421 mm.

The goods include aluminium extrusion products that have been further processed or fabricated to a limited extent, after aluminium has been extruded through a die. For example, aluminium extrusion products that have been painted, anodised, or otherwise coated, or worked (e.g. precision cut, machined, punched or drilled) fall within the scope of the goods.

The goods do not extend to intermediate or finished products that are processed or fabricated to such an extent that they no longer possess the nature and physical characteristics of an aluminium extrusion, but have become a different product.

3.2 Tariff classification of the goods

The goods subject to the measures may be classified to the following subheadings in Schedule 3 of the *Customs Tariff Act 1995*:

7604.10.00/06	non alloyed aluminium bars, rods and profiles;
7604.21.00/07	aluminium alloy hollow angles and other shapes;
7604.21.00/08	aluminium alloy hollow profiles;
7604.29.00/09	aluminium alloy non hollow angles and other shapes;
7604.29.00/10	aluminium alloy non hollow profiles;
7608.10.00/09	non alloyed aluminium tubes and pipes;
7608.20.00/10	aluminium alloy tubes and pipes;
7610.10.00/12	doors, windows and their frames and thresholds for doors
7610.90.00/13	Other

3.3 Model matching

KAE manufactures a wide variety of aluminium extrusion products for numerous applications. It provided a description of the various product codes it uses (**Confidential Attachment GEN 4**). KAE explained that the product code reflects the finish, cross section and degree of processing; it stated that these product codes are used in its accounting system. We noted that there were numerous product codes for similar products; for example, different product codes for powder coated aluminium extrusions reflecting the thickness of the coating.

KAE explained that there are many thousands of models and that these refer to the type of die used. Within each product code there are multiple model codes, none of which are identical between domestic and export sales.

We noted that the domestic and Australian sales spreadsheets also referred to temper and alloy. KAE explained that the basic price is for [redacted] and that higher prices are charged for [redacted]. We reviewed the Australian sales spreadsheet and found [redacted] of the volume of exports to Australia were for 6060 and 6063 alloys [redacted] were for 2000 series alloys; there were [redacted]. Product code 99.13 accounts for [redacted] (and nearly all exports of this product code used these alloys). We noted that the selling price for this model was [redacted] the other major models exported to Australia.

KAE explained that different tempers are achieved by the production process and that temper does not influence price.

We reviewed the domestic and Australian sales spreadsheets and consider it is appropriate to compare domestic sales with export sales to Australia using the product codes.

4 VERIFICATION OF SALES TO FINANCIAL STATEMENTS

4.1 KAE

We asked KAE to verify the domestic sales volumes and values for the investigation period to KAE's 2013 audited accounts. Revised Exhibits A-5 and A-6 (excluding processing revenue) are at **Confidential Attachment REC 1**. We verified total sales value for 2013 from Exhibit A-5 to the audited financial statements. KAE explained that it sells goods to:

- KMY for export to a number of countries, including Australia;
- directly to other countries; and
- directly to domestic customers.

It also explained that goods sold [redacted]. KAE advised that it did not sell goods [redacted] [confidential selling arrangements].

KAE provided general ledger summaries for 2013 and the investigation period identifying sales by the following categories (**Confidential Attachment REC 2**):

- normal trading, export;
- inward processing, export;
- normal trading, domestic;
- processing, export; and
- processing, domestic.

We verified the total for 2013 to the audited financial statements. We also noted that processing revenue accounted for [redacted] of revenue in 2013.

KAE explained that sales are initially entered into its ERP system and then uploaded into its accounting system. It advised that totals in the two systems don't exactly match for a number of reasons, such as timing. KAE provided spreadsheets identifying:

- line by line listing from its accounting system by customer for 2013 and the first three months of 2014;
  - we reconciled the total for 2013 to the audited financial statements.
- line by line listing from ERP for 2013; and
- line by line listing from ERP for the investigation period.

The difference between ERP and the accounting system in 2013 was less than 0.03% and we did not pursue further explanations.

We noted that a column in the spreadsheet identifying export sales identified some sales as domestic. KAE advised that these were sales to bonded areas and that the destination was identified in another column. We noted that the invoice currency for these sales was either US dollars (USD) or HKD. We accepted KAE's explanation.

We also noted that a column in the spreadsheet identifying domestic sales identified some sales as export sales. KAE advised that this column identified the area of responsibility of the sales person responsible for the sales, not destination. We noted that the invoice currency for these sales was RMB. The spreadsheet also identified the customer, customer address and delivery location; none indicated that these sales were export sales. We accepted KAE's explanation.

The spreadsheets from ERP also identified subject and non-subject goods. We noted that domestic sales of non-subject goods represented [redacted] of total domestic sales during the investigation period. KAE stated that it identified non-subject goods as processing revenue, those goods with dimensions outside the nominated ranges and sales with negative numbers. We advised KAE that we considered that returns should be included in the domestic sales spreadsheet. KAE provided a revised domestic sales spreadsheet identifying returns. We reconciled the total quantity and value for each model from this revised spreadsheet to the domestic sales spreadsheet originally provided. Most returns were for non-subject goods and returns for subject goods have no material effect on the domestic sales data previously provided (less than 0.001% of sales value).

We reviewed the spreadsheets from ERP and reconciled the sales value and volume of domestic sales, exports to Hong Kong, exports to KMY and exports to other countries to the revised Exhibit A-6 for total company turnover and turnover of the goods in 2013 and the investigation period. We reconciled the volume and value of domestic sales to the domestic sales spreadsheet originally provided (adjusted to exclude processing revenue).

We are satisfied that the domestic sales information provided by KAE is complete and relevant.

4.2 KMY

Revised Exhibits A-5 and A-6 are at **Confidential Attachment REC 3**.

We asked KMY to verify its Australian sales volumes and values for the investigation period to KMY's 2013 audited accounts. **Confidential Attachment REC 4** is a worksheet from the auditor reconciling amounts in HKD to MR; we verified total revenue to the 2013 audited financial statements. KMY provided copies of income statements, in HKD, for 2013, the first three months of 2013 and the first three month of 2014 (**Confidential Attachment REC 5**). We verified total income for 2013 to auditor's worksheet. KMY provided a summary of the reconciliation from these income statements to the revised Exhibits A-5 and A-6 and to the Australian sales spreadsheet (**Confidential Attachment REC 6**).

