Received 13 October 2016

13 October 2016

PT CG Power Systems Indonesia ("CG Power")

Variable factors review application

Attachment A: opinion regarding change in variable factors

A Introduction

Section 269ZB(2)(c) of the *Customs Act 1901* (Cth) requires that an application for review based on a "changes in variable factors" include:

> *a statement of the opinion of the applicant concerning:*
>
> *(i) the variable factors relevant to the taking of the measures taken that have changed; and*
>
> *(ii) the amount by which each such factor has changed; and*
>
> *(iii) the information that establishes that amount…*

CG Power considers that the following variable factors relevant to the taking of the measures applicable to CG Power's power transformers have changed:

- the ascertained export price;

- the ascertained normal value; and
- the ascertained non-injurious price.

CG Power's opinion regarding the changes to these variable factors is discussed in detail, and quantified, below.

B Ascertained export price

According to Report 219, the methodology used to ascertain the export price ("AEP") applicable to CG Power's exports was as follows:

> *The Commission established FOB export prices for CG Power under s. 269TAB(3) having regard to all relevant information, being information provided by WTC.*[1]

CG Power understands this to have been information provided by WTC in its application. Specifically, the information and the methodology provided by WTC in its application was:

a) *Establish the "Price at first point of resale to an unrelated buyer in Australia" on a per unit basis*

b) *Deduct the estimated value of transformer oil if the oil is purchased in Australia. The oil quantity and cost have been estimated based on the size and nature of the imported transformer and the approximate cost of transformer oil at that time.*

c) *Deduct the estimated cost of local delivery to the customer site in Australia (Australian inland freight), based on the size and nature of the imported transformer, the port of import and the site destination*

d) *Deduct any estimated customs duty payable. No adjustment made for countries with Free Trade Agreements or subject to Developing Country preference*

e) *Deduct the costs of Australian customs clearance and handling, including Customs agency fees and disbursements*

f) *Deduct overseas freight and insurance calculated by deducting the CIF values per the Australian Bureau of Statistics International Trade Import statistics from the FOB values on a per country basis*

g) *Deduct estimated Australian sales and representation costs*

h) *Deduct an allowance for warranty costs*

---

[1] Final Report 219, page 66.

CG Power considers that an AEP based on this information cannot be said to relate to CG Power's own position during the period of investigation (1 July 2010 – 30 June 2013). There is no linkage between the AEP, ascertained on the above explained information and power transformers produced by CG Power during the period of investigation. CG Power believes an export price based on its own information would have been higher than any comparable normal value adopted.

That said, the requirements of the Act are that the applicant provide a statement of its opinion regarding the *"variable factors relevant to the taking of the measures taken that have changed… the amount by which each such factor has changed"* and *"information that establishes that amount".* Given that the above was the information upon which the AEP currently applicable to CG Power was based, we will address how that AEP would have changed since the period of investigation.

The main component of the AEP is the price at the "first point of resale". From this, there have been various deductions to get an approximate price at the FOB level. Such a price would be impacted by movements in the cost of raw materials included in each power transformer. A major cost component of any transformer is its windings. In CG Power's opinion, the cost of windings would have decreased significantly since the period of investigation, and this would have led to a decrease in the AEP. This opinion is based upon the following information:

1 Windings are made of copper.[2] **[CONFIDENTIAL]** Attachment A-1 shows the movements in the LME price for copper over the period July 2013 – June 2016. Based on this information, it is apparent that the price of copper, and therefore the cost of windings, has fallen by **[CONFIDENTIAL INFORMATION DELETED – number]** since July 2013. Please refer to **[CONFIDENTIAL]** Attachment A-2 for an analysis of this information, which illustrates this trend.

2 The winding is a significant cost component of any power transformer. For example, in **[CONFIDENTIAL]** Attachment A-3 – which is a CG Power **[CONFIDENTIAL INFORMATION DELETED – document]**, the total material cost of the winding is **[CONFIDENTIAL INFORMATION DELETED – number]**. This is **[CONFIDENTIAL INFORMATION DELETED – number]** of the total cost of **[CONFIDENTIAL INFORMATION DELETED – number]**.

3 Based on a **[CONFIDENTIAL INFORMATION DELETED – number]** decrease in the cost of copper, CG Power considers that the costs of windings would have decreased by

---

[2] Final Report 219, page 17.

[CONFIDENTIAL INFORMATION DELETED – number]. This would result in a [CONFIDENTIAL INFORMATION DELETED – number] decrease in the cost to produce a power transformer.

4 Noting that, in 2013-14 WTC was not profitable;[3] CG Power considers that this decrease in cost would be largely reflected in WTC's prices. Therefore, it is CG Power's opinion that that the AEP would have reduced by at least [CONFIDENTIAL INFORMATION DELETED – number] since the period of investigation.

On this basis, CG Power considers that the AEP relevant to the taking of measures currently applicable to CG Power's power transformers has decreased by [CONFIDENTIAL INFORMATION DELETED – number].

