Wickes dumping specialists

29 August 2012

No. 157

John Bracic
Director Operations1
International Trade Remedies Branch
Australian Customs and Border Protection Service
5 Constitution Avenue
CANBERRA ACT 2601

Unsuppressed selling price and non-injurious price

This submission is made on behalf of Capral Ltd in relation to Review 186 of the anti-dumping and countervailing measures that apply to certain aluminium extrusions exported from China. We refer specifically to Customs' revision of the non-injurious prices (NIPs) and the unsuppressed selling prices (USPs) on which the NIPs are based.

We understand that the current NIPs are derived from USPs determined using methodology outlined in the original investigation—ie USPs based on Capral's cost to make and sell (CTMS) by finish with no profit added.

We support the continued use of Capral's CTMS as the basis for the USPs but submit that it is unreasonable to exclude an amount for profit. We also submit that the USPs should be adjusted to reflect known increases to the CTMS for the carbon tax and aluminium premiums.

Inclusion of profit

The basis for Customs' decision not to include an amount for profit in the current USPs was its opinion that "while Capral may have achieved higher selling prices in the absence of dumped or subsidised prices, the prices achieved during the investigation period may not have been sufficient to recover Capral's full CTMS".[1]

This reasoning fails to recognise the time required for the industry to recover from long periods of dumping. The original investigation analysed the 12-month investigation period to assess USPs based on the variables at play during this period, but this did not in our opinion result in a level of measures required to provide the local industry with time to recover from the material injury caused by dumping—eg by enabling investment in new equipment.

[1] *Report 148: certain aluminium extrusions exported from China*, p.88

We submit that an amount for profit must be included in the USP calculations and the level of profit applied should reflect a reasonable return on investment for the industry.

Customs needs to be cautious in attempting to use actual profit benchmarks for 'like' industries, as we would argue that in this case there is virtually no comparable industry that has not been impacted, at least to some degree, by dumped imports.

Capral is Australia's largest manufacturer of aluminium extrusions and the most comparable to the Chinese manufacturers that have caused significant damage to the Australian industry. In order to compete with Chinese exporters, Capral must service a broad range of customers and markets with a wide variety of products, which adds complexity and costs that other Australian industry members would not incur. This necessitates investment in:

- multiple extrusion presses providing the capability to produce a full range of profile sizes and alloys
- finishing lines providing the capability to produce powder coated and anodized extrusions, and
- an extensive national distribution network.

We submit that an objective measure of the minimum return that Australia's aluminium extrusions industry must achieve to maintain ongoing operations is Capral's weighted average cost of capital (WACC). The WACC is the minimum return that a company must earn on an existing asset base to satisfy its creditors, owners, and other providers of capital, or they will invest elsewhere.[2]

Capral's WACC calculations are at **Confidential Attachment 1**. This data is updated by Capral's chief financial officer every six months and is audited by Deloitte Australia. The current WACC rate for Capral is [redacted]% (Cell E49). The rate for comparable companies with a longer-term optimal debt to equity structure (30/70 ratio) is [redacted]% (Cell L49).

We therefore submit that the USPs should include an amount for profit, calculated at a rate of [redacted]%.

Increased costs due to carbon tax

The CTMS data on which USP is to be based is for the review period 1 April 2011 to 31 March 2012. However, from 1 July 2012 Capral and all Australian producers are subject to the carbon tax, which increases their costs.

Capral has calculated the initial impact of the carbon tax on its operations as $[redacted] per kg (see calculations at **Confidential Attachment 2**). This is likely to rise next year when the aluminium smelters begin to pass through their

[2] http://en.wikipedia.org/wiki/Weighted_average_cost_of_capital

increased energy costs—they are currently not affected due to the government rebates, but these rebates begin to diminish next year.

The USPs determined as a result of this review will apply only to a period subsequent to the introduction of the carbon tax; therefore we submit that the USPs should include an additional amount of $[redacted] per kg for the carbon tax.

Aluminium premium increases

In addition to the carbon tax, Australian aluminium extrusion producers have been subject to another known cost increase subsequent to the review period—namely increases to premiums charged by Australian aluminium smelters.

Purchasers of physical aluminium incur a premium over and above the London Metal Exchange (LME) price. There are a number of global standard premiums, but the regional Major Japanese Ports (MJP) premium is used in Australia.

On 1 July 2012 the MJP rose nearly 80%, from $115 to $205 per tonne, after being relatively stable over a number of years. This substantial increase is a result of tightening supply of primary aluminium as producers cut output and global warehouses hold on to stock, driven by the sustained low price for aluminium on the LME.

A chart showing MJP and LME trends is at **Attachment 3**. A copy of industry journal *Platts Metals Week* from July highlights the premium increase and is at **Attachment 4** (p.2 refers).

The effect of a $90 per tonne ($0.09/kg) increase in the MJP is a $[redacted]/kg increase in Capral's CTMS—being $0.09/kg divided by Capral's metal recovery factor of [redacted]%.

The evidence at **Attachment 4** (p.2) also points to a likely further increase in the MJP from 1 October 2012—ie. for the fourth quarter (Q4) 2012. Current spot price premiums of $230 to $235 per tonne suggest that the MJP will increase by another $0.03-0.04/kg in Q4. This equates to a cost increase of $[redacted]-[redacted]/kg (based on [redacted]% metal recovery rate). Capral will be in a position to confirm the Q4 increase prior to Customs finalising its report to the Minister.

In addition to these increases to the MJP, it is likely that Rio Tinto Alcan (RTA) will also increase its Base Billet Premium from 1 January 2013. As Capral purchases aluminium in billet form, its supplier charges a premium (separate to the MJP) to cover the additional labour involved in casting billets as opposed to ingots.

It is Capral's understanding that Australian smelters [redacted]. RTA has proposed a $[redacted]/kg increase in this premium from 1 January 2013. This equates to a $[redacted]/kg cost increase (based on [redacted]% metal recovery rate).

Future policy changes

The cost increases outlined above are only those that have occurred since the end of the review period or are known to occur within the next 12 months. It also possible that the LME will move substantially during the next 12 months. This is generally the case with all commodities and we believe it would be preferable for anti-dumping measures for goods based on commodity prices to be regularly adjusted for such price movements (eg. on a quarterly basis) without the need to undertake a formal review, which can only happen every 12 months in any case.

We understand that this approach may not possible under existing legislation, however we request that this issue be placed on the agenda for the International Trade Remedies Forum to consider in the near future.

Summary

In summary we support the continued use of Capral's CTMS as the basis for the USP but submit that it is unreasonable to exclude an amount for profit. We also submit that the USP should be adjusted to reflect known increases to the CTMS for the carbon tax and aluminium premiums. This will ensure the revised measures most accurately reflect the circumstances of the period that they will apply to.

The profit should be added to the adjusted CTMS such that the USP calculation will comprise:

Capral's CTMS for the review period	As verified by Customs
MJP increase (Qtr 3 2012)	[redacted]/kg
MJP increase (Qtr 4 2012)	[redacted]/kg
Base Billet Premium increase (1 Jan 2013)	[redacted]/kg
Profit (based on Capral's WACC)	[redacted]%

These uplift amounts apply equally to each finish of the goods—ie. mill, painted, anodised and other.

Justin Wickes
Director