KMY provided a line by line listing from ERP of all it sales during the investigation period. Total revenue reconciled to the revised Exhibit A-5 for the investigation period and the total volume and value reconciled to the revised Exhibit A-6. This spreadsheet identified sales by region and customer. The volume and value of total sales to Australia reconciled to Exhibit A-6.

The spreadsheet also identified sales to [redacted]. We reviewed the customer names and addresses and are satisfied sales to Australia have been correctly identified.

KMY identified adjustments deducted from the total export sales for accounting adjustments, other charges and rebates and for non-subject goods. Accounting adjustments were for differences between cancelled and revised invoices and for incorrectly invoiced unit values. We reviewed selected entries and found there was a zero adjustment for quantity, but a small adjustment for value. These adjustments represented 0.02% of the total sales value and we did not pursue further explanations.

Other charges and rebates are mainly [redacted]. The summary of these charges identified the invoice number. We reviewed selected entries and found the gross invoice value did not include these charges in the Australian sales spreadsheet, but they were included in net sales value and corresponding charges such as air freight were excluded from the free on board (FOB) value. [redacted] were included in the FOB value. We are satisfied these charges have been correctly recorded. Other charges and rebates represented [redacted] of the total sales value.

Non-subject goods are those outside the wall thickness, size and weight specifications of the goods, goods sold to Australian customers but delivered to other countries and goods that were not extrusions. The majority of non-subject goods were non-extrusions (grilles). KMY explained that non-subject goods were manually identified by KMY. None of the selected samples included non-subject goods so we requested, and KMY provided, electronic copies of selected invoices including non-subject goods. We reviewed these invoices and noted that the invoices identified non-extrusions and included information on the weight per metre. We are satisfied that subject and non-subject goods have been correctly identified.

We are satisfied that the export sales information provided by KMY is complete and relevant.

5 SALES TO AUSTRALIA

5.1 Background

KMY stated that most of its customers are [redacted] [level of trade]. [redacted] [confidential ordering requirements]. [redacted] [confidential pricing]. [redacted] [confidential ordering arrangements]. The lead time from order to delivery is [redacted].

Exported goods are packaged in interleaved paper and then into timber crates. The bundles have standard heights and weights so the number of pieces per bundle will vary.

Invoices for most customers are expressed in Australian dollars (AUD), but invoices for two customers are expressed in USD. The exchange rate used in the accounting system is the closing spot rate of the last day of the previous month.

Shipping terms for almost 99% of KMY's sales are [redacted] Payment terms vary from customer to customer, [redacted]. KMY calculated the number of days of credit using these payment terms, [redacted].

KAU facilitates sales in Australia but does not take possession of the goods. KMY pays KAU a commission for its services and a copy of the agency agreement was provided in the exporter questionnaire response. We reviewed this agreement and verified that the commission included in the Australian sales spreadsheet reflected the rate in the agreement.

We noted that the Australian sales spreadsheet referred to the type of trade for each sale as inward processing or normal trade. Inward processing sales use imported aluminium while normal trade sales use locally sourced aluminium. The difference affects the amount of refundable VAT.

KMY stated that the price is based on the LME aluminium price at the end of the previous month [redacted] [pricing policy]. The price is only valid for delivery [redacted]. KMY stated that it carries its own foreign exchange risk. KMY stated that the following factors affect [redacted]:

[redacted]

[redacted]

KMY advised that the [redacted]. KMY also stated that it does not offer any rebates or discounts to customers.

5.2 Verification to source documents

KMY provided an Australian sales spreadsheet that included a line by line listing of all sales of like goods to Australia during the investigation period. It provided documents supporting two transactions in its exporter questionnaire response, but we were unable to reconcile all amounts to the Australian sales spreadsheets. We selected a further eight transactions for verification. KMY provided electronic copies of relevant documents to enable us to verify these 10 transactions to the Australian sales spreadsheet. The documents included:

- purchase order;
- order confirmation;
- commercial invoice;
- bill of lading;
- marine insurance contract;
- documents supporting Chinese inland freight;
- documents supporting ocean freight;
- documents supporting Australian inland freight; and
- documents supporting duty paid in Australia; and evidence of payment.

The freight and duty charges are captured in the ERP Star system. Costs are converted from the currency of invoice (RMB for Chinese inland freight, USD for ocean freight and AUD for charges in Australia) to USD in ERP Star and have been converted back to AUD dollars in the Australian sales spreadsheet. The exchange rate in ERP Star is the average of the previous month, but the amounts are converted to Australian dollars using the exchange rate from the accounting system (that is, the rate at the end of the previous month).

These charges are incurred for each bill of lading, which may include one or more containers, numerous invoice numbers and both subject and non-subject goods. For this reason we were unable to verify costs to the Australian sales spreadsheet because it only included subject goods. We were able to verify the total quantity and value for all invoices included in each shipment using the Australian sales spreadsheet and the sales download provided from ERP.

Chinese inland freight is to the nearby port of Gongyi. KMY stated that all barge costs to the main port are included in the ocean freight charges.

Chinese inland freight, ocean freight and Australian inland freight were allocated to each invoice within each shipment using the ratio of weight of the selected invoice to the weight of the container. Duty was allocated using values. We verified the totals to supplier invoices and KMY provided extracts from EPR Star supporting the allocations.

Marine insurance was allocated using [redacted]% of [redacted]% of the gross invoice value. We sighted the marine insurance contract confirming the rate.

As noted in section 6.1, KMY calculated the credit period for each customer. The interest rate applied was the short-term financing rate held by KMY during the investigation period.

KMY received a duty refund of [redacted], of which [redacted] related to shipments during the investigation period. It allocated this amount to DDP shipments of both subject and non-subject goods using the ratio of the duty refund to total sales value. We verified that the total refund allocated to Australian sales equalled the refund received for shipments during the investigation period.

We are satisfied that the export sales data provided by KMY is accurate.

