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12 March 2015

Director Operations 1  
Anti-Dumping Commission  
1010 La Trobe Street  
Melbourne VIC 3008

### **Dumping investigation – Rod in coils exported from Indonesia**

Dear Director,

This submission is made by PT Gunung Raja Paksi (GRP) in response to the Anti-Dumping Commission's (the Commission) Statement of Essential Facts (SEF) Report No. 240 published on 2 March 2015.

#### **Currency conversion**

Further to the submission of 23 December 2014, GRP wishes to reiterate its view that the Commission's decision to convert the currency of the domestic sales into the export denominated currency is both inconsistent with the relevant provisions of the *Customs Act 1901* (the Act), and flawed in its reasoning.

Section 269TAF(1) states that:

*If, for the purposes of this Part, comparison of export prices of goods exported to Australia and corresponding normal values of like goods requires a conversion of currencies, that conversion subject to subsection (2), is to be made using the rate of exchange on the date of the transaction or agreement that, in the opinion of the Minister, best establishes the material terms of the sale of the exported goods. [emphasis added]*

It is without doubt that s.269TAF(1) requires the Minister to establish the appropriate rate of exchange on the date that best establishes the material terms of sale of the exported goods. It is noted that the Commission has not refuted this interpretation of the relevant provision in the SEF. It also noted that the SEF provides no view or interpretation as to how the Commission's use of rates of exchange on the date that best establishes the materials terms of sale of the domestic like goods is consistent with s.269TAF(1).

Notwithstanding GRP's view that the Commission has erred in applying s.269TAF(1) for the purposes of converting currencies, the Commission's reasoning for its preliminary position is also flawed and appears to reflect a lack of understanding of the process and factors relevant to domestic and export prices being set.

Whilst it is correct that GRP's financial accounts are reported in US dollars (USD), the company's costs and domestic sales are recorded in Indonesian Rupiah (IDR). Importantly, when domestic sales staff negotiate and agree to terms with domestic customers, domestic selling prices are denominated in IDR. At no time during pricing negotiations with domestic customers are GRP domestic sales staff taking into account or mindful of the prevailing exchange rates used for the company's accounting purposes.

This is confirmed by examining unit selling prices to individual customers. For example, domestic sales to [REDACTED] (customer name) were [REDACTED] [REDACTED] (terms and conditions of sale). However, upon the conversion of those sales into US dollars, unit selling prices [REDACTED] (price discussion). This is clearly inconsistent with the way in which the prices for those sales were negotiated and determined.

By contrast, export sales negotiations are denominated in US dollars and GRP's export customers are very mindful of foreign currency exchange rates given that their sales into the Australian market are denominated in Australian dollars. Therefore, the prevailing exchange rate is a key factor in the bargaining that takes to arrive at an agreed price.

GRP considers that it is for this reason that s.269TAF(1) refers to the conversion of the exported goods and domestic like goods. It would be rare for an exporter to set domestic selling prices in a foreign currency which required them to take account of prevailing exchange rates, whereas prevailing exchange rates are almost always a relevant factor in the setting of export prices between an exporter and importer.

In conclusion, GRP requests the Commission to review its preliminary position on the conversion of currency to ensure its approach is consistent with s.269TAF(1) of the Act, and accurately reflects the actual circumstances by which GRP sets its domestic and export prices.

### **Overstatement of manufacturing costs**

In its submitted costing information, GRP included costs under the heading of 'Other costs'. These costs can be reconciled to GRP's cost of goods sold (COGS) report provided to the Commission and used for verification to the company's audited accounts. GRP notes that the significant quarterly variations in the cost to make and sell are driven in large part by the movement in these 'other costs'. The quarterly variations are [REDACTED]%, [REDACTED]% and [REDACTED]% between each quarter of the investigation period.

A review of these 'other costs' reveals that they are costs unrelated to the production and/or sale of rod in coil and have incorrectly been allocated to the goods under investigation. The source for these costs can be found in rows 60-68 of the COGS report. The report shows that these items relate

to [REDACTED] (product description) (row 61), [REDACTED] (product description) (row 63) and [REDACTED] (product description) (row 67). None of these items are in anyway related to rod in coil production.

Purchased finished goods relate to the purchases of [REDACTED] (product description) as the raw feed to GRP's downstream products. Purchases of [REDACTED] (product description) are only made when there is insufficient internal production within GRP'S existing capacity. GRP submits the purchase ledger (**confidential attachment 1**) relevant to the company's purchases of raw material finished goods for each month of the investigation period. The ledger can be reconciled to the COGS report by summing the imported purchases in US dollars (cells O240:O241 for the month of January 2013) and local purchases converted to US dollars (cells Q284:Q286 for the month of January 2013).

[REDACTED] (product description) relates to the movement of finished goods through GRP's [REDACTED] business unit which undertakes the [REDACTED] (product description). Related to this are the sales of [REDACTED] (product description) which are the finished goods from the [REDACTED] business unit.

It is clear then that these other costs are not relevant to the production or sale of rod in coils. Accordingly, GRP requests the Commission to adjust its cost to make and sell data by removing these costs and re-apply the ordinary course of trade test to the domestic sales of like goods.

Yours sincerely

John Bracic