C Ascertained normal value

According to Report 219, the methodology used to ascertain the normal value ("ANV") applicable to CG Power's exports was as follows:

> *It used information submitted by WTC in its application, being its estimated cost for a power transformer exported to Australia by CG Power, adjusted to reflect differences in costs between Indonesia and Australia. No amount for profit was added.*[4]

According to the WTC's application, the normal value was said to be determined in the following manner:

a) Establish the WTC Sale Price offered in Australia

b) Deduct the estimated cost premium for materials sourced in Australia. As many Power Transformer materials are sourced on the global market, no adjustments are made for those materials

c) Deduct the cost of Australian freight from the WTC plant to the customer site as this is an Australian only cost

d) Add the estimated cost of freight to the wharf in the country of export

e) Deduct the cost of Australian direct manufacturing labour

---

3 Final Report 219, page 78.

4 Final Report 219, page 66.

f) *Add the cost of Foreign direct manufacturing labour estimated on the basis of World Bank 2011 labour costs by country*

g) *Adjust the manufacturing overheads by the difference between Australian and export country labour costs based on the World Bank 2011 labour costs*

h) *Adjust the engineering costs by the difference between Australian and export country labour costs based on the World Bank 2011 labour costs*

i) *Adjust the administration overheads by the difference between Australian and export country labour costs based on the World Bank 2011 labour costs*

j) *Deduct the WTC tender profit margin*

k) *Add the foreign tenderer profit margin based on Plimsoll publishing business intelligence information*

l) *Deduct the estimated value of transformer oil if the oil is purchased in Australia. The oil quantity and cost have been estimated based on the size and nature of the imported transformer and the approximate cost of transformer oil at that time*

Again, CG Power notes that this NV does not relate to CG Power's own position during the period of investigation. There is no linkage between the NV, as ascertained using the above explained information, and the costs of power transformers produced by CG Power during the period of investigation.

Nonetheless, in accordance with the requirements of the Act, CG Power is required to state its opinion regarding the *"variable factors relevant to the taking of the measures taken that have changed… the amount by which each such factor has changed"* and *"information that establishes that amount"*. Given that the above was the information upon which the ANV currently applicable to the CG Power was based, we will address that now.

The starting point for the ANV, which is said to have been the "WTC Sale Price offered in Australia", would be impacted by the cost of raw materials included in each power transformer. From this, there were several deductions and adjustments to make it broadly comparable to the AEP. Clearly, WTC would consider the cost of production when determining its "sale price offered". For the purpose of this application, CG Power will consider one component of the cost of production, being the cost of windings. Windings are a significant cost component of any power transformer. In CG Power's opinion, the cost of windings would have decreased significantly since the period of investigation, and this would have led to a decrease in the ANV. This opinion is based upon the following information:

1 **[CONFIDENTIAL]** Attachment A-1 shows the movements in the LME price for copper over the period July 2013 – June 2016.Copper is used to produce windings. Based on this information, it is apparent that the price of copper, and therefore the cost of windings, has fallen by

[CONFIDENTIAL INFORMATION DELETED – number] since July 2013. Please refer to [CONFIDENTIAL] Attachment A-2 for an analysis of this information, illustrating this trend.

2 The winding is a significant cost component of any power transformer. For example, in [CONFIDENTIAL] Attachment A-3 – which is a "[CONFIDENTIAL INFORMATION DELETED – document], the total material cost of the winding is [CONFIDENTIAL INFORMATION DELETED – number]. This is [CONFIDENTIAL INFORMATION DELETED – number] of the total cost of [CONFIDENTIAL INFORMATION DELETED – number].

3 CG Power considers that a [CONFIDENTIAL INFORMATION DELETED – number] fall in the price of copper would result in a [CONFIDENTIAL INFORMATION DELETED – number] reduction in the cost of the power transformer. Noting that, in 2013-14 WTC was not profitable;[5] CG Power considers that this decrease in cost would be largely reflected in WTC's prices. Therefore, CG Power considers that the ANV would have reduced by at least [CONFIDENTIAL INFORMATION DELETED – number] since the period of investigation.

On this basis, it is CG Power's opinion that the ANV relevant to the taking of the measures currently applicable to CG Power's power transformers has decreased by [CONFIDENTIAL INFORMATION DELETED – number].

D Ascertained non-injurious price

CG Power notes that the non-injurious price ("NIP") was said to be equal to the ascertained normal value. In this regard, we refer to the response to Section B above, which establishes that the ANV would have decreased by [CONFIDENTIAL INFORMATION DELETED – number], leading to a commensurate decrease in the NIP.

E Period of review

CG Power notes that a 3 year period was adopted for the purposes of the original investigation, based on the length of the period between tender and installation. CG Power considers that a similar approach should be adopted for this review. Specifically, CG Power submits that the period of review should be the three years between 1 July 2013 and 30 June 2016.

---

5 Final Report 219, page 78.

F Conclusion

In accordance with Section 269ZB(2)(c) of the *Customs Act 1901* (Cth), CG Power has stated its opinion regarding:

- the variable factors relevant to the taking of the measures taken that have changed; and
- the amount by which each such factor has changed; and
- the information that establishes that amount.

Accordingly, the Commission is requested to:

- initiate a review of the variable factors as they apply to CG Power under Section 269ZC(4)(a) of the Act; and
- for the purposes of that review, and consistently with the original investigation, adopt a three year period – being the period between 1 July 2013 and 30 June 2016 - as the review period.

Alistair Bridges
Associate