5.3 The exporter

We consider KAP to be the exporter as KAP:

- is the manufacturer of the goods;
- owned the goods at the time of export;
- is the principal in the transaction located in the country of export from where the goods were shipped that gave up responsibility by knowingly placing the goods in the hands of a freight forwarder for delivery to Australia; and
- sent the goods for export to Australia and was aware of the ultimate purchaser's identity.

5.4 The importer

We consider that the Australian customers are the importers of the goods. We noted that the majority of shipping terms are [redacted] and we consider the Australian customers to be the beneficial owners of the goods at the time of their arrival in Australia, and as such, are the importers of the goods. [redacted].

5.5 Arms' length

In relation to KAP's sales to its Australian customers, we found no evidence that:

- there is any consideration payable for in respect of the goods other than price;
- the price is influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- the buyer, or an associate of the buyer, will, directly or indirectly, be reimbursed, be compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.

We are satisfied that transactions between KAP and its Australian customers are arm's length transactions.

5.6 Export price preliminary assessment

Based on the information obtained at the visit we consider that:

- that the goods have been exported to Australia otherwise than by the importer;
- that the goods have been purchased by the importer from the exporter; and
- the purchases of the goods were arms' length transactions.

Therefore, we consider that export prices for sales from KAP to its Australian customers can be established under s. 269TAB(1)(a) of the *Customs Act 1901* (the Act) using the invoiced price less amounts for post exportation expenses.

Export price calculations are at **Confidential Appendix 1**.

6 COST TO MAKE AND SELL

6.1 Introduction

We undertook a tour of KAE's factory and observed extrusions being manufactured.

KAE explained that its production costs are based on actual costs. Its cost centres are the individual workshops such as the workshops for casting, cutting, extruding, anodising, powder coating etc.

KAE explained that the [redacted] [allocation of costs].

6.2 Verification of costs to financial statements

As part of its exporter questionnaire response, KAE provided Appendix A-5, which contains the cost of goods sold (COGS) and SG&A expenses for both the 2013 financial year and the investigation period.

We matched the figures for COGS and SG&A expenses of all goods from Appendix A-5 to the audited financial statements for 2013 (**Confidential Attachment GEN 3**).

KAE provided a reconciliation of the total operating costs from the 2013 audited financial statements to the cost to make (CTM) in the investigation period (**Confidential Attachment CTMS 1**). A summary of the calculation is as follows:

Description	Source
Operating costs for January to December 2013	Audit Report
Less: Operating costs for January to March 2013	Monthly Management Reports
Plus: Operating costs for January to March 2014	Monthly Management Reports
Equals: Operating costs for investigation period	
Less: Adjustments such as non-refundable VAT	Operating Cost Ledger
Equals: COGS in investigation period	
Plus: Ending inventory	Inventory Ledger
Less: Beginning inventory	Inventory Ledger
Less: Minor adjustments	Inventory Ledger
Equals: CTM for investigation period	

KAE provided supporting documentation (such as the inventory ledgers, operating costs ledgers and management reports) and identified each of the amounts referred to above (**Confidential Attachment CTMS 2**). We matched the amounts in the calculation, noting an immaterial variance for the investigation period of [redacted] RMB, which is less than 0.01%.

6.3 Verification of costs to source documents

6.3.1 Production volume

In its exporter questionnaire response, KAE provided a cost to make and sell (CTMS) spreadsheet, which provided production quantity and unit CTMS by product code for each quarter of the investigation period. At the visit, KAE provided a revised version of this CTMS spreadsheet, to exclude the costs of a minor amount of non-subject goods relating to processing revenue (**Confidential Attachment CTMS 3**).

KAE also provided in its exporter questionnaire response a CTM spreadsheet, which reported the total manufacturing costs for each cost centre for each month of the investigation period. As with the CTMS spreadsheet, a revised CTM spreadsheet was provided at the visit to exclude non-subject goods (**Confidential Attachment CTMS 4**).

KAE explained that it also manufactured non-subject goods such as [redacted]. The production volumes and total manufacturing costs from the CTM spreadsheet, when filtered to exclude non-subject goods, match the total CTM in the CTMS spreadsheet.

We asked KAE to demonstrate where the figures in the CTM and CTMS spreadsheets were sourced. KAE explained that each month it prepared a monthly cost workbook. The monthly cost workbooks contain, among other things, production records for each of the workshops at the factory and a summary of the volumes and costs for the month. KAE provided copies of the cost workbooks for each month of the investigation period (**Confidential Attachment CTMS 5**).

We matched the production volume for aluminium extrusions and non-subject goods from the monthly cost workbooks to the CTM and CTMS spreadsheets. We noted that non-subject goods comprise [redacted] the total volume and value of all goods. We asked KAE to explain why for some months there were negative production volumes in the CTM spreadsheet. KAE advised that these amounts were for defective goods sent back into production. For these goods, the costs were reversed and reallocated in the month the goods became finished goods again.

6.3.2 Aluminium costs

We observed from the CTM spreadsheet that the cost of 'aluminium and other alloys' comprised around [redacted]% of KAE's total CTM. KAE explained that ordinarily, at a high level, aluminium costs are not reported separately. KAE explained that it was possible to separate aluminium costs and alloy costs from the cost workbooks; however this requires a manual calculation.

To provide an estimate for the purposes of this review, KAE calculated a ratio of aluminium to alloy costs for two months of the investigation period. From this calculation, KAE estimated that, of aluminium and other alloys, aluminium represented [redacted]% by volume whereas alloys represented only [redacted]% by volume. Alternatively, the proportions were [redacted]% and [redacted]% respectively by value. We noted that, if required, a similar calculation could be carried out for the entire investigation period to determine the actual aluminium costs.

In order to verify the aluminium costs, we used the April 2013 cost workbook as an example. The April 2013 cost workbook shows, among other items, the quantity and value of aluminium transferred in, the quantity and cost of items transferred out [redacted].

KAE stated that it is not related to its suppliers of aluminium ingot and billet.

Aluminium Ingot

The casting workshop shows, for April 2013, a total of [redacted] tonnes of imported ingot and [redacted] tonnes of domestic ingot transferred in at a total cost of around [redacted] million RMB.

We asked KAE to provide the aluminium ingot inventory ledgers for the investigation period (**Confidential Attachment CTMS 6**). The aluminium ingot ledgers show the quantity and value of purchases of ingot, and the quantity and cost of ingot transferred into production. We matched the quantity and value of imported ingot transferred to the casting workshop from the imported aluminium ingot ledger to the cost workbook for April 2013.

We observed that ingot transferred into the April 2013 cost workbook was valued at a weighted average unit cost and that this calculation matched the aluminium ingot ledger.

We then asked KAE to match a purchase of imported ingot from the imported ingot ledger to the aluminium purchase summary it provided as part of the exporter questionnaire response (**Confidential Attachment CTMS 7**).

In conducting this exercise, we noted that the volume from the imported ingot ledger matched the aluminium purchase summary, but there was a minor difference in the unit value. We requested a copy of the invoice for this ingot purchase. The unit price from the invoice matched the imported ingot ledger; therefore it was identified that there was an error in the aluminium purchase summary. KAE reviewed the aluminium purchase summary and found this to be an isolated error. An updated copy of the aluminium purchase summary was subsequently provided by KAE (**Confidential Attachment CTMS 8**).

We requested copies of three ingot and billet purchase invoices from May 2013 and February 2014. These documents form **Confidential Attachment CTMS 9**. The quantities and values on the invoices matched the amounts in the aluminium purchase summary and the respective ledgers.

We also observed that KAE's purchases of imported ingot and billet are cost, insurance and freight (CIF) to Gongyi port, which is in close proximity to KAE's factory. We asked KAE to explain what expenses are incurred in transporting the imported goods to its factory. KAE explained that the costs include a charge of [redacted].
KAE provided a freight contract and three examples of the costs incurred in the investigation period, which worked out to be around [redacted] (**Confidential Attachment CTMS 10**).

Aluminium billet

The April 2013 cost workbook for the casting workshop shows that [redacted] tonnes of self-made billet was transferred to the cutting workshop. We matched the quantity and value of self-made billet from the cutting workshop to the ledger for short billet (**Confidential Attachment CTMS 11**). The cost of self-made billet is derived from an accumulation of the ingot and scrap costs, plus other costs of the workshop such as chemicals, fuels, electricity, wages and depreciation.

In addition to self-made billet, KAE purchased an amount of [redacted] tonnes of billet from [redacted] in [redacted] and [redacted] tonnes of domestically produced billet during the investigation period. We reconciled the billet purchases to the purchased billet ledger (**Confidential Attachment CTMS 12)**. KAE explained that during the investigation period, it sourced a large amount of billet from third parties because it was upgrading its plant, which limited its production of self-made billet.

We examined the cost workbooks for extrusion workshop 2 in April 2013 to verify the cost of billet used in production. The cost workbook shows [redacted] tonne of billet at a cost of [redacted] RMB entered into production. We matched the quantity and cost to the ledger for short billet. The unit cost of the billet is calculated as [redacted].

The aluminium cost assigned to finished product from extrusion workshop 2 is an accumulation of [redacted].

Scrap

KAE explained that there are four types of scrap used in the casting workshop:

- billet ends;
- scrap extrusions;
- cutting dust; and
- scrap ingots

KAE provided the inventory ledgers for each type of scrap used in the casting workshop for April 2013 (**Confidential Attachment CTMS 13**).

The cost workbook for April 2013 shows that a total of [redacted] tonnes of scrap at a value of around RMB [redacted] million was transferred into the casting workshop. KAE explained that the volume is an actual amount and the unit cost is an estimation of the market value of the scrap, calculated as a percentage of ingot consumption cost.

For billet ends and scrap extrusions, the cost is [redacted]% of ingot consumption cost (recognising that it is mostly recyclable). For aluminium dust, the cost is [redacted]% of ingot consumption cost (reflecting that the dust contains impurities). For scrap ingots the cost is [redacted]% of ingot consumption cost (reflecting that alloys have to be removed). We verified these percentages for the cost workbook for April 2013.

The April 2013 cost workbook for the casting workshop shows a total of [redacted] tonnes of material going into the workshop, and [redacted] tonnes of billet being produced, comprising finished billet and work in progress at the end of April 2013. The cost workbook shows that, of the difference, [redacted] tonnes was scrap able to be recycled and [redacted] tonnes can be attributed to melt loss. This equates to a melt loss rate of [redacted]%. The melt loss ratio from the March 2014 Cost Workbook was [redacted]% which appears reasonable.

We observed that the largest item of scrap produced by the casting workshop for April 2013 was scrap ingots, representing [redacted] tonnes at a unit price of [redacted] RMB. We matched the entry of the scrap ingots from the cost workbook to the scrap ingot ledger by volume and unit price and confirmed the unit price equated to [redacted] of ingot consumption value.

KAE advised that scrap is produced in various other workshops. For example, the April 2013 cost workbook for extrusion workshop 2 shows that [redacted] tonnes of scrap was recycled in April 2013. The scrap was valued at [redacted] million RMB or [redacted] RMB per tonne, which reconciles as [redacted]% of ingot consumption value. We matched the quantity and cost to the scrap inventory ledger for April 2013.

6.3.3 Overheads

The main overheads recorded in the monthly CTM and CTMS spreadsheets include wages and welfare, manufacturing expenses, fuel and oil, depreciation, electricity, chemicals and packing.

KAE advised that these costs are allocated to each workshop based on the actual costs of that workshop. To demonstrate the source of the costs for extrusion plant 2 in the cost workbook in April 2013, KAE provided a cost ledger for April 2013 (**Confidential Attachment CTMS 14**). The values for extrusion workshop 2 in the cost ledger matched the cost workbook.

Wages and welfare

KAE advised that each month the wage costs are estimated based on the production schedule for the month. The difference between the estimated and actual wages is allocated in the following month.

Depreciation

We asked KAE to provide supporting documentation in relation to the depreciation expense for extrusion workshop 2 in April 2013. KAE provided a depreciation and amortisation schedule (**Confidential Attachment CTMS 15**). The schedules show the depreciation expense for fixed assets, plus the amortisation of the dies. We matched the amounts from the schedules to the Cost Workbook for April 2013.

Fuel and oil

KAE advised that fuel and oil are allocated to products by volume. Any work in progress at the end of each month carries forward the same allocation into the next month.

Electricity

We asked KAE to explain how the usage and unit price of electricity was calculated for April 2013. KAE explained that each workshop has a separate electricity meter to capture the total wattage for each month. KAE provided an invoice for electricity in April 2013 (**Confidential Attachment CTMS 16**). The unit price from the invoice matched the unit price for each workshop in the April 2013 cost workbook.

Chemicals (including powder coating and anodising costs)

KAE advised that, up until mill finish stage, the chemical costs will be allocated to all products based on actual costs. KAE stated that the chemical costs are not substantial at this point.

For later stages such, where the costs are more substantial, the chemicals costs are allocated to the finished goods particular to the various workshops. For example, powder coating costs are allocated to finished goods of the powder coating workshop. In addition, through the use of multiple product codes, KAE can capture the differences in costs for the various standards and thickness of powder.

Packing

KAE explained that some of the workshops, for example extrusion workshop 2, recorded minor costs for packing. KAE explained that these costs mainly relate to products that require simple packaging, such as wrapping.

Goods requiring specific packing are sent to the packing workshop. We observed that the main expenses incurred in the packing workshop were packing and other materials, electricity, wages and depreciation. Using the cost workbooks, we matched quantities transferred into the packing workshop to the transfers of goods out of the various other workshops.

We note that packing materials [redacted]% of the total CTM the finished goods.

6.3.4 Selling, general and administrative expenses

As discussed above at section 6.2.1, we matched the total SG&A for 2013 and the investigation period provided by KAE in its Appendix A-5 to the audited financial statements.

In relation to the investigation period, KAE provided a summary of each SG&A item (**Confidential Attachment CTMS 17**). We asked KAE to explain why interest on borrowings was not included in the SG&A summary. KAE advised that it did not include items relating to amounts included in the export and domestic sales listings, e.g. amounts relating to credit costs and domestic inland transport.

We explained that the credit costs included in the export and domestic sales listings are relevant for the purposes of making an adjustment; however the interest on borrowings are separate and will be required in SG&A. The SG&A calculations were revised accordingly.

In relation to domestic inland transport, we noted that a proportion of KAE's sales are ex-works. For this reason, we consider it reasonable to remove domestic inland transport from SG&A and calculate the ordinary course of trade (OCOT) test at an ex-works level. However, we explained to KAE that, if required to construct normal values, the normal value will be calculated at FOB level. We asked KAE to provide the accounting entries for transport to confirm the amounts related to domestic inland transport (**Confidential Attachment CTMS 18**).

We asked KAE to explain why an amount for packing expenses also appeared in SG&A, given that packing expenses are recorded in the cost workbooks. KAE advised that if packaging is particular to a certain product, it will be recorded as an expense in the packing workshop. However, if a domestic customer has a special packing request, it is recorded in SG&A.

To allocate the SG&A expense to the goods under consideration, KAE divided the operating expenses of the goods under consideration by the total operating expenses.

6.4 Cost to make and sell – conclusion

We satisfied that the costs submitted by KAE in the domestic CTMS spreadsheets, as amended during the visit, represent the actual CTMS for the goods under consideration during the investigation period. We consider these costs are suitable for:

- assessing OCOT of domestic sales; and
- determining a constructed normal value.

The CTMS of the goods on the domestic market are at **Confidential Appendix 2**.

7 DOMESTIC SALES

7.1 Background

KAE stated that goods exported to Australia were typically for [redacted] domestic sales were [redacted]. Domestic sales are mainly [redacted]. These products [redacted] [typical quality differences]. KAE advised that the higher quality requirement resulted in higher costs in the form of lower recovery rates and longer production times.

KAE stated that for some polished products, the quality requirements were so strict that [redacted].

KAE stated that all its domestic customers are at the same level of trade.

The company's price is determined [redacted] [pricing policy].

For most customers the starting point for price is the Nanhai metal price for the current month; however some customers request that the price be based on the Shanghai metal index. KAE stated that the Nanhai price is normally higher because of its location. It also stated that it does not use imported aluminium for domestic sales. KAE stated that no commission, discount, rebates or allowances were offered on domestic sales.

Most customers request delivery from KAE, although some use their own freight forwarder to pick up the goods from the factory.

Domestic sales are usually wrapped in paper or plastic. Typically domestic sales do not require a wooden frame and are layered in the truck for delivery. Some domestic goods that are required to be delivered a long distance from the factory may require additional packaging.

Payment terms vary [redacted].

7.2 Verification to source documents

KAE provided a domestic sales spreadsheet that it stated included a line by line listing of all domestic sales of like goods during the investigation period. We noted that the spreadsheet included [redacted]. KAE stated that [redacted]. It confirmed this also applied to exports to Australia. We noted the export sales spreadsheet also included weight per kilogram.

KAE provided documents supporting two transactions in its exporter questionnaire response. Prior to the visit we selected a further nine transactions for verification. KAE provided electronic copies of relevant documents. The documents included:

- purchase order
- sales contract
- VAT invoice;
- line by line summary; and
- evidence of payment.

We verified the two samples provided in the exporter questionnaire response to the domestic sales spreadsheet and to the line by line listing from ERP for the investigation period. For three of the additional selected samples we were able to reconcile the documents to the line by line listing from ERP, but not the domestic sales spreadsheet. KAE explained that the domestic sales spreadsheet did not include non-subject goods. We were able to identify non-subject goods and processing revenue in the line by line summary for each sample.

KAE provided accounts receivable reports to enable us to reconcile payment to the sample invoices provided (**Confidential Attachment DOM 1**).

Inland freight

KAE provided an electronic copy of its inland freight price list. Inland freight was calculated using the rate applicable to each company multiplied by the weight of the shipment.

Credit terms

KAE provided the credit terms for each customer. It stated that the credit period for each customer is based on the agreed payment terms in the sales contracts. The interest rate used was the rate for short-term loans held by KAE during the investigation period.

7.3 Arms' length

In respect of KAE's domestic sales of aluminium extrusions, we found no evidence that:

- there is any consideration payable for or in respect of the goods other than their price; or
- the price is influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- the buyer, will, subsequent to the purchase or sale, directly or indirectly, be reimbursed, be compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.

We consider the domestic sales of aluminium extrusions by KAE were arm's length transactions.

7.4 Ordinary course of trade

We compared the unit net price paid for each domestic sale to the fully absorbed CTMS for the corresponding quarter. We then compared the selling prices of the loss making sales with the weighted average CTMS for the investigation period to test whether some of those sales may be taken to be recoverable within a reasonable period of time. We calculated the percentage of unrecoverable sales for each product code.

We found that for seven products codes the volume of unrecoverable sales was greater than 20% of the total sales volume of that product code. We only used profitable and recoverable sales of those product codes to establish normal values. We have used all sales of other product codes to establish normal values.

7.5 Volume and suitability of sales

We compared the volume of profitable and recoverable sales for each product code with the volume of sales of the corresponding product codes exported to Australia. We found that for three product codes there was an insufficient volume of domestic sales. We have constructed normal values for these product codes, including the profit on domestic sales of like goods that were in the OCOT.

7.6 Sales by other sellers

We are aware that certain other aluminium extrusion manufacturers based in China have exported the goods to Australia in the investigation period are being visited as part of this review. It is possible that the domestic sales by those other sellers could be used as an alternative basis for normal value for KAE.

7.7 Domestic sales – summary

We found the price paid for the goods in those domestic sales was established satisfactorily. Based on the information provided by KAE, and the verification processes conducted on site, we consider that for product codes where there is a sufficient volume of domestic sales the prices paid in respect of those sales are suitable for establishing normal values under s. 269TAC(1) of the Act. Where there is not a sufficient volume of domestic sales, normal values for those models can be established under s. 269TAC(2)(c) of the Act using the CTMS plus an amount for profit.

OCOT and sufficiency calculations are at **Confidential Appendix 3**.

8 THIRD COUNTRY SALES

As we considered that we were in possession of enough verified information from the submission and our visit to calculate normal values using domestic sales or a construction method, we did not undertake verification of the third country data.

9 ADJUSTMENTS

9.1 Costs associated with export sales

9.1.1 Export inland freight

KMY provided details of freight to the nearby port of Gongyi. We have made a positive adjustment for the cost of export inland freight.

9.1.2 Export credit

As noted in Section 5.1, KMY calculated the credit period for each customer. The interest rate applied was the short-term financing rate held by KMY during the investigation period. We have made a positive adjustment for the cost of export credit.

9.1.3 KMY's SG&A expenses

KAE manufacturers the aluminium extrusions exported to Australia by KAP. We have made a positive adjustment for KMY's SG&A expenses.

9.1.4 KAU commission

As noted in section 6.1, KMY pays KAU a commission for its services. We have made a positive adjustment for the commission paid to KAU.

9.1.5 Non-refundable VAT

Consistent with investigation 148, we consider it necessary to apply a positive adjustment to normal values to take into account non-refundable VAT. The positive adjustment in investigation 148 was calculated as a weighted average, based on the actual residual export VAT liability (after refund).

KAE advised that it was entitled to a partial refund of VAT for exported goods during the investigation period, however the amount of refund depends on whether the exported goods were produced from imported aluminium (inward processing) or locally produced aluminium (normal trading). The non-refundable VAT component for normal trading is 4%. The non-refundable VAT component for inward processing is 66.4% (an amount set by the Chinese Customs authority) of 4%.

To support this adjustment KAE provided a summary of its VAT refunds (**Confidential Attachment ADJ 1**) for the investigation period.

As outlined in Section 4.1, KAE advised that it does not sell goods on the domestic market using imported aluminium. Therefore we consider that the positive adjustment should be based on the non-refundable VAT associated with normal trading, which is equivalent to 4%.

9.1.6 Domestic inland freight

As noted in Section 8.2, KAE provided an electronic copy of its inland freight price list. Inland freight was calculated using the rate applicable to each company multiplied by the weight of the shipment. We have made a negative adjustment for domestic inland freight.

9.1.7 Domestic credit

As noted in Section 8.2, KAE provided the credit terms for each customer. It stated that the credit period for each customer is based on the agreed payment terms in the sales contracts. The interest rate used was the rate for short-term loans held by KAE during the investigation period. We have made a negative adjustment for domestic credit terms.

9.2 Other costs

9.2.1 Packing costs

We asked KAP whether an adjustment should be made for different packaging associated with domestic and export sales. KAP advised that although export sales ordinarily require sturdier packaging than domestic sales because of the distance to be travelled, many of the company's domestic sales are transported by road over long distances in China and also require similar packaging to exports. KAP advised that any difference in the cost of domestic and export packaging would be insignificant. We consider this reasonable given that, as outlined in Section 6, packing costs represent only a small proportion of the total CTM and that domestic customers sometimes had special packing costs which are captured in SG&A.

10 NORMAL VALUE

We consider that information gathered and detailed in this report and its attachments can be relied upon to establish normal values for comparison with export prices for aluminium exported to Australia during the investigation period under s. 269TAC(1) and s. 269TAC(2)(c) of the Act. We have made adjustments to the normal values under s. 269TAC(8) and s. 269TAC(9) of the Act to make them comparable with export prices by:

- deducting domestic inland freight;
- deducting costs for domestic credit
- adding export inland freight;
- adding export credit
- adding KMY's SG&A expenses;
- adding KAU commission; and
- adding non-refundable VAT.

Normal value calculations are at **Confidential Appendix 4**.

11 DUMPING MARGIN – PRELIMINARY ASSESSMENT

In calculating the dumping margin we compared each export transaction with the corresponding normal value. The weighted average product dumping margin is 0.6%.[2] The dumping margin calculation is at **Confidential Appendix 5**.

[2] It is noted that in the original investigation the ACBPS considered it appropriate to determine the cost of production for aluminium extrusions sold domestically by replacing the cost of primary aluminium with a competitive market cost for the purposes of assessing whether domestic sales were sold in the ordinary course of trade. The Commission is currently reviewing its approach for the purposes of this review; therefore no such replacement has been made for the purposes of the preliminary dumping margin in this report.

12 COUNTERVAILING

12.1 General

As part of the exporter questionnaire, KAE was asked to provide responses regarding the 43 countervailable subsidies identified as part of the original investigation as well as 19 additional programs included as part of this review. KAE provided general commentary regarding the 19 additional programs covered by the review. Subsequent to the visit, KAE provided a submission in relation to the additional subsidies (**Attachment SUB 1**).

In summary, in KAE's view, the Commission has breached its obligations under the WTO Agreement on Subsidies and Countervailing Measures (ASCM), in particular:

- Article 13.1 by not consulting with the Government of China (GOC) before adding the additional programs;
- Article 11.2 because the application[3] for the additional programs did not include sufficient evidence of the existence of a subsidy; and
- Article 11.3 (and s. 269TCZ(2)(c)(i) of the Act) which requires the Commission to review the accuracy and adequacy of the evidence in the application for the additional programs, to determine whether the evidence is sufficient to justify investigation.

Notwithstanding the above, KAE cooperated fully with the review by completing all sections of the exporter questionnaire and providing relevant confidential attachments where applicable.

12.2 Previously applicable programs

During the original investigation, the ACBPS found KAE to have received countervailable subsidies in respect of:

- program 13 – Tariff and VAT exemptions on imported materials and equipment; and
- program 15 – Aluminium provided by government at less than fair market value.

12.2.1 Program 13

As part of its exporter questionnaire response, KAE provided a full listing of its VAT and tariff refunds received on imported equipment from 2005 (**Confidential Attachment SUB 2**). KAE provided source documents for an equipment purchase at **Confidential Attachment SUB 3**). We calculated that the subsidy rate attributable to exported goods during the investigation period in relation to this program was 0.17%.

[3] Capral's submission to include additional subsidy programs at no 8 of EPR for case 248

12.2.2 Program 15

In its exporter questionnaire response, KAE stated that it did not purchase any primary aluminium from state-owned enterprises (SOEs) during the review period.

As outlined previously, KAE provided an aluminium purchase summary and ledgers listing its purchases of ingot and billet, which were verified at Chapter 6.

We noted that the aluminium purchase summary listed three suppliers which KAE confirmed were in fact traders. For two of the traders, KAE had provided details of the manufacturing entities. However for the remaining trader, KAE stated that it would be difficult to identify all the manufacturers, due to the substantial number of transactions. We asked KAE to provide a mill certificate for one aluminium purchase from this trader. From the mill certificate, we noted that it was possible to identify the manufacturer. We explained to KAE that to ensure the aluminium purchase summary was relevant and accurate, we would require KAE to link each transaction to the respective manufacturer and to indicate whether the manufacture was a SOE.

Subsequent to the visit, KAE provided an updated aluminium purchase summary to address our request (**<u>Confidential Attachment SUB 4</u>** refers).

The revised spreadsheet shows that approximately [redacted]% of KAE's domestically sourced ingot was produced by a SOE. To calculate whether a benefit was received by KAE through its purchase of SOE produced aluminium, a comparison will be made between KAE's purchase price (taking into account relevant adjustments such as delivery and traders premium verified at Section 6) to appropriate benchmark aluminium spot prices during the investigation period.

12.3 Preferential income tax programs

In its exporter questionnaire response, KAE stated that it did not receive any benefits under the programs referring to preferential income tax, except program 48 during the review period.

12.3.1 Program 48

KAE stated in its exporter questionnaire response that the description of program 48 by Capral in its application was incorrect. The benefit of tax offset for research and development (R&D) that KAE received was based on Article 30 of Enterprise Income Tax Law of China.

KAE stated that the income tax reduction is not limited to the Guangdong Province and is available to all Chinese enterprises incurring R&D expenses. KAE stated that eligibility to this program is automatic and there is no specificity in accordance with Article 2.1 of the ASCM. KAE also stated that the alleged specificity in Capral's application is unfounded because the program is not targeted to particular products such as the aluminium extrusion industry.

KAE stated that it receives this tax offset once a year. KAE provided the 2013 record form of this program from Dajiang Tax Sub Bureau of the State Tax Bureau of Taishan City at **<u>Confidential Attachment SUB 5</u>**.

KAE stated that because the offset occurs only when income tax is paid, benefits under this program cannot be found in the accounting system. Therefore, for the review period, KAE considered it necessary to include only 9 months of the amount received for 2013 (should the program be found to be countervailable).

However, we note that, based on KAE's income tax returns for 2011, 2012 and 2013 (under the label for other deductions), KAE has received a recurring benefit under this program. As a result, we explained that the Commission may consider it reasonable to include an amount for the first quarter of 2014 to reflect that a benefit is likely to have been received for the full the review period.

12.3.2 Other preferential income tax programs

In its exporter questionnaire response KAE stated that it received a reduced income tax rate of 15% during the review period; however the reduced rate was not under any of the listed programs.

The income tax reduction was provided on account of qualifying as a high and new technology enterprise under Article 28 the Enterprise Income Tax Law of China.

KAE stated that this program is not the same as the listed program 47 and that the legal basis of the two programs is different. KAE provided two circulars relating to program 47 to substantiate these claims:

- Circular of the State Council Concerning the Approval of the National Development Zones for New and High Technology Industries and the Relevant Policies and Provisions (**Confidential Attachment SUB 6**); and
- Provisions on the Tax Policy for the National Development Zones for New and High Technology Industries (**Confidential Attachment SUB 7**).

KAE highlighted that the circulars for program 47 came into effect in 1991, whereas the Enterprise Income Tax Law of China came into effect in 2008. KAE stated that the beneficiaries of the programs are also different. High and new technology enterprises must be located in specific areas to benefit from program 47, whereas the Enterprise Income Tax Law of China is open to all enterprises in China.

In relation to Article 28 of the Enterprise Income Tax Law of China, KAE stated that an application is required to qualify as a high and new technology enterprise. Once approved, the enterprise will receive certification allowing it to obtain the preferential income tax rate. KAE provided a copy of its certification from Dajiang Tax Sub Bureau of the State Tax Bureau of Taishan City at **Confidential Attachment SUB 8**.

KAE provided its corporate income tax returns for 2011, 2012 and 2013 at **Confidential Attachment SUB 9**. The income tax returns confirmed that tax was payable at 15% during this period. KAE also provided an income tax summary which showed that the income tax reduction continued to apply to KAE in the first quarter of 2014 at **Confidential Attachment SUB 10.**

KAE stated that the program benefited all production of the company.

12.4 Grants and preferential policies

KAE reiterated that it does not consider the additional programs investigated as part of this review to be actionable. Nonetheless, KAE provided a full listing of the grants it received from the beginning of 2011 at **Confidential Attachment SUB 11**.

In its exporter questionnaire response KAE provided some general comments about these grants:

- for most grants there was a written application and approval procedure. However, some of the smaller grants required no written application.
- most grants related to R&D, environment protection and energy saving.
- all grants were received as a one off lump sum and benefited all production of KAE.
- all grants were accounted as subsidy income in KAE's financial statements.

We were able to match the amounts in the listing of grants to KAE's financial statements for 2011, 2012 and 2013.

12.5 Preferential loans

In its exporter questionnaire response, KAE stated that it has loans borrowed from state-owned commercial banks, but hasn't received loans from policy banks since 1 January 2005.

KAE provided two spreadsheets for loans and short term trade financings, at **Confidential Attachment SUB 12** and **Confidential Attachments SUB 13**. KAE considers that the short term trade financings are not loans.

KAE provided a sample loan contract (at **Confidential Attachment SUB 14)**. This loan contract was entered into prior to the review period. KAE explained that it did not obtain new loans from any bank during the review period.

12.6 Provision of goods programs

In its exporter questionnaire response KAE stated that it purchased water and electricity from SOEs, however no goods were purchased at less than market price.

KAE provided a listing of its electricity, gas and water suppliers at **Confidential Attachment 15**. KAE advised that the rates in the listings are VAT inclusive. KAE provided the average monthly purchase prices for electricity, water and gas (**Confidential Attachment 16**). As outlined in Chapter 6, we verified the amounts for electricity in April 2013.

12.7 Subsidy calculations

The Commission is in possession of sufficient information to calculate a countervailing benefit for all programs examined, should the programs be determined to be countervailable.

The visit team's preliminary subsidy calculations are at **Confidential Appendix 6**.

13 LIST OF APPENDICES AND ATTACHMENTS

Confidential Appendix 1	Export price
Confidential Appendix 2	CTMS
Confidential Appendix 3	Domestic sales – OCOT and sufficiency
Confidential Appendix 4	Normal values
Confidential Appendix 5	Dumping margin calculations
Confidential Appendix 6	Preliminary subsidy calculations
Confidential Attachment GEN 1	Corrections
Confidential Attachment GEN 2	KMY's income statement to September 2014
Confidential Attachment GEN 3	KMY's 2013 audited financial statements
Confidential Attachment GEN 4	Product codes
Confidential Attachment REC 1	Revised Exhibits A-5 and A-6 for KAE
Confidential Attachment REC 2	General ledger sales summaries for 2013 and the investigation period
Confidential Attachment REC 3	Revised Exhibits A-5 and A-6 for KMY
Confidential Attachment REC 4	Auditor's spreadsheet
Confidential Attachment REC 5	KMY income statements in HKD
Confidential Attachment REC 6	Reconciliation from income statements to the revised Exhibits A-5 and A-6 and Australian sales spreadsheet
Confidential Attachment CTMS 1	Reconciliation of COGS to CTM
Confidential Attachment CTMS 2	Source documents for reconciliation of COGS to CTM
Confidential Attachment CTMS 3	Updated CTMS spreadsheet
Confidential Attachment CTMS 4	Updated CTM spreadsheet
Confidential Attachment CTMS 5	Monthly Cost Workbooks
Confidential Attachment CTMS 6	Ingot ledgers
Confidential Attachment CTMS 7	Aluminium purchase summary
Confidential Attachment CTMS 8	Updated aluminium purchase summary
Confidential Attachment CTMS 9	Ingot and billet purchase source documents
Confidential Attachment CTMS 10	Aluminium freight contract
Confidential Attachment CTMS 11	Short billet ledger
Confidential Attachment CTMS 12	Purchased billet ledger
Confidential Attachment CTMS 13	Scrap ledgers
Confidential Attachment CTMS 14	April 2013 cost ledger
Confidential Attachment CTMS 15	Depreciation and amortisation schedule
Confidential Attachment CTMS 16	April 2013 electricity invoice
Confidential Attachment CTMS 17	Itemised SG&A summary
Confidential Attachment CTMS 18	Domestic transport summary
Confidential Attachment DOM 1	Accounts receivable reports

Confidential Attachment ADJ 1	VAT refund summary
Attachment SUB 1	KAE submission re countervailable subsidy programs
Confidential Attachment SUB 2	VAT and tariff refund summary
Confidential Attachment SUB 3	Imported equipment purchase source documents
Confidential Attachment SUB 4	Updated aluminium purchase summary
Confidential Attachment SUB 5	Record form tax authority for program 48
Confidential Attachment SUB 6	Circular 1 for program 47
Confidential Attachment SUB 7	Circular 2 for program 47
Confidential Attachment SUB 8	Certification for income tax for reduction
Confidential Attachment SUB 9	Income tax returns for 2011, 2012 and 2013
Confidential Attachment SUB 10	Income tax summary
Confidential Attachment SUB 11	Listing of grants received
Confidential Attachment SUB 12	Loan schedule
Confidential Attachment SUB 13	Short term financial schedule
Confidential Attachment SUB 14	Sample loan contract
Confidential Attachment SUB 15	Water, gas and electricity suppliers
Confidential Attachment SUB 16	Average purchase prices for electricity, water